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SPECIAL REPORT Issue #1: America's Money Crisis

Housing starts plummet to lowest on record

Construction of new homes fell nearly 17% last month to an all-time low, signaling no clear end to the housing market troubles.

By David Goldman, CNNMoney.com staff writer
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NEW YORK (CNNMoney.com) -- Initial construction of U.S. homes fell to the lowest level on record in January, according to a government report released Wednesday.

Starts fell to a seasonally adjusted annual rate of 466,000 in January, according to the Commerce Department. That's the lowest level since the government started keeping records in 1959.

The rate was down 16.8% from December's revised reading of 547,000, and 56.2% lower than January 2008. Economists were expecting housing starts to decline to 529,000, according to consensus estimates compiled by Briefing.com.

January marked the fourth consecutive month in which housing starts fell to a new record low. Starts have fallen nearly 80% from their peak of 2.3 million in January 2006.

"It's a weak report, but it's not all that surprising," said Mike Larson, an analyst at Weiss Research. "It reflects the state that the housing market has been in for over a year."

New construction of single-family homes reached an all-time low rate of 347,000, or 12.2% below December's level. Experts consider single-family homes to be the core of the housing market.

Housing starts were dragged down further by a 25% month-over-month drop in multi-family home starts during the last month. Construction of new multi-family housing fell to a rate of 114,000, down from 152,000 in December.

"Building activity is all dried up," said Larson. "Some of it is voluntary cutbacks, because the inventory is excessive. But there are also involuntary cutbacks, as lenders are cutting off funding for developers."

Applications for building permits, considered a reliable sign of future construction activity, fell by a seasonally adjusted annual rate of 521,000 last month - also an all-time low.

That's 4.8% below the revised 560,000 rate in December and 50.5% lower than year-ago levels. Economists were expecting permit applications to fall to 527,000.

The sharp decline in building activity suggests that home building will continue to drag on the economy for a while. Many economists have identified the battered housing market as the root of the problem behind the recent credit crisis.

But the drop in building could actually help the struggling market rebound. Homebuilders continued to construct new homes well after the housing bubble burst, leading to an enormous glut of unsold homes on the market. Rising foreclosures have added to the number of unoccupied homes for sale.

Since demand for homes remains weak, the glut will only ease if fewer new homes are built.

"Until you get that inventory down, going to see housing starts and permits decline," said Larson. "Arguably this is what has to happen." ■

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