

Economic Indicator — January 21, 2021

# Housing Starts Jump in December

## Summary

- Total housing starts jumped 5.8% to a 1.67 million unit pace in December, the strongest pace since 2006.
- Single-family starts soared 12% during the month and are up 27.8% over the past year.
- Multifamily starts declined 13.6% in December and are down 38.7% year-over-year.
- Building permits rose 4.5% during the month. Single-family permits increased 7.8%, while multifamily permits dropped 3%.
- Bottom line: New residential construction continues at a robust pace, although the reemergence of COVID and rising material prices may begin to weigh on activity in coming months.

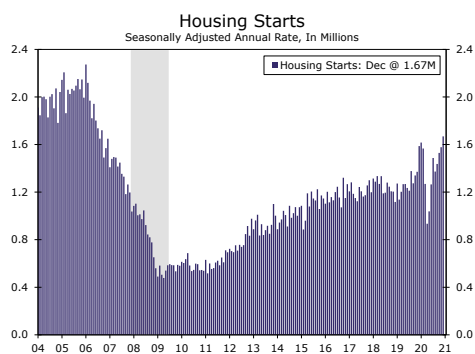
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Source: U.S. Department of Commerce and Wells Fargo Securities

## Single-Family Sector Continues to Lift Overall Starts

Residential construction continues to heat-up even as overall economic growth appears to be cooling down amid rising COVID case counts. Total housing starts surprised to the upside and jumped 5.8% to a 1.67 million unit pace in December, which is the strongest pace since 2006.

The monthly gain was owed entirely to a robust 12% surge in single-family starts. Single-family starts are now up 27.8% over the year. Builders have moved quickly to satiate rising buyer demand stemming from record low mortgage rates and increased space needs as a result of the ongoing COVID crisis.

What's more, the momentum recently seen in single family construction is not showing any signs of slowing. Total building permits rose 4.5% in December, an increase which was driven by 7.8% upturn in single-family permits.

## Multifamily Construction is Downshifting

By contrast, multifamily construction continues to pull back somewhat alongside rising rental vacancy rates and shifting preferences for single-family homes. Multifamily starts declined 13.6% in December and are down 38.7% year-over-year.

Multifamily permitting activity also looks to be downshifting. Permits fell 3% during the month and are down 6.6% over the past 12 months. Apartment and condo construction, while moderating, does not appear set to collapse, however. There were 483,000 multifamily permits issued in December (at a seasonally adjusted annualized rate), which is still on par with the annual number of permits averaged over the past five years.

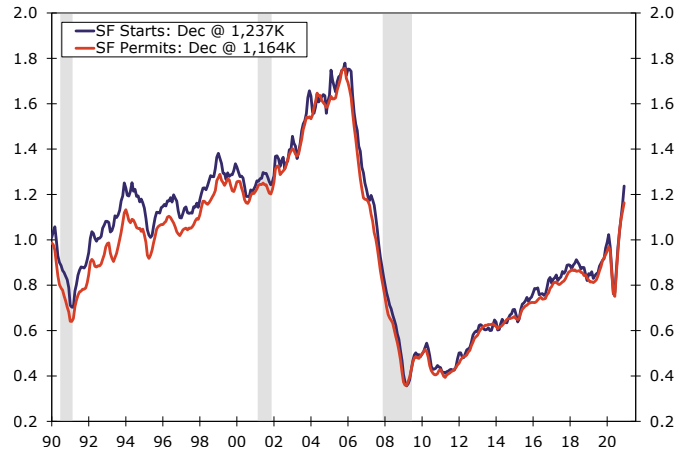
## Builder Confidence Slipped in January

In January, the NAHB Housing Market Index fell to 83 from 86 the month prior, but remains exceptionally high. Expectations for sales, both present and over the next six months fell two points. The prospective buyers traffic component of the index dropped five points.

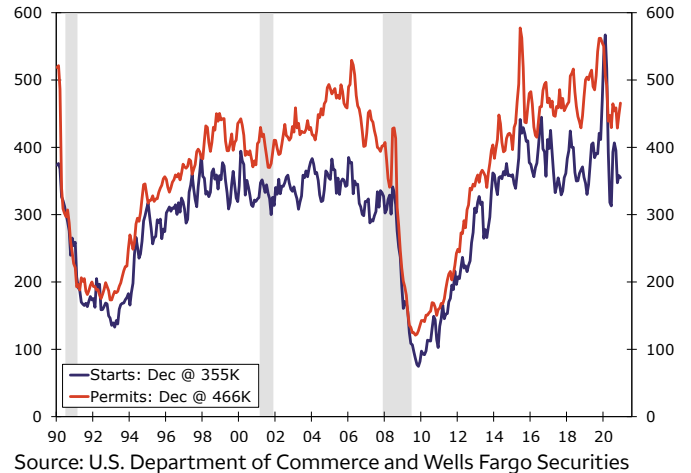
Builders remain optimistic, but confidence has fallen back from its all-time highs in recent months due to several factors. COVID-related production issues and continued strong demand have led to a surge in lumber prices, substantially driving up the cost of building a home. Generally speaking, building material prices are on the rise amid shortages of raw materials. The reemergence of COVID is also likely keeping potential buyers at home, which helps explain the recent drop-off in prospective buyer traffic.

Overall, new residential construction continues to be a huge bright spot, but the robust pace of activity seen recently will be difficult to sustain. In addition to the various supply-side challenges facing builders, the COVID crisis will likely limit buyer activity. Still, there is a structural shortfall of homes for sale, and the mismatch between

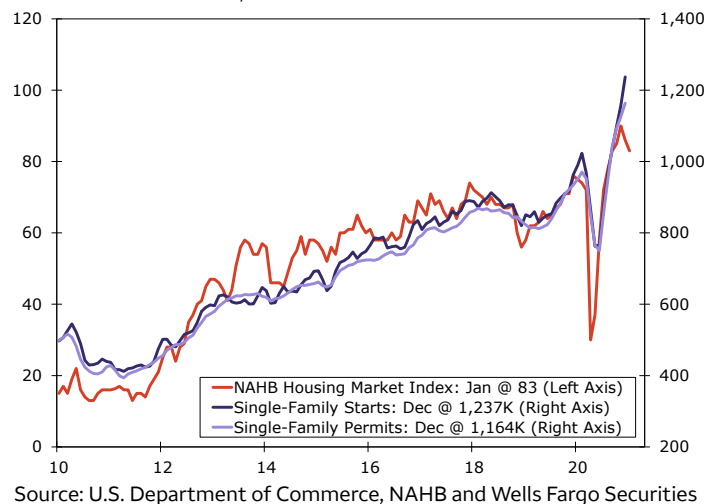
Single-Family Housing Starts vs. Building Permits  
SAAR, Millions, 3-Month Moving Average



Multifamily Housing Starts vs. Building Permits  
3-MMA of SAAR in Thousands



Builder Confidence & Single-Family Construction  
Diffusion Index; Starts & Permits SAAR 3-MMA in Thousands



scarce supply and robust buyer demand sets the stage for home building to continue to climb higher in 2021.

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