

Economic Indicator — April 16, 2021

Housing Starts Rebound in March

Summary

Housing Starts Rebound From the February Freeze

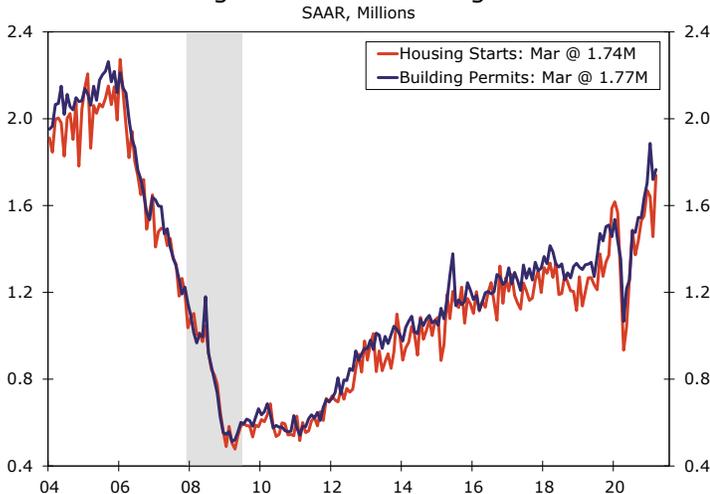
Housing starts rebounded solidly in March, with overall starts rising 19.4% to a 1.739 million-unit pace. Single-family starts jumped 15.3%, with activity rising solidly in every region except the West. Multifamily starts surged 30.8%, with large gains in the Northeast, Midwest and South. Both the number of homes under construction and number of homes completed rose solidly in March and both series hit their highest levels in more than 13 years.

Economist(s)

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Housing Starts and Building Permits



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

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Home Building Has Strong Underlying Momentum

Housing starts rebounded from February's weather-related weakness, with overall starts surging 19.4% to a 1.739 million-unit pace. Starts increased across every region other than the West, which was the only region where starts increased in February. Data for January and February were revised modestly higher and starts through the first three months of 2021 are running 8.6% ahead of their year-ago pace. Single-family starts rose 15.3% in March and are running 19.3% ahead of their year-ago pace through the first three months of this year. Home building had gotten off to a strong start in 2020 before the lockdown caused activity to plummet in April. That soft patch will inflate year-to-date comparisons over the next couple of months.

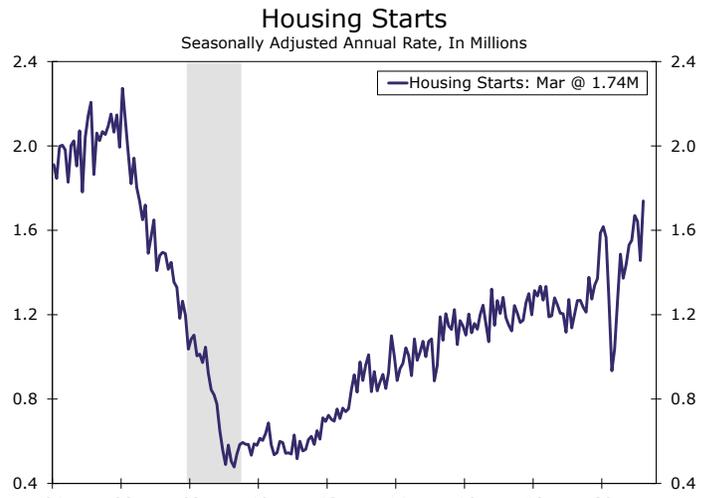
This past month's rebound in housing starts should put to rest any debate about how much of February's drop was due to the extreme weather that impacted Texas and other parts of the South and Midwest and how much was due to supply-chain bottlenecks and soaring building materials prices. Unseasonably harsh winter weather was clearly the primary culprit. Supply-chain and issues and surging costs will continue to bedevil home builders this year, but we see construction finishing the year with an 8% gain and look for starts to come in a just under 1.5 million units.

Single-Family Construction Is Ramping Up

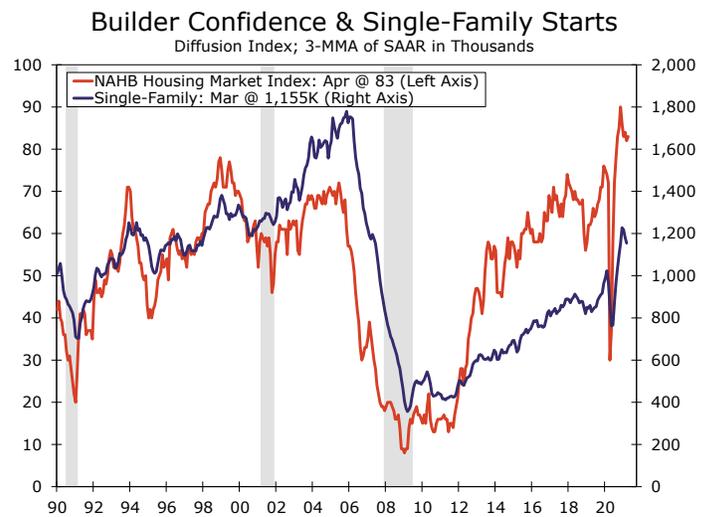
Home builders are clearly ramping up construction to meet strong demand and the dearth of both new and existing home inventories. Yesterday's NAHB/Well Fargo Housing Market Index (HMI) rose one point to 83 in April. The current sales component rose one point to an astounding 88, while prospective buyer traffic rose three points to 75. The strength in the HMI suggests that new home sales and single-family construction will remain close to their recent highs, despite the current lack of inventory.

Apartment construction also posted a notable gain in March. Multifamily starts jumped 30.8%, with sizable gains in the Northeast, Midwest and South. Demand for apartments has been on the mend. The National Multifamily Housing Council (NMHC) reported considerable improvement in the apartment market in their [quarterly report](#) issued yesterday. The NMHC measure of market tightness jumped from 43 to 81, marking the first improvement in market conditions in six quarters. Two-thirds of respondents noted tighter market conditions over the past three months compared to the prior three-month period. The survey's findings are consistent with anecdotal reports of strong apartment demand in many of the rapidly growing metro areas in the South and Mountain West. Gateway markets also are showing some modest improvement both in terms of demand and rents.

The improvement in operating fundamentals and stronger economic outlook apparently are convincing enough for apartment developers to move forward with projects that had been put on hold.



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



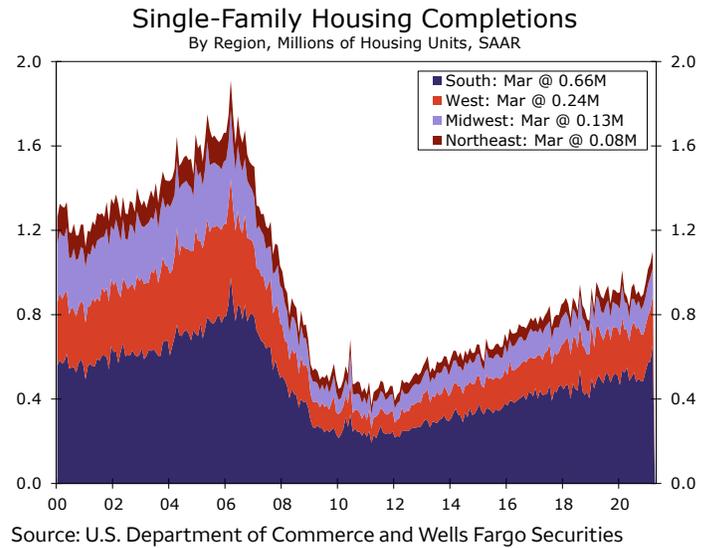
Source: NAHB, U.S. Department of Commerce and Wells Fargo Securities

March Saw a Surge in Completions

Housing completions jumped 16.6% in March, marking the largest increase since January 2019. A 54.7% surge in multifamily completions accounted for large part of the increase. Completions of single-family homes rose 5.3% to a 1.099 million-unit pace. Most of that increase occurred in the South and may have been helped by the return of more typical late winter/early spring weather. On a year-to-date basis, single-family completions in the South are running 20.2% ahead of their year-ago pace.

The strong growth in home building in the South mirrors population trends. Like much of the nation, the South has been starved for inventories. The new home market is much more important to the region, however, given the massive ongoing increases in population, particularly in Texas, Florida, Georgia, Tennessee and the Carolinas.

The number of homes under construction at the end of March rose 0.8%, with single-family homes rising an even larger 1.6% to 636,000-unit pace. All four regions saw construction increase, with the largest gains coming in the Midwest and West.



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