

Economic Indicator — June 16, 2021

Housing Starts Rise in May

Home Building Picks Up, but Material Shortages Continue to Hold Back Activity

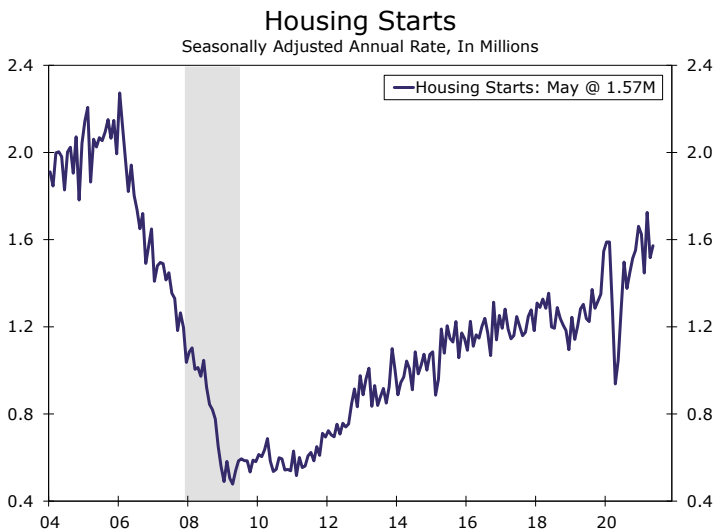
Summary

- Total housing starts rose 3.6% to a 1.572 million-unit pace during May.
- Builders continue to push through the headwinds of soaring building material costs and supply chain constraints in order to meet robust demand for single-family homes, townhomes and apartments.
- Both single-family (4.2%) and multifamily (2.4%) starts improved during the month.
- Total building permits slipped 3.0%, with both single-family and multifamily permitting declining during the month.
- The NAHB/Wells Fargo Housing Market Index fell two points to 81 in June. Builders remain generally upbeat, but building material pricing and availability is starting to weigh on confidence.

Economist(s)

Charlie Dougherty

Economist | Wells Fargo Securities, LLC
charles.dougherty@wellsfargo.com | 704-410-6542



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

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Home Building Improves During May

New residential construction continues to pick up. Total housing starts rose 3.6% to a 1.572 million-unit pace during May. In recent months, housing starts have come down off the highs seen earlier in the year. However, builders continue to push through the headwinds of soaring building material costs and supply chain constraints in order to meet robust demand for single-family homes, townhomes, condos and apartments. On a year-to-date basis, housing starts are running 25.1% above prior year levels.

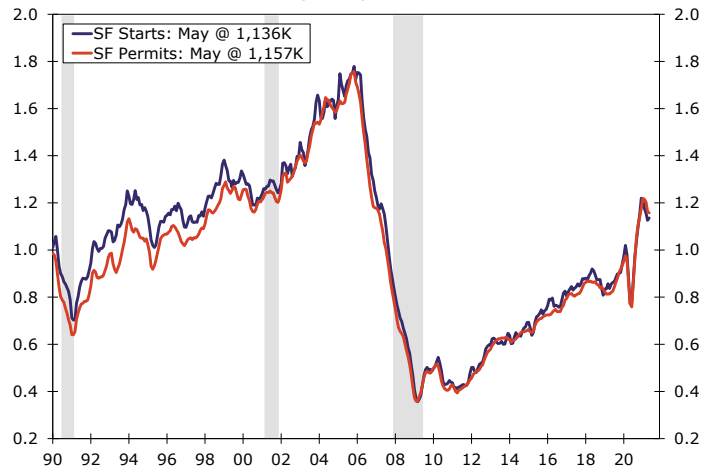
Builders are trying their best to bring new supply to the single-family market, which is still experiencing a shortfall of homes for sale. Single-family starts rose 4.2% to 1.098 million-unit pace during the month. Low mortgage rates, increased space needs and a rising wave of first-time home buyers continue to fuel strong demand for new single-family homes, but inventories of homes for sale remain exceptionally tight.

New single-family construction would likely be even stronger if builders were able to easily procure building materials, which have come under short supply thanks to widespread supply chain disruptions. These supply constraints are leading to project delays and pushing builders to tap the brakes on new development. Single-family completions declined in both April and May. Furthermore, single-family building permits fell 1.6% during May, the second straight monthly decline.

Meanwhile, multifamily construction continues to march higher. Multifamily starts edged up 2.4% during the month and are now up 12.1% on a year-to-date basis. The substantially improved public health and economic outlook has led to a rapid rebound in apartment leasing activity, which is leading developers to move forward with projects. As we recently noted in the [CRE Chartbook](#), demand appears to be strengthening in most markets, both in urban areas and in the suburbs.

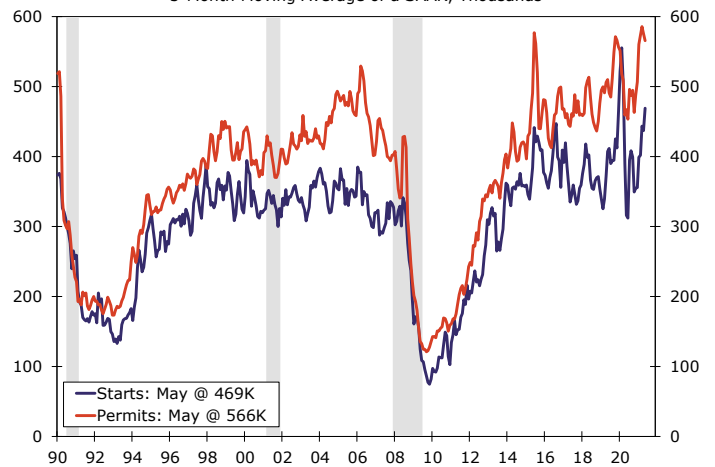
With COVID risks subsiding and job growth ramping up, apartment and condo demand should continue to improve. The long-awaited return to the office is starting to get under way, which will provide a boost to hard-hit urban markets, such as New York City and San Francisco. That said, rising building material prices are also a limitation for new multifamily development. Multifamily permits fell 5.8% during May.

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



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

Multifamily Housing Starts vs. Building Permits
3-Month Moving Average of a SAAR, Thousands

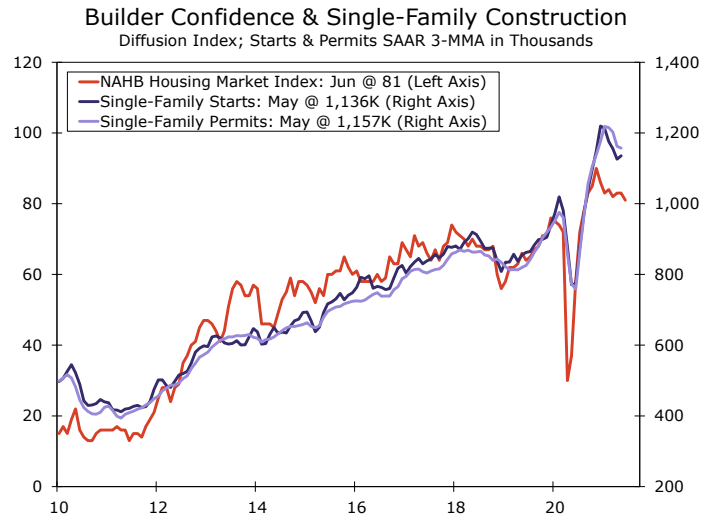


Source: U.S. Department of Commerce and Wells Fargo Securities

NAHB Housing Market Index Slips in June

Long lead times and sharply higher building materials prices are starting to weigh on builder confidence. The NAHB/Wells Fargo Housing Market Index (HMI) fell two points to 81 in June. Soaring material costs have translated to a rapid rise in new home prices, which now may be pushing some prospective home buyers to the sidelines. Sentiment regarding the sales environment, both present and over the next six months, declined during the month. Similarly, prospective buyer traffic fell two points to 71. Despite the monthly drop, the HMI remains above 80 which is still elevated compared to recent history. The ongoing strength in the HMI suggests single-family construction will remain strong, despite persistent supply-side challenges.

Some modest relief in terms of lumber pricing may be on the horizon. This week, lumber futures contracts are trading around \$1,000 per 1,000 board feet, which is still elevated but substantially lower than the high of \$1,686 per 1,000 board feet seen in early May. Lumber supplies have improved recently as sawmills have ramped up production and imports of lumber have picked up. That noted, other key inputs, such as steel and copper remain in short supply. In short, new residential construction remains strong, but building material pricing and availability are likely to remain significant headwinds.



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

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Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	International Economist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	International Economist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economist	(704) 410-1681	shannon.seery@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Nicole Cervi	Economic Analyst	(704) 410-3059	nicole.cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	(704) 410-1437	sara.cotsakis@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

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