

## Economics Group

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# Underwhelming August Housing Starts Are Not Worrisome

*While there is a constant lookout for evidence that the recovery is losing steam due to the ending of many major stimulus efforts, the underwhelming August housing starts data does not support that case.*

## Housing Starts Slow, Largely As Expected, in August

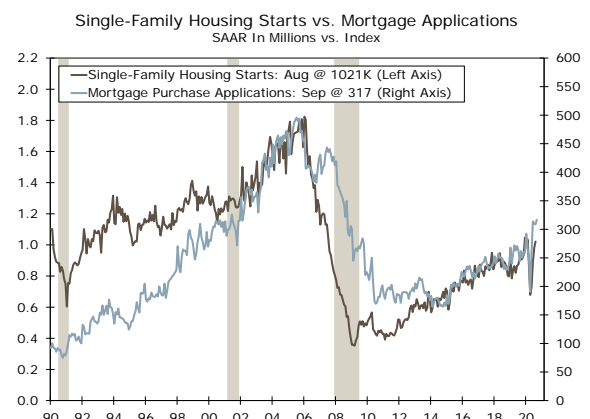
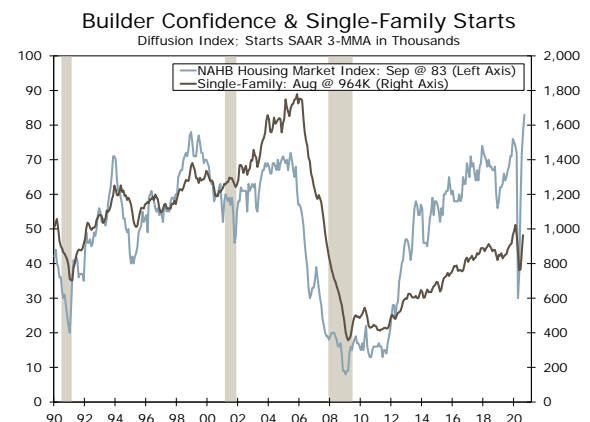
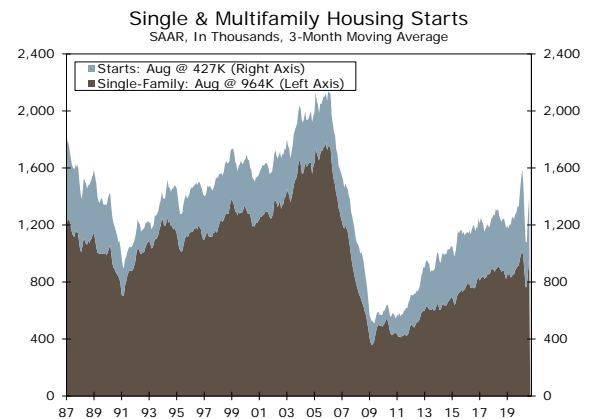
Housing starts came in slightly below expectations in August, with overall starts falling 5.1% to a 1.416-million unit pace. Starts were revised modestly lower for July and permits also came in slightly below market expectations. While slightly below the market consensus, starts came in fairly close to our estimate of 1.437-million units.

We had expected to see some payback in August, following the prior month's surge in multi-family starts, which jumped 37% in July to a 503,000 unit pace. One-month spikes in multi-family starts happen from time to time and are often reversed one or two months later. Given the growing caution on multi-family development, we thought that correction would occur in August, which saw starts basically return to the pace seen two months earlier, falling 25.4% to a 375,000-unit pace. Apartment construction appears to be winding down, with much of the slowdown coming in construction of high-rise urban projects in larger metropolitan areas. Development is pivoting toward the suburbs, however, so activity is not headed dramatically lower. On a three-month average basis, multi-family starts have averaged a 427,000-unit pace. We doubt that pace will hold up for the year, however. We expect multi-family starts to come in at around 385,000 units for all of 2020.

Single-family starts, which is the hottest part of the housing market right now, rose 4.1% this past month to a 1.021-million-unit pace. Single-family starts have risen for the past four months and are currently running 50% above their April low. Even with that gain, the ramp up in homebuilding has not gotten ahead of itself. Inventories of new homes have dwindled to their lowest levels in memory, which is a big reason why homebuilder confidence jumped five points to an all-time high in September.

There is a good chance single-family starts will post a fifth consecutive increase next month. Single-family permits rose 6.0% in August to a 1.036-million unit pace. The recent spate of storms along the Gulf Coast appears to have temporarily slowed starts in the South, which typically account for over half of the nation's single-family housing starts each month. Single family starts in the South fell 3.8% in August to a 538,000 unit pace. The bulk of the South's home building occurs in Texas and Florida, although builders in Georgia, the Carolinas and Tennessee are also incredibly busy and are selling homes faster than they build them. Inventories of spec homes have fallen dramatically, as homebuilders paused new development during the lockdown and have been scrambling to keep up with demand ever since the economy began to open back up.

Single-family starts also rose in the West and Midwest but fell in the Northeast. Anecdotal reports suggest the migration away from high-cost metro areas in the Northeast and West Coast to less expensive markets in the West, Midwest and the South is accelerating. The sudden urge to move has driven up moving and storage costs, which leapt 2.8% in August. We expect the affordability migration to gain momentum as the economy recovers.



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