

Economic Indicator — September 21, 2021

Housing Starts Rise Solidly in August

Summary

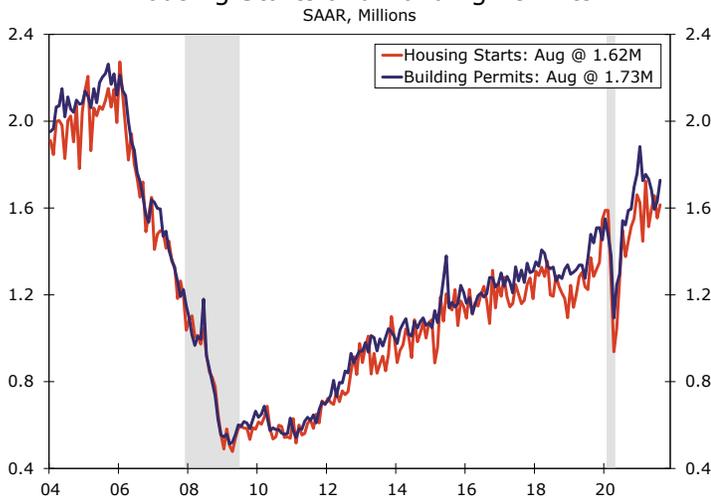
Housing starts easily topped expectations in August, with overall starts rising 3.9% and building permits rising 6.0%. Multifamily units accounted for all the strength in starts, reflecting strong demand for apartments. Single-family starts declined slightly. The drop in single-family starts has more to do with supply shortages than weakening demand, however. Builders are increasingly having to limit sales, as they are uncertain when they will be able to complete homes due to ongoing shortages of essential building materials. The impact of supply shortages shows up in the rising number of single-family homes that have been permitted but not started, which rose 1.4% in August and is up 50% over the past year. Shortages are widespread throughout the industry, and similar to what is happening in the auto sector, with a single part, such as panel box or wedge anchors, holding up construction.

Economist(s)

Mark Vitner

Senior Economist | Wells Fargo Securities, LLC
 Mark.Vitner@wellsfargo.com | 704-410-3277

Housing Starts and Building Permits



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

All estimates/forecasts are as of 9/21/2021 unless otherwise stated. 9/21/2021 10:34:36 EDT. Please see page 4 for rating definitions, important disclosures and required analyst certifications. Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

This report is available on Bloomberg WFRE

Housing Starts Strengthen in August

Housing starts rose 3.9% in August to a 1.615 million-unit annual pace and starts for the prior month were also revised modestly higher. Multifamily starts accounted for all of this past month's increase, rising 20.6% to a 539,000-unit annual rate. Demand for apartments has been surprisingly strong and rents have risen, giving developers confidence to move projects forward. The apartment market is seeing somewhat of a reversal of the pandemic exodus. Demand for apartments near major employment centers has strengthened, reducing vacancy rates and driving rents higher. Demand also remains strong in the suburbs, with many potential renters opting to renew their lease and wait for housing inventories to normalize.

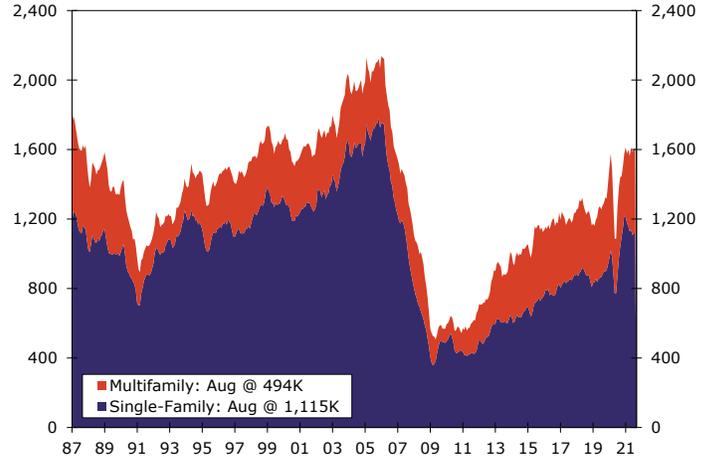
The strength in multifamily starts is not coming at the expense of single-family construction. The single-family market is experiencing shortages in essential building materials and skilled construction workers. Single-family starts fell 2.8% in August, following a 4.7% drop the prior month. Despite the recent declines, single-family construction is maintaining a fairly strong pace at 1.076-million units. While lumber prices have plummeted in the spot market, those lower prices have not yet made their way to home builders. Moreover, other essential building materials remain in short supply, including windows, cabinets, electric breaker boxes and wedge anchors. Builders are restricting sales due to the inability to let buyers know when homes will be completed.

Builder Confidence Rises in September

The September NAHB/Wells Fargo Housing Market Index (HMI) provides a better indication of where the single-family market is headed. The HMI rose one point in September to 76. While the index remains at a high level, it has been cooling off since hitting an all-time high of 90 in November. The latest survey shows concerns about soaring lumber prices have eased considerably, but builders are still dealing with widespread materials shortages, which is lengthening the time it takes to complete a home.

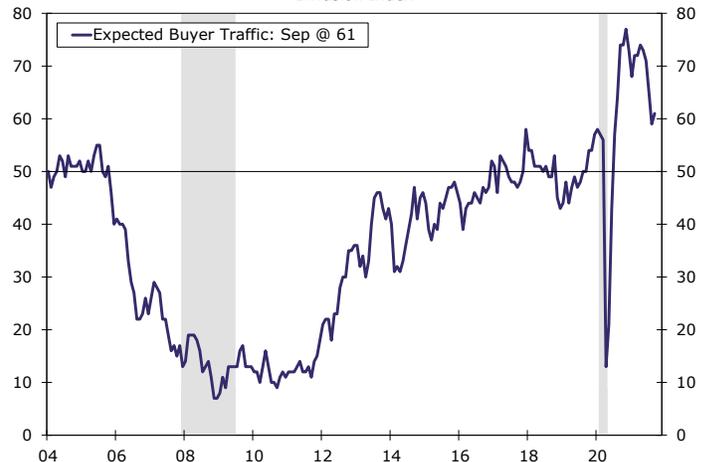
The most encouraging aspect of the September HMI is the slight improvement in underlying demand. The present sales index rose one point to 82, following four months of decline. Prospective buyer traffic also improved, although it remains well below levels seen earlier this year. Demand of homes remains strongest in the South and West, particularly the Mountain West. New home sales are increasingly being driven by the affordability migration from the West Coast and Northeast to more affordable markets in the Rocky Mountains, Southwest and Southeast. The influx of buyers from higher-priced housing markets has skewed new home sales more toward the upper-end of the price spectrum. Builders have focused their attention at this end of the market as well, contributing to the dearth of more affordable homes currently on the market.

Single & Multifamily Housing Starts
SAAR, In Thousands, 3-Month Moving Average



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

NAHB Expected Buyer Traffic
Diffusion Index



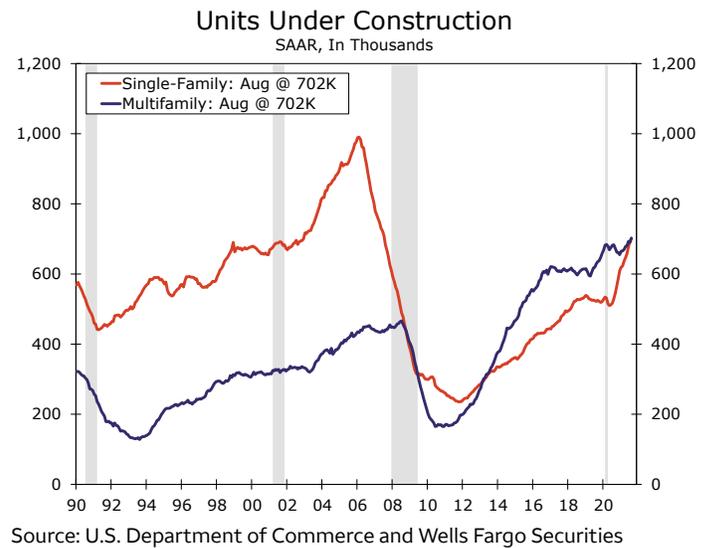
Source: NAHB and Wells Fargo Securities

Home Building Retains Solid Momentum Headed into the Fall

While single-family starts and permits both declined in August, the backlog of permitted homes where construction has not yet started rose 1.4% and is now 50% higher than it was last August, sitting at 147,000 units. Most of the increase was in the West, where material and labor shortages have been particularly troublesome.

Builders are working on the problem. The number of single-family homes under construction rose 1.6% in August to 702,000, with most of the gain coming in the South. The number of single-family homes completed in August rose 2.8% to a 971,000-unit annual rate, which is the highest it has been since April. Once again, most of the increase took place in the South, reflecting the continued influx of new residents into Texas, Florida, Georgia, the Carolinas and Tennessee.

Permits for single-family home rose 0.6% in August to a 1.054 million-unit pace. While that is slightly below the pace of starts, we expect single-family construction to increase this fall. The migration away from the West Coast and Northeast to the South and Southwest means a greater proportion of new home construction is occurring in markets that tend to hold up well during the fall and winter. Builders should be able to make some headway clearing out their backlogs, as construction ebbs in other parts of the country this winter and reduces materials shortages.



Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

The 2021 Annual Economic Outlook: *Aftershocks and Divergence in the Post-Pandemic Economy* is available at wellsfargo.com/economicoutlook

Via The Bloomberg Professional Services at WFRE

And for those with permission at research.wellsfargosecurities.com

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
Jessica Guo	Economic Analyst	704-410-4405	Jessica.Guo@wellsfargo.com
Karl Vesely	Economic Analyst	704-410-2911	Karl.Vesely@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes this report directly and through affiliates including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC to be reliable, but Wells Fargo Securities, LLC does not guarantee its accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or upon any opinions set forth herein. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial product or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2021 Wells Fargo Securities, LLC

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EEA, this report is distributed by WFSIL or Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE