

Economic Indicator — September 21, 2021

Housing Starts Rise Solidly in August

Summary

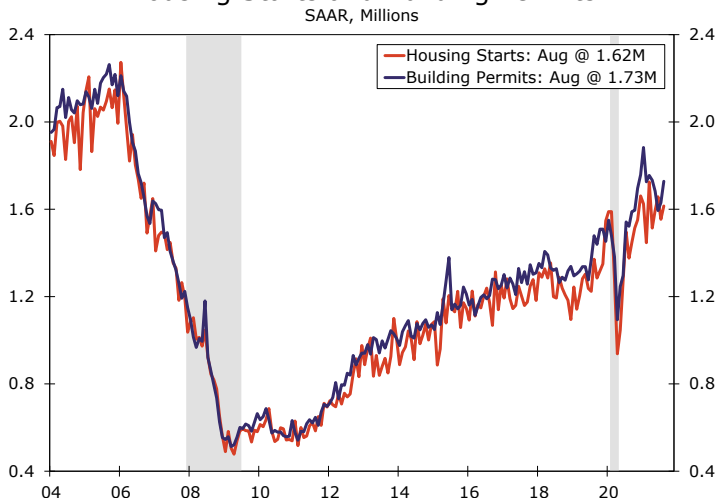
Housing starts easily topped expectations in August, with overall starts rising 3.9% and building permits rising 6.0%. Multifamily units accounted for all the strength in starts, reflecting strong demand for apartments. Single-family starts declined slightly. The drop in single-family starts has more 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)

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Housing Starts and Building Permits



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

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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.

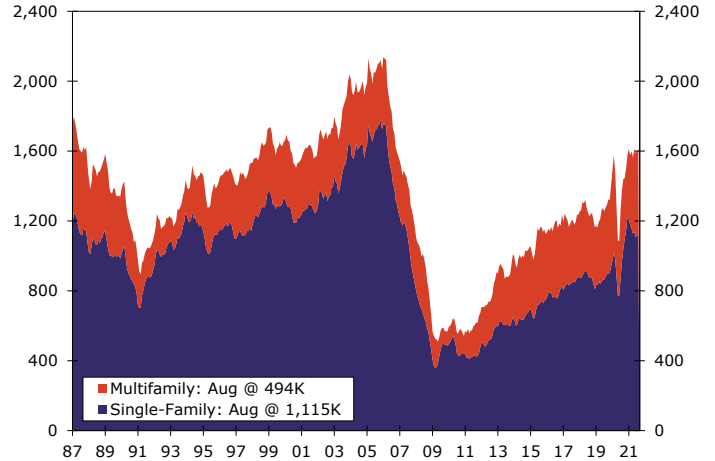
The strength in multifamily starts is not coming at the expense of single-family construction. The single-family market is experiencing shortages in essential building materials and skilled construction workers. Single-family starts fell 2.8% in August, following a 4.7% drop the prior month. Despite 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.

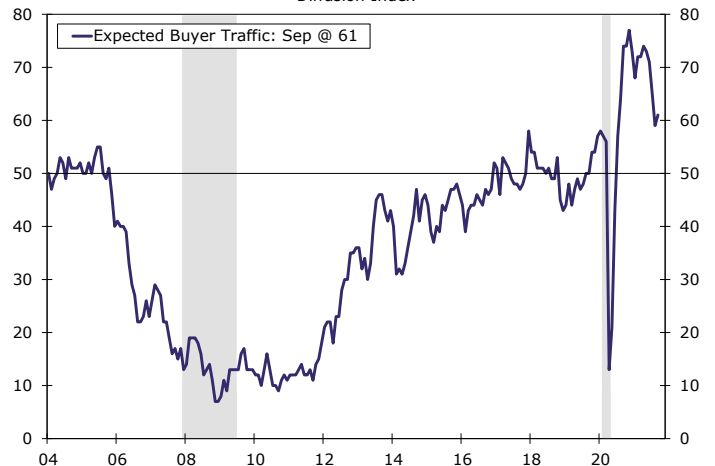
The most encouraging aspect of the September HMI is the slight improvement in underlying demand. The present sales index rose one point to 82, following four months of decline. Prospective buyer traffic also improved, although it remains well below levels seen earlier this year. Demand of homes remains 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



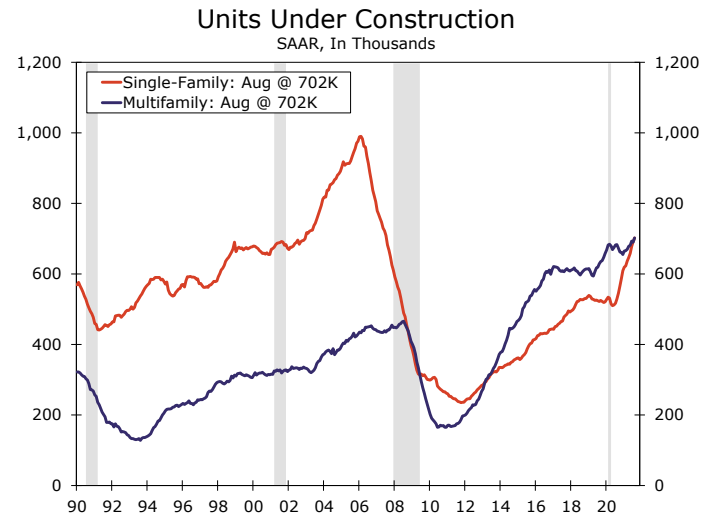
Source: NAHB and Wells Fargo Securities

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.



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

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