

Economic Indicator — November 17, 2022

Housing Starts Decline Again in October

Higher Mortgage Rates Continue to Upend New Residential Construction

Summary

Decline in Building Permits Points to Further Drops Ahead

- Housing starts fell 4.2% to a 1.425 million-unit pace in October, the second straight monthly drop. Total housing starts are now down 8.8% on a year-over-year basis.
- This year's run-up in mortgage rates has chilled buying activity and home builders have responded by cutting back single-family development.
- Single-family starts declined 6.1% during October, a 20.8% yearly drop.
- Multifamily construction has been more resilient to the effects of rising interest rates. Despite slipping 1.2% during the month, multifamily starts are running at 570K-unit pace, which is 17.8% above the prior year's levels.
- Multifamily permits edged 1.0% lower in October. New apartment demand is running considerably slower compared to last year's record pace. The drop-off in demand is likely to lead developers to continue to tap the brakes on construction, although the pace should remain fairly strong.
- The pace of completions fell by 6.4% in October. Single-family completions dropped 8.3%, the steepest monthly decline since January 2022. The fall in completions is a possible sign that builders are beginning to cancel projects as demand disappears and building materials and labor remain costly and hard to come by.
- Overall, the housing correction continues with little indication that a bottom is in sight. Building permits dropped 2.4% during the month. Single-family permits retreated 3.6%, the eighth straight monthly decline.
- The NAHB Housing Market Index fell five points in November to 33 from 38, the 11th straight monthly decline. Not including March and April 2020, this marks the lowest confidence reading since June 2012.

Economist(s)

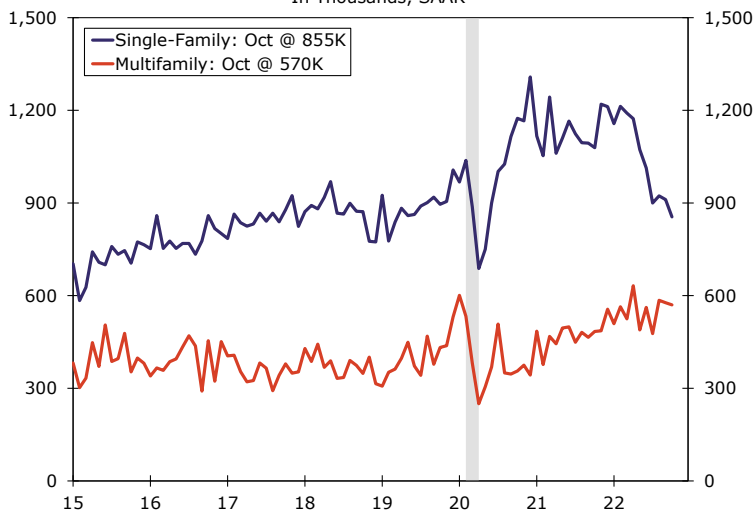
Charlie Dougherty

Economist | Wells Fargo Economics
 Charles.Dougherty@wellsfargo.com | 212-214-8984

Patrick Barley

Economic Analyst | Wells Fargo Economics
 Patrick.Barley@wellsfargo.com | 704-410-1232

Housing Starts
 In Thousands, SAAR



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

Residential Development Hit Hard by Higher Rates

In 1980, the Home Builders Association of Mississippi famously sent then-Chair of the Federal Reserve Paul Volcker, a 2x4 piece of lumber. According to the [St. Louis Federal Reserve](#), the message inscribed on the lumber was "Help! Help! We Need You. Please Lower Interest Rates." In the late 1970s and early 1980s, the Fed was quickly raising interest rates to combat mounting inflation. The impact of higher rates was felt across the entire economy, but residential development was hit especially hard.

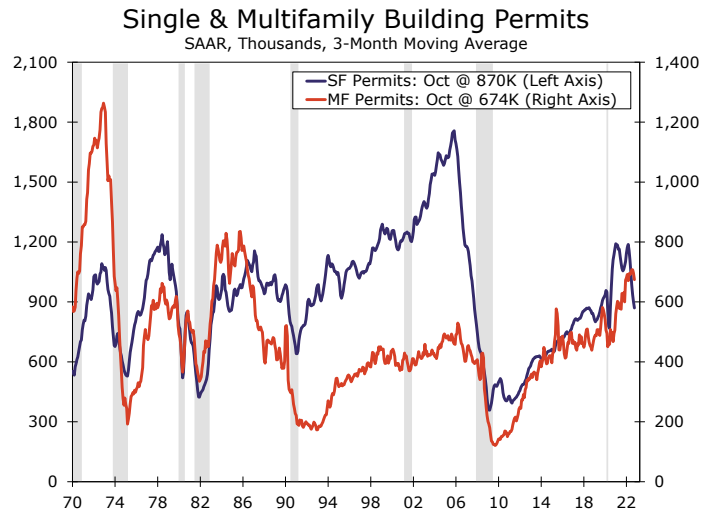
A similar story is playing out today. The Fed's aggressive efforts to rein in inflation have resulted in a sharp rise in mortgage rates. The run-up in borrowing costs has worsened affordability and brought a chill to buying activity. Home builders have responded by cutting back single-family development. The 6.1% decline in single-family housing starts during October brings the pace of new single-family development to 20.8% below where it was a year ago.

Multifamily construction has been more resilient to the effects of rising interest rates. Despite slipping 1.2% during the month, multifamily starts are running at 570K-unit pace, which is 17.8% above prior year levels. Multifamily permits edged 1.0% lower in October. New apartment demand is running considerably slower compared to last year's record pace. The drop-off in demand is likely to lead developers to continue to tap the brakes on construction, although the pace should remain fairly strong.

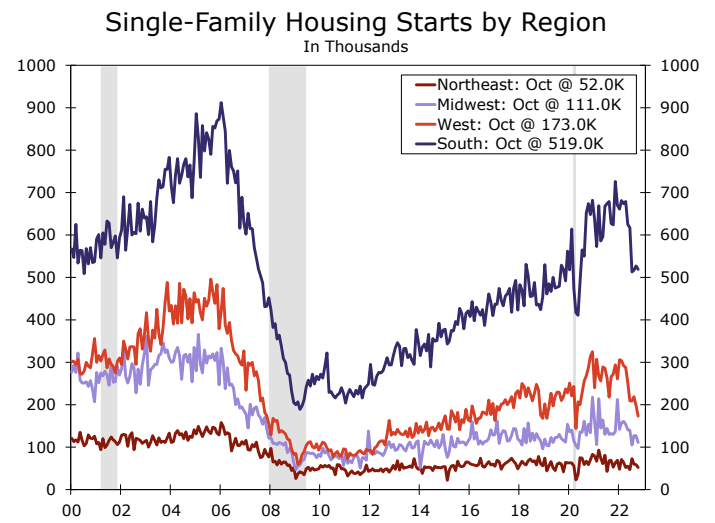
Single-family Starts Decline Everywhere

All together, total housing starts fell 4.2% to a 1.425 million-unit pace in October, the slowest pace since July. Total housing starts contracted in the Northeast (-34.7%), Midwest (-11.1%) and West (-10.6%). Starts improved 6.7% in the South, although the gain was due entirely to a rise in multifamily starts. Single-family starts declined in every region.

Overall, the housing correction continues with little indication that a bottom is in sight. Building permits dropped 2.4% during October. Single-family permits retreated 3.6%, the eighth straight monthly decline. The pace of completions also fell by 6.4% in October. Single-family completions dropped 8.3%, the steepest monthly decline since January. The fall in completions is a possible sign that builders might be beginning to cancel projects as demand disappears and building materials and labor remain costly and hard to come by.



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



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

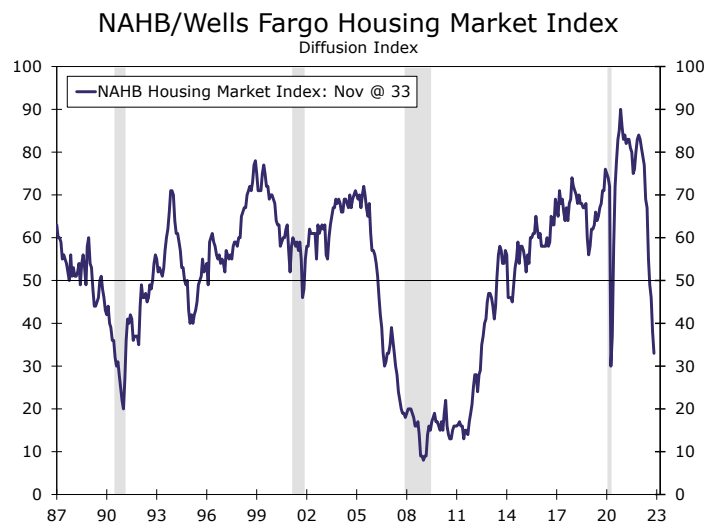
Builder Sentiment Falters Once More as Buyers Stay Home

Souring builder sentiment is another indication that a return to favorable market conditions is still a long ways away. The National Association of Home Builders/Wells Fargo Housing Market Index (HMI) fell five points in November to 33 from 38, the 11th straight monthly decline. Excluding March and April 2020, this marks the lowest confidence reading since June 2012.

All three components of the HMI fell over the month. Present sales conditions fell to 39 from 46, future conditions fell to 31 from 35 and expected buyer traffic fell to 20 from 25. On a regional basis, builders in the Northeast saw confidence plummet to 30 from 47 after having held steady for the past three months. The HMI in the Midwest inched down to 36 from 37, and the South fell to 34 from 41. The West was the only region to see an uptick in confidence, rising to 28 from last month's decade-low reading of 25.

Home buyers face increasing headwinds from climbing mortgage rates. Increasingly scarce buyer traffic has motivated a larger share of builders to provide incentives in order to drive lagging foot traffic. In November, 59% of surveyed builders reported using incentives such as mortgage rate buy-downs and price cutting to draw in sidelined buyers. The average reported price cut was 6%, still well below the 10-12% cuts seen during the 2008 recession.

Builders are not only contending with rising interest rates and declining buyer demand brought on by eroding affordability, but also persistently high building material costs. Despite decelerating from the fast pace seen earlier this year, the Producer Price Index for materials and components for residential construction is still up 14.3% over the year through October.



Source: National Association of Home Builders and Wells Fargo
Economics

Subscription Information

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

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@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
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Economist	212-214-8984	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
Jackie Benson	Economist	704-410-4468	Jacqueline.Benson@wellsfargo.com
Shannon Seery	Economist	332-204-0693	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economic Analyst	704-410-3059	Nicole.Cervi@wellsfargo.com
Jessica Guo	Economic Analyst	212-214-1063	Jessica.Guo@wellsfargo.com
Karl Vesely	Economic Analyst	704-410-2911	Karl.Vesely@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@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 Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. 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. WFBNA 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 WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation offer or solicitation with respect to the purchase or sale of any security or other financial product nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report. The views and opinions expressed in this report are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2022 Wells Fargo Bank, N.A.

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 ("FCA"). 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 EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by 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