

Economic Indicator — October 18, 2024

# Housing Starts Fall Back in September

## Single-Family Building Turns Higher as Multifamily Wanes

### Summary

#### Single-Family Construction Remains Resilient

As September brought the official start of the Federal Reserve rate cuts, prospects for residential development appear to be looking up. Overall housing starts dipped 0.5% in September, providing some giveback from a 7.8% jump in August. Yet, single-family starts notched their second consecutive gain coinciding with a three-month upshift in permits. Although mortgage rate movements have been volatile as of late and financing costs remain elevated, we expect the Fed's easing cycle to spur further improvements in the mortgage rate and more single-family building.

Multifamily development remains highly challenged, evidenced by drops in both starts and permits in September. As the Fed continues to cut rates, lower financing costs should help to remove some barriers to multifamily building. That said, reduced credit access will likely remain a challenge. Multifamily construction is set to remain weak for some time as the incoming supply pipeline continues to put upward pressure on apartment vacancies and discourage new projects.

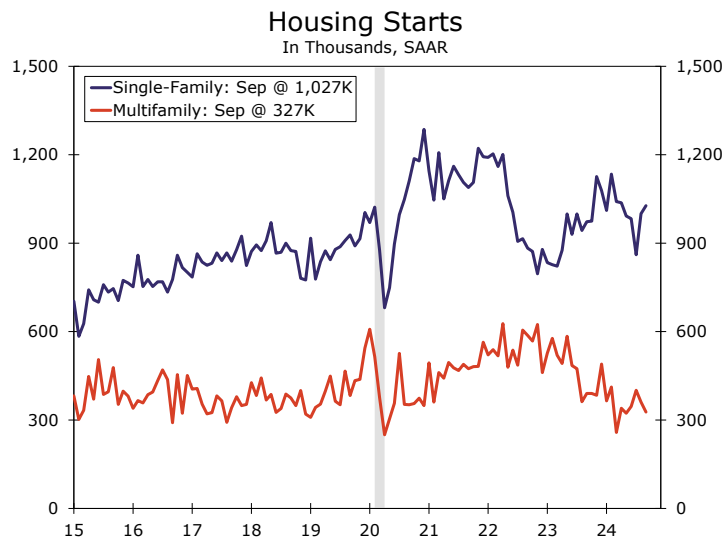
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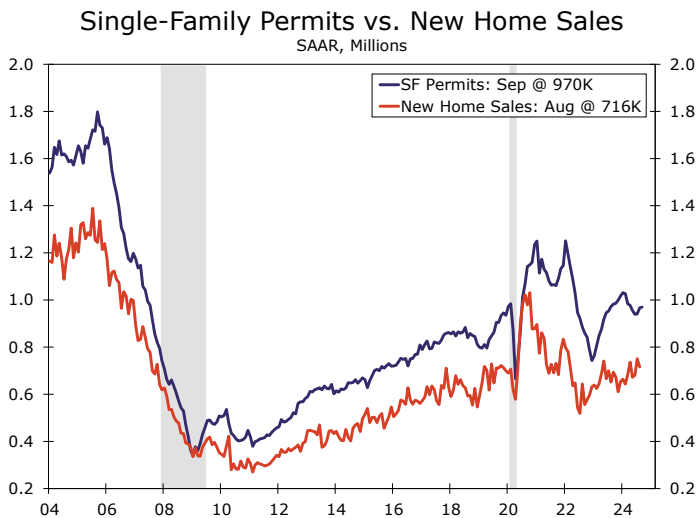
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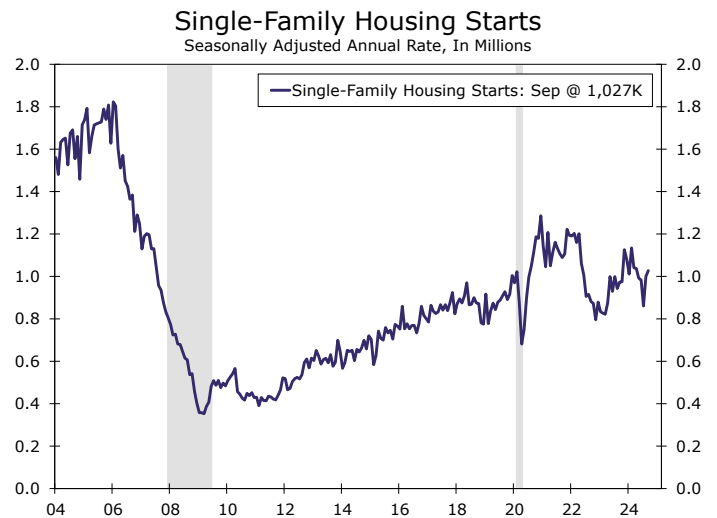
Source: U.S. Department of Commerce and Wells Fargo Economics

## Lower Mortgage Rates Spur a Single-Family Turnaround

- Lower mortgage rates over the past few months, and the official start of the Fed's easing cycle at its September meeting, appear to have brightened the outlook for single-family development. Single-family housing starts rose 2.7% over the month as permits notched their third sequential gain.
- Although the uptick in permits was modest at 0.3% in September, it solidifies a trend-rise in single-family permits following a prior five-month string of declines.
- Sturdy demand for new construction is a key tailwind for builders. In contrast to pronounced weakness in existing home sales, new home sales remain relatively sturdy on account of builder pricing incentives and plentiful inventory levels.
- We expect the pace of single-family building to gradually improve over the next year, aided by marginal dips in financing costs for builders and mortgage rates for buyers. The NAHB Housing Market Index for October increased by two points to 43, reflecting better builder outlooks for market conditions in 2025. All three components of the NAHB index increased for the second consecutive month. Sales expectations over the next six months rose the most, moving deeper into expansionary territory.
- That said, recent mortgage rate volatility is a reminder that financing costs are likely to remain elevated for some time, inhibiting a full-on housing market recovery. Mortgage rates have drifted higher in recent weeks in response to hawkish language from Federal Reserve officials which set expectations for a more gradual pace of monetary easing. The 30-year fixed mortgage rate according to Freddie Mac averaged 6.44% the week of October 17, up from 6.12% two weeks prior.



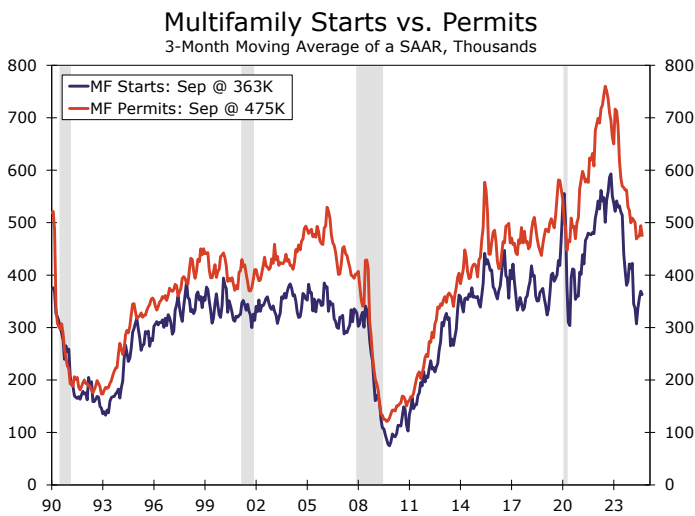
Source: U.S. Department of Commerce and Wells Fargo Economics



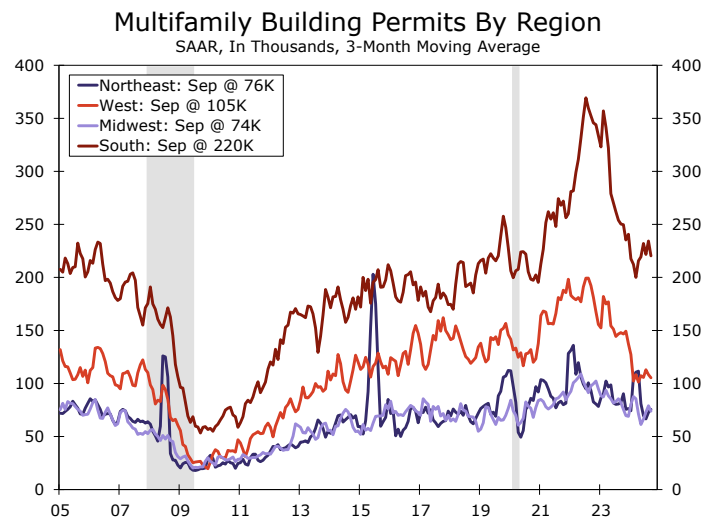
Source: U.S. Department of Commerce and Wells Fargo Economics

### Multifamily Development Remains Weak

- Apartment construction remains highly challenged, evidenced by corresponding drops in multifamily starts and permits in September. Multifamily starts slid 9.4% over the month, bringing the total pace of starts 16.2% below its pace one year ago. Meanwhile, permits tumbled 8.9%, entirely erasing the prior month's gain.
- Multifamily construction data are highly volatile from month to month, but the trend decline in permits suggests that apartment development is likely to remain subdued for some time.
- Despite firm apartment demand, elevated completions and the incoming supply pipeline continue to put upward pressure on apartment vacancies and discourage new multifamily development. Completions fell back slightly in September to 680K but remained far above the 356K average pace in 2019.
- The number of apartments under construction also dipped slightly in September to 842K. Construction should continue to slowly wane in the months ahead, reflecting the ongoing downshift in new permits and starts.
- Although multifamily construction is broadly softening, some regions appear to be outperforming others. The South has notably experienced an upshift in multifamily permits in recent months as robust population inflows keep builders bullish on the region.



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



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