

Economic Indicator — July 19, 2022

# Housing Starts Decline in June

## Single-Family Pulls Back, While Multifamily Maintains Strong Momentum

### Summary

#### Higher Mortgage Rates Continue to Weigh on New Residential Construction

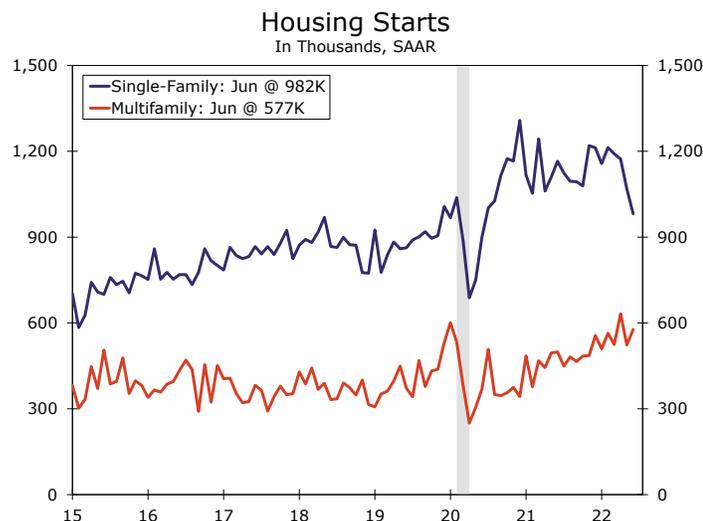
- Total housing starts fell 2.0% during June. The 1.559 million-unit pace registered during the month marks the slowest pace since September 2021. May's originally reported 14.4% plummet in starts was revised up slightly to an 11.9% drop.
- Single-family starts dropped 8.1%, the fourth consecutive monthly decline. Home builders seem to be pulling back as buyers retreat to the sidelines on account of higher mortgage rates.
- Multifamily starts partially rebounded from May's sharp decline and rose 10.3% during June. Reduced single-family affordability looks to be bolstering apartment and condo construction.
- Total building permits slipped 0.6% in June. The better-than-expected outcome was largely the result of an 11.5% jump in multifamily permits. Single-family permits declined 8.0%, the fourth straight sequential drop and sharpest monthly fall since April 2020.
- Builders appear to still be having trouble completing new projects amid ongoing material and labor shortages. Completed new housing units fell 4.6% in June, while the number of units still under construction rose 0.3%. A slower pace of residential construction, less supply chain congestion and lower material prices should help builders complete projects at a faster pace in coming months.

Economist(s)

#### Mark Vitner

Senior Economist | Wells Fargo Economics  
Mark.Vitner@wellsfargo.com | 704-410-3277

#### Charlie Dougherty

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

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

### Single-Family Construction is Pulling Back

Home builders are tapping the brakes as higher mortgage rates weigh heavily on home buying. Total housing starts fell 2.0% during June. The 1.559 million-unit pace registered during the month marks the slowest pace since September 2021. The pace of total housing starts is now 6.3% below the pace hit in June 2021.

The recent weakness has primarily been on the single-family side. Single-family starts dropped 8.1%, the fourth consecutive monthly decline. Single-family starts are now running at a 982,000-unit pace, which is the slowest since June 2020. The downshift was mostly broad-based across regions. Single-family starts plunged 25.4% in the West, 12.7% in the Northeast and 2.9% in the South while the Midwest saw a gain of 2.1%.

The sharp rise in borrowing costs is clearly leading home builders to scale back production plans. Single-family permits dropped 8% to a 967,000-unit pace, the fourth consecutive drop. Over the past three months, single-family permits have averaged a 1.04 million-unit pace, which is just above the 982,000-unit pace of single-family starts, indicating that pipeline of activity has not dried up entirely. Still, yesterday's eye-catching plummet in the NAHB Housing Market Index points to further weakness in single-family construction in the months ahead.

### Multifamily Construction Shows Few Signs of Slowing

In contrast to single-family, multifamily construction continues to expand at a robust pace. Multifamily starts partially rebounded from May's sharp decline and rose 10.3% during June. Similarly, multifamily permits jumped 11.5%, the largest monthly gain registered so far this year. Multifamily permits (718K) are running well ahead of starts (577K), which points to continued strength in multifamily development this year.

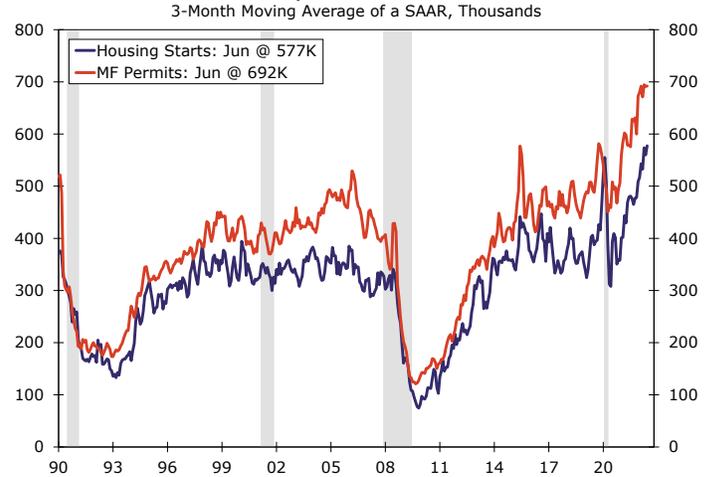
The sharp rise in mortgage rates and accompanying decline in single-family affordability has bolstered rental demand. Apartment vacancy rates have edged up recently but are tracking near record lows. The bidding wars that became commonplace at the height of the pandemic home-buying frenzy appear to be shifting over to many rental markets where supply is tight. That said, we expect demand for apartments to moderate alongside a cool-down in hiring over the next few months. The pandemic and resulting increase in household savings allowed many renters to seek out larger apartments with fewer roommates, but rising rents and slowing job growth are likely to cause that trend to reverse.

### Builder Confidence & Single-Family Starts



Source: U.S. Department of Commerce, National Association of Home Builders and Wells Fargo Economics

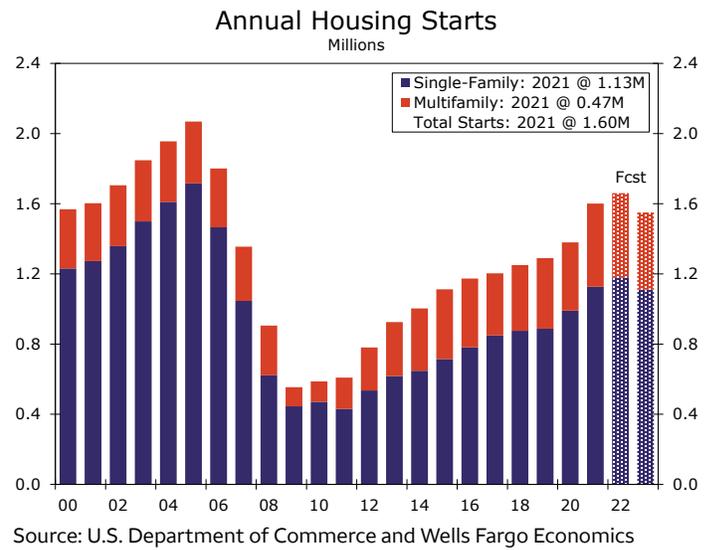
### Multifamily Starts vs. Permits



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

## New Residential Construction Slowing, but a Collapse is Unlikely

As we recently published in our [Housing Chartbook](#), the recent pullback in home sales, builder confidence and housing starts are clear signs that the housing market has reached an inflection point. That said, relatively conservative mortgage lending over the past decade, a structural shortfall of single-family homes and strong demographics lead us to believe that an outright collapse in housing activity is unlikely. In terms of new residential construction, we expect housing starts to hold up reasonably well in the near term, with overall starts rising 3.7% to 1.66 million units this year, and then falling 6.7% to a 1.55 million units in 2023. Starts are bolstered this year by a backlog of projects that are rushing to move forward before interest rates further increase and credit tightens.



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**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
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
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	704-410-4405	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

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