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Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277

Housing Starts Rise Solidly in February

Housing starts rose 3.0 percent in February. Single-family starts rose an even more impressive 6.5 percent. The momentum is swinging away from apartment building and back to traditional single-family homes.

Homebuilding Is Off to a Strong Start in 2017

Housing starts posted a stronger-than-expected 3.0 percent rise in February, with all of the increase coming in single-family starts. Milder weather across much of the country likely allowed for more work to begin this February relative to past winters, which likely bolstered the seasonally adjusted figures. That said, single-family starts have remained above the 800,000-unit threshold (annualized) for the past five months, and the latest figure marks the fastest pace for single-family starts since prior to the Great Recession.

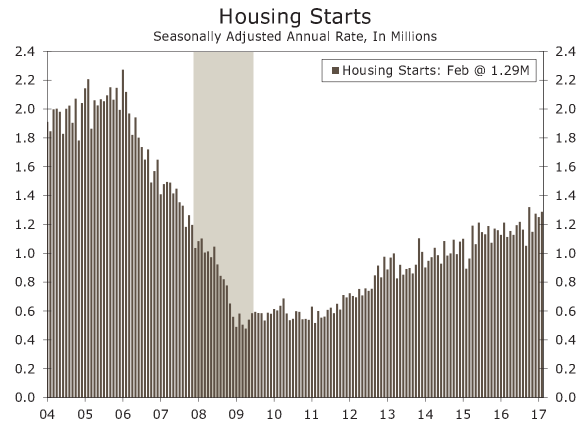
The strength in single-family starts comes on the heels of yesterday's blowout NAHB/Wells Fargo Housing Market Index report, which jumped 6 points in March to 71, hitting its highest level since June 2005. The rise in builder confidence was driven by sizeable gains in sales and perspective buyer traffic, which is an encouraging sign for homebuilders.

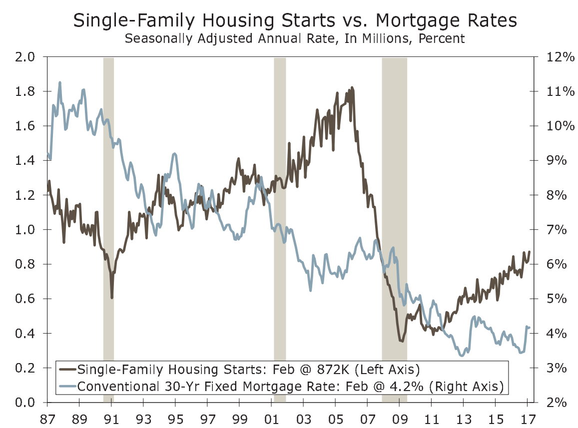
Single-family construction posted its largest monthly gains in the Midwest and Northeast, rising 20 percent and 16.7 percent, respectively. Single-family homebuilding usually goes dormant throughout much of these regions during the winter months but has held up better this year due to, up until recently, much milder winter weather. Single-family starts also jumped 16.8 percent in the West but fell 2.6 percent in the South, where winter weather plays less of a role.

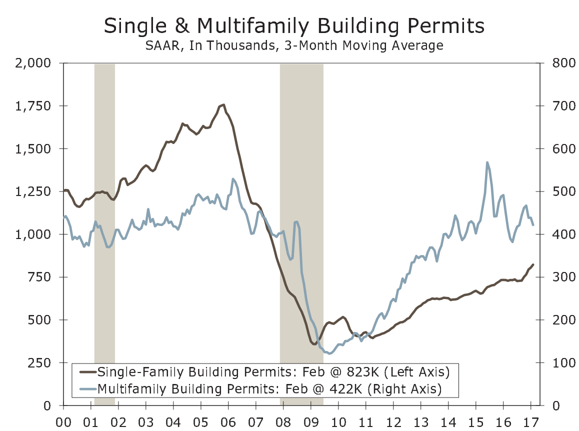
While single-family construction now appears to be ramping up, apartment construction seems to be cooling a bit. Vacancy rates have edged up across the country as a slew of projects have been completed over the past few months. With rent increases slowing and capital becoming dearer, starts of projects with 5 units or more, which are mostly apartments, are expected to fall modestly this year. Multifamily starts fell 3.7 percent in February, following a 7.3 percent drop in January. Those declines, however, come on the heels of a massive 44.3 percent jump in starts in December.

Permits Remain Solid But Spring Should See Some Payback

While the year has gotten off to a strong start, the large assist from milder winter weather will make it more difficult for housing starts to climb significantly higher this spring. Single-family permits have averaged an 823,000-unit pace over the past three months, which is slightly below the 832,000-unit pace for starts. Permits tend to be less impacted by the weather, which suggest that housing should hold onto much of its recent gains. The monthly data, however, may see a few head fakes as starts are unlikely to post as large of a gain as they usually do this spring because they did not fall off as much as they normally do each winter. We raised our estimate for housing starts in our monthly forecast to 1.25 million units for 2017 and look for 1.33 million starts in 2018.







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

Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

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