



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277
Charlie Dougherty, Economist
charles.dougherty@wellsfargo.com • (704) 410-6542

Housing Starts Rise Slightly in July

Housing starts rose 0.9 percent to a 1.168-million unit pace in July. Starts for May and June were revised slightly lower. While recent activity has been below expectations, builder confidence remains elevated.

Housing Starts Unspectacular, Yet Remain Solid

Total housing starts increased to a 1.168-million unit pace, rising 0.9 percent in July. Single family starts grew to 862,000, also a 0.9 percent gain. Starts of projects with five or more units increased 3.1 percent. While new units started in July came in below expectations for the second straight month, starts are still running 6.2 percent ahead of last year on a year-to-date basis. Starts in the South increased 10.4 percent in July and regained their footing after declining for the prior two months. This is a positive sign, as roughly half of all new construction takes place in the South. Meanwhile, the West, which is the second largest region for homebuilding, declined 19.6 percent. New starts in the West tend to be volatile, however starts are up 13.8 percent year-to-date. July starts in the Midwest also increased 11.6 percent during the month, while the Northeast fell 4.0 percent.

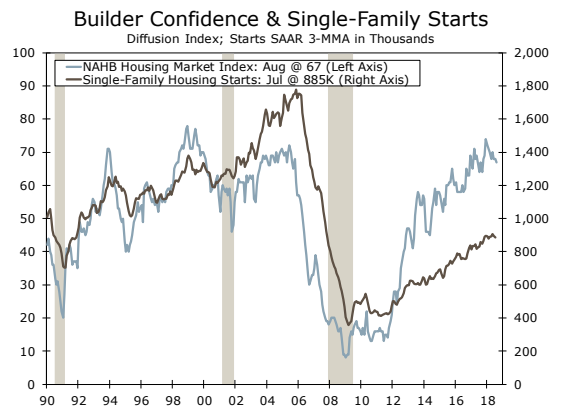
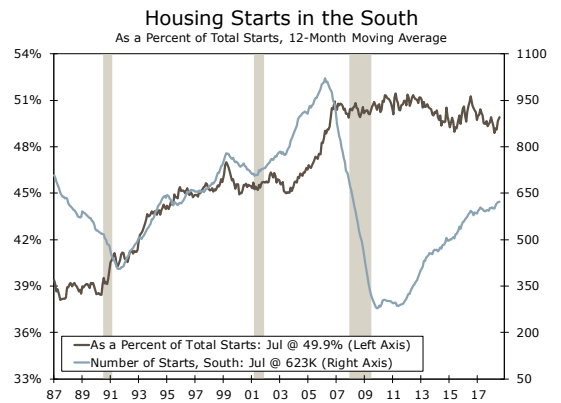
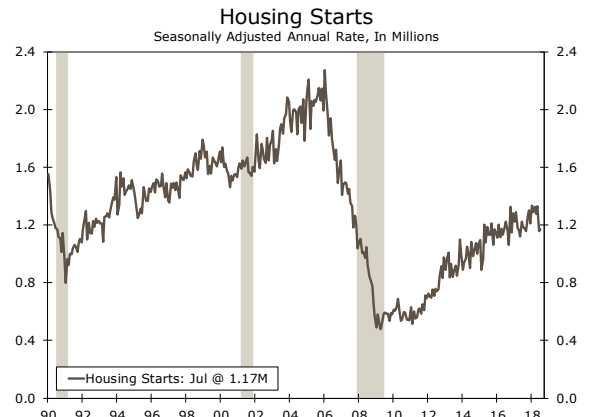
New building permits also showed improvement during the month, growing 1.5 percent. However, the number of new homes completed fell 1.5 percent, owing to sizable drops in both the South and West. The fall in completions can likely be attributed to monthly noise, however unusually wet weather in the South may have also contributed to the slowdown.

NAHB Housing Market Index Shows Confidence Remains High

Despite the number of starts falling short of expectations, builder confidence remains high. The NAHB Housing Market Index fell one point to 67 in August, however, as displayed in the bottom graph, the index remains elevated and continues to reflect strong homebuilder confidence surrounding buyer demand. Every component of the index edged slightly lower over the month. The present sales index ticked down one point to 73, but remained at a high level. Confidence in the outlook also dimmed slightly, as the future sales index fell one point to 72. The prospective buyer traffic indices also dropped, however remain above year-ago levels. Builder confidence also continues to vary by region. Builder optimism rose in the South and was left unchanged in the West. Meanwhile, the Northeast and Midwest fell 9 and 5 points, respectively.

New Residential Construction Still Expected to Trend Higher

That builders continue to express such a high degree of confidence in current market conditions supports our stance that housing starts will be stronger in coming months. While our expectations have been slightly scaled back recently, we still expect new residential construction to strengthen. Rising material prices have been a detriment to new development for much of the year. Given higher costs for materials such as lumber, many projects now fail to pencil out and have been delayed, especially for entry-level homes. However, material prices have begun to ease recently, a trend that should continue in the second half of the year. Lower material prices should allow builders to restart some of the stalled projects and keep residential construction trending higher.



Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
Jay H. Bryson, Ph.D.	Global 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	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloría@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC, is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC, and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2018 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, 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. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. 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. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE