



Economics Group

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Housing Starts Weaken During July

Housing starts fell 4% in July to a 1.191-million unit pace. While starts have now fallen for three straight months, most of the drop has been in multifamily units, reflecting some slowdown in the apartment market.

Housing is Stronger than the Latest Data Suggest

Housing starts fell 4% in July to a 1.191 million-unit pace, which was well below consensus expectations of around 1.256 million units. Our own forecast called for starts to fall to 1.21 million units. All of the drop was in the volatile multifamily category, which saw starts tumble 16.2% in July, following a 16.4% drop the prior month. Single-family starts rose 1.3% this past month, following a 6.3% rise in June.

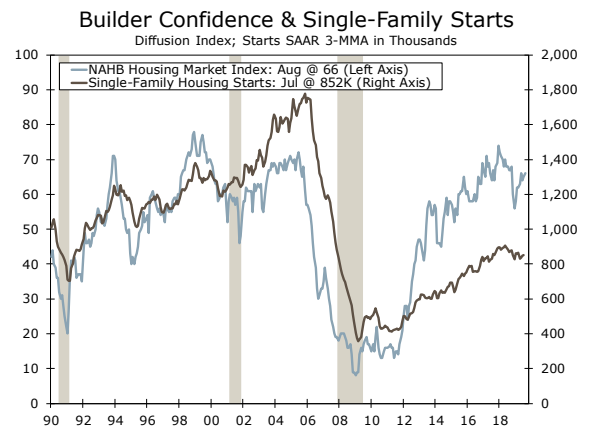
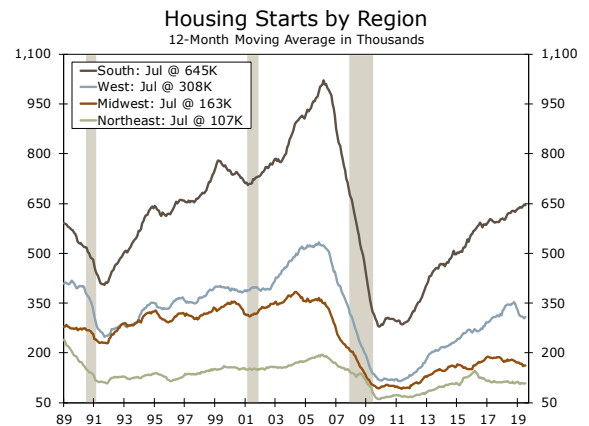
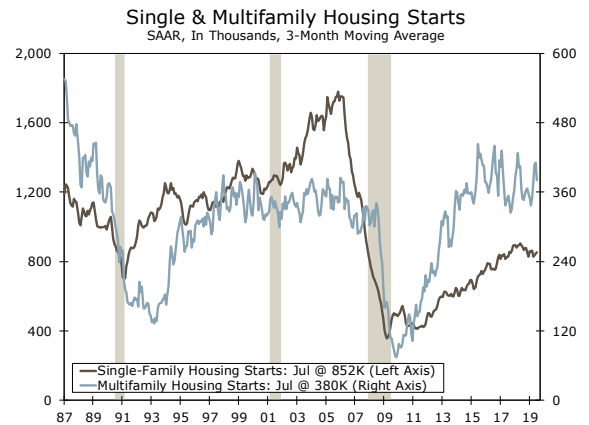
Much of the weakness in multifamily starts was in the Northeast, where apartment building has been strong for quite some time. Starts in the Northeast plunged 42.6% in July, accounting for over 40% of the decline nationwide, despite accounting for just 12.5% of the nation's multifamily starts in 2018. Apartment construction in the Northeast is showing signs of topping out and the data remain volatile on a month-to-month basis. On a year-to-date basis, starts are running roughly even with their year-ago pace. Multifamily starts also tumbled 20.3% in the Midwest, and fell 12.9% in the West and 5.5% in the South.

Permits moved in the exact opposite direction. Multifamily permits rose 21.8% to a 498,000-unit pace, which is the highest since April. Permits fell 7.2% in the Northeast but rose in every other region, including huge gains of 35.4% in the South and 24.6% in West—the two largest regions, which account for roughly 70% of the nation's multifamily permits. On a year-to-date basis, permits are running slightly ahead of their 2018 pace, with the South accounting for virtually all of the growth.

So how do we interpret those conflicting signals? Our take is that the apartment market is topping out, particularly in higher-price markets in the Northeast and parts of the West. Many of those economies are also more exposed to slowing global growth, as they are more anchored to international trade and investment and receive more of their population growth from overseas. Apartment markets in the South still appear to have a little more growth ahead of them, thanks to the continued influx of younger people moving to the region. Eight of the nation's 10 fastest growing major metropolitan areas since 2010 are located in the South.

Single-family construction rose 1.3% in July. Single-family starts jumped 22.9% in the Northeast, and rose 8.1% in the West and 1.6% in the Midwest. But single-family starts fell 3.9% in the South, which is by far the largest region. In another odd twist, single-family starts are up 1.8% in the South through July of this year but down year-to-date in all three other regions.

July's weak housing data are difficult to square with the improving trend in the Wells Fargo/NAHB homebuilders' survey, which rose one point to 66 in August on stronger buyer traffic. We suspect single-family construction will eke out a modest gain for the year, but anyone looking for housing to offset the weakness from slowing growth abroad is likely to be sorely disappointed.



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