



Economics Group

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Builders Remain Upbeat Despite a Big Drop in Housing Starts

Housing starts fell 9.4% in September, with multifamily units tumbling 28.2% and accounting for all of the drop. Starts of single-family homes rose 0.3%, marking their fourth consecutive increase.

Homebuilding is on the Mend

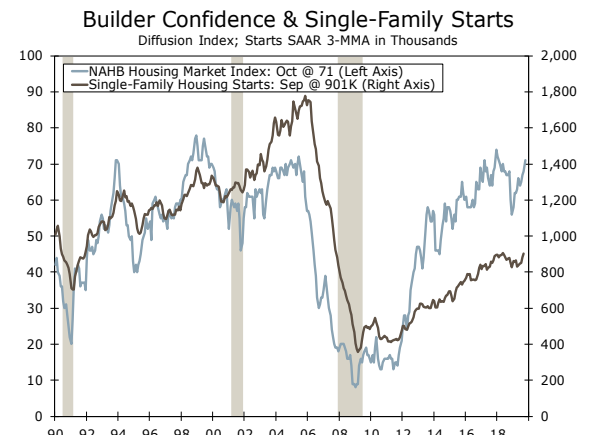
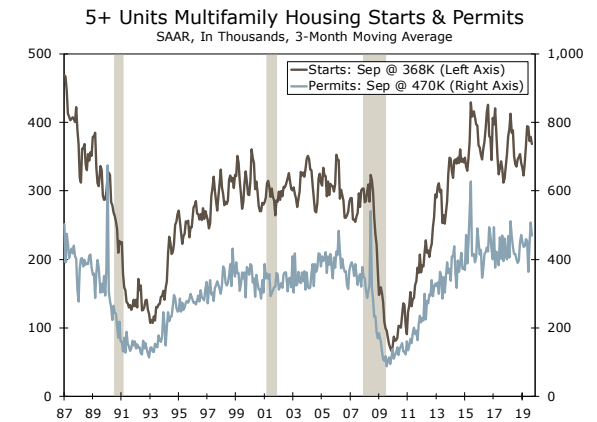
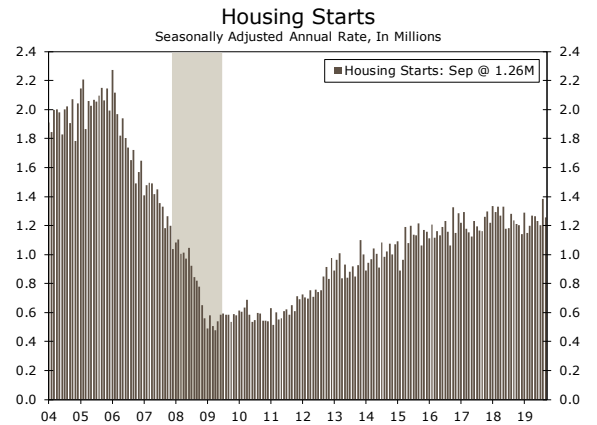
New home construction continues to gain traction, despite this morning’s seemingly disappointing headline of a 9.4% drop in overall starts in September. All of last month’s drop was in multifamily, which likely reflects growing caution on the part of lenders and developers amid slowing job growth and this past summer’s inverted yield curve-fueled recession scare. Multifamily starts have fallen in three of the past four months, with the lone rise coming in August, when seasonally adjusted starts surged 41.4% to a 471,000-unit pace. The other three months averaged a much tamer 347,000-unit pace. The average for the entire four-month period is 378,000.

Apartment Building Looks Set to Pause

Multifamily permits have not been anywhere near as volatile, averaging a 488,000-unit pace over the same four-month period, more than 100,000 units higher than starts. A gap that large would normally suggest that there is a large pipeline of projects waiting to get started. Our sense is that two variables are at play. Lenders have grown more cautious about extending credit for apartment projects. Condominium development has also slowed as limits on the deductibility of property and state income taxes have cooled sales in many condominium-dependent markets, such as New York City and Miami. In addition, some projects, mostly in the South, are likely held up by the inability of builders to find the workers they need.

While apartment construction is showing signs of topping out, single-family appears to be regaining momentum. Single-family starts rose 0.3% in September to a 918,000-unit pace, marking their fourth consecutive increase and the highest level since January of this year. Single-family permits rose a more robust 0.8% to an 882,000-unit pace, marking their fifth consecutive increase. Single-family permits have averaged 852,000 units over the past four months, well below the recent pace of starts. There is a fairly short lead time between single-family permits and starts, with a large proportion of housing starts occurring during the same month that the permit was issued.

While single-family permits are running below starts, we suspect that both starts and permits are headed higher from here. The latest data from the NAHB/Wells Fargo Housing Market Index show builders are remarkably upbeat. The overall index rose three points to 71 in October, its highest reading in 20 months. Lower mortgage rates and a shift by homebuilders to focus on more affordable product appear to be bringing buyers back to the market. The present sales component rose three points in October, the highest since January 2018. Builders also expect sales to improve further. Buyer traffic rose four points in October and expectations for future sales rose six points to 76, the highest level since May 2018. The better read on home sales is solid evidence that the Fed’s rate cuts are working and should help to offset some of the trade war-related weakness of overall growth.



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