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Housing Construction Continues to Grind Higher

Housing starts rose 3.8% in October to a 1.314 million-unit pace, and single-family starts rose for the fifth consecutive month. Homebuilding is gradually gaining momentum.

Slow and Steady Increases for Starts and Permits

New residential construction continues to gradually creep higher amid lower mortgage rates, firming demand and rising builder optimism.

Housing starts rose 3.8% in October to a 1.314 million-unit pace, roughly in line with expectations and 8.5% stronger than October last year. Still, the headline numbers have been nothing to write home about in recent months—on a non-seasonally adjusted year-to-date basis, starts are running 0.6% below last year's pace, and October was only the second monthly increase in overall starts in the past six months.

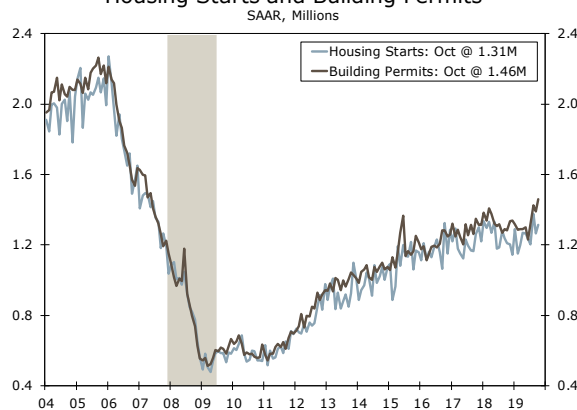
The single-family data tell a more positive story. Although down 1.3% compared to the same period last year, single-family starts have risen five of the past six months. The trend is clearly improving—the 2.0% rise in October brought single-family starts to a 936,000-unit pace, the strongest since January. On a regional basis, the South is driving the improvement, with year-to-date single-family starts up 4.8%, while the Northeast (-14.0%), Midwest (-5.5%) and West (-7.7%) are still running below last year's pace. The National Association of Homebuilders (NAHB) points to land availability and development as the main drivers of this discrepancy.

Multifamily starts rose 8.6% in October. The gap between starts and permits persisted, with permits roughly 35% above starts. We suspect this reflects growing caution among lenders, as we laid out in our recent apartment market [outlook](#). We would also argue that the persistence of the gap raises the prospect of an upside surprise for apartment construction.

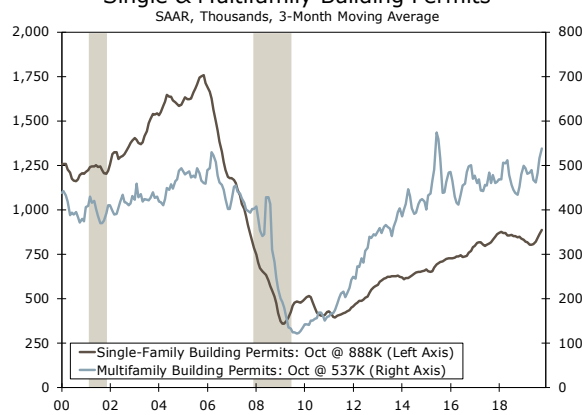
Permits handily beat expectations, rising 5.0% to a 1.461 million-unit pace, the strongest since May 2007 and 14.1% above the pace from October last year. The trend in single-family permits, which rose 3.2% in October and have risen for six consecutive months, is encouraging. The multifamily data—both starts and permits—are highly volatile from month to month, while single-family starts are subject to weather disruptions. Single-family permits are therefore the least noisy measure (and are of course also a *leading indicator*), and they are pointing to continued upward momentum in residential activity. The 909,000-unit pace reached in October is the highest since August 2017. The number of units permitted to be built but not yet started rose to 181,000 in October, the highest level since March, hinting at signs of a growing builder backlog.

Builders remain confident—the NAHB/Wells Fargo Housing Market Index, a forward-looking measure of the single-family market, declined one point to 70 in November, but remains at healthy levels, particularly compared to the end of last year when it fell to 56. The slight decline follows four consecutive increases, and the index continues to point to “ongoing positive conditions, spurred in part by low mortgage rates and continued job growth.”

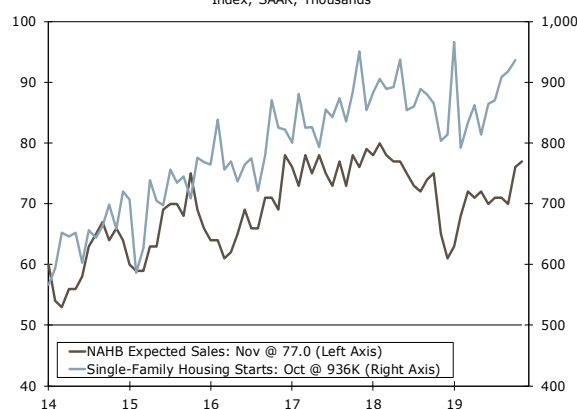
Housing Starts and Building Permits



Single & Multifamily Building Permits



NAHB Expected Single-Family Home Sales vs. SF Starts



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

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