



Economics Group

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Great Starts—Housing Starts Surge in December

Housing starts jumped 16.9% in December to the highest level in 13 years. The headline was boosted by unusually warm weather and year-end factors, but the trend is undeniably strong.

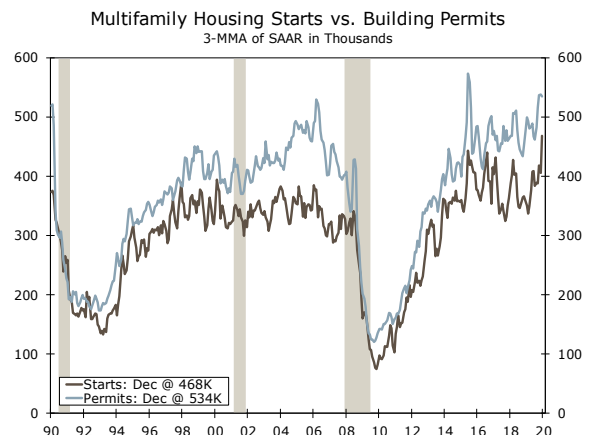
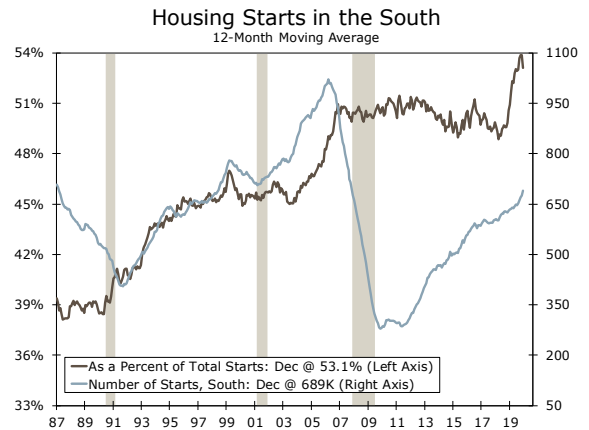
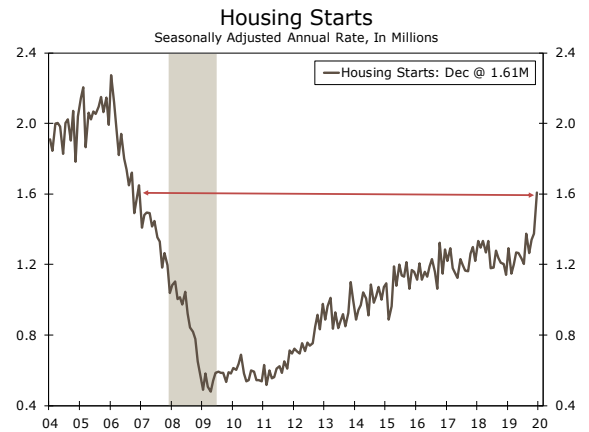
Homebuilding Roars into the Twenties

Housing starts surged 16.9% to a 1.61 million-unit pace, the highest level since December 2006. Big jumps like this are not unusual for December. The seasonal adjustment factors for the month are huge and unseasonably mild weather, as we had this past December, can often lead to exaggerated jumps in the seasonally adjusted data. There is also a tendency for multifamily starts to surge at year-end, as developers race to get projects started ahead of new mandates that tend to begin at the start of each year. In terms of actual data, housing starts on a non-seasonally adjusted basis rose 3.2% in December, when activity normally declines sharply.

December's data appear to have been impacted by both of those forces. Single-family starts jumped 11.2% to a 1.06 million-unit pace, the highest since July 2007. Multifamily starts surged an even stronger 29.8% to a 553,000-unit pace, a 33-year high. If December's strong numbers stand up, single-family starts will slightly exceed our 2019 forecast and multifamily starts, most of which are high-end lifestyle apartments, will significantly exceed our expectations. But it is not uncommon for big gains in housing starts to be scaled back when more complete data are reported. Yet even if we see December's gains trimmed, the trend of the preceding three months suggests that homebuilding has begun 2020 with strong momentum.

Starts rose in all four Census regions in December. The Midwest posted the largest percentage gains, with overall starts soaring 37.3% and single-family starts surging a whopping 56.5%. While the gains coming off a relatively small base, starts on a non-seasonally adjusted basis actually rose in December, a month when frigid winter weather usually causes activity to plummet in the region. The Northeast also saw huge percentage increases for the same reasons, with overall starts rising 25.5% in December. The big story, however, is in the South, which is less impacted by winter weather and saw starts rise 9.3% off their already strong pace. The South has seen its share of housing starts skyrocket in recent months to over 53%.

Permits were the soft spot of today's report, with single-family down 0.5% and multifamily down 9.6%. The pace of starts and permits—for both single-family and apartments—was strong for the entire second half of 2019, which means that even if activity stabilizes from here, we will still see sizable year-over-year gains in 2020. Moreover, we expect to see continued gains. The NAHB index, a measure of homebuilder optimism, fell just one point in January to 75 and remains within a hair of the 20-year high hit in December. While the gap between multifamily permits and starts narrowed in December, it remains unusually large with the trend in permits well above the trend in starts.



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