



Economics Group

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Homebuilding Had Strong Momentum Ahead of COVID-19

Housing starts fell 1.5% in February but a huge upward revision to the prior month's data left the level of starts nearly 100,000 units higher than what was expected for the month. Permits fell 5.5% but also from a high level.

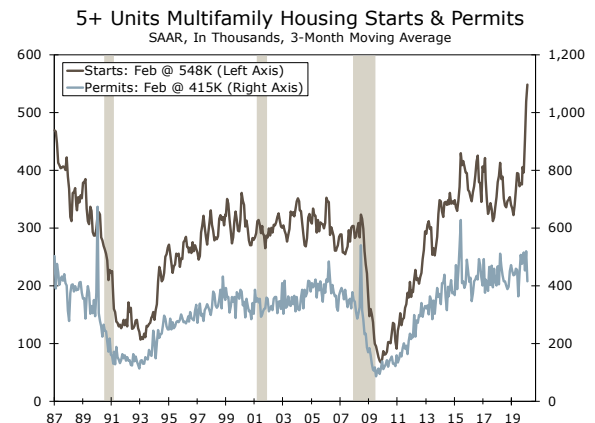
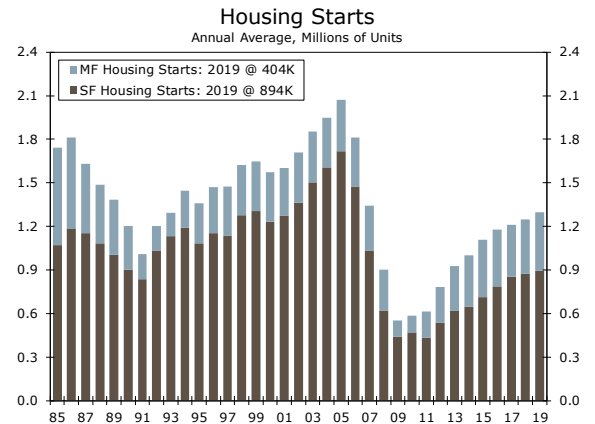
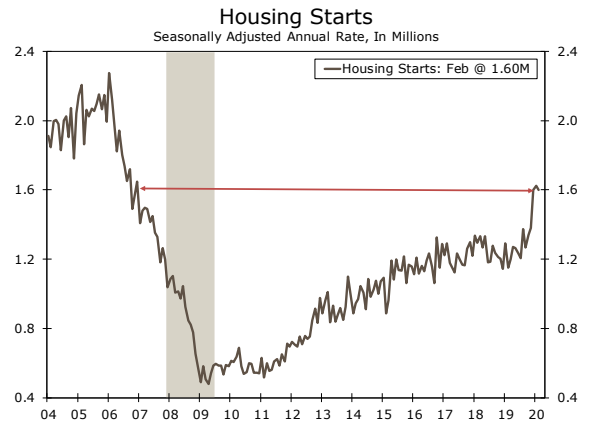
Homebuilders May Be a Source of Resiliency

Most economic data prior to the intensification of the COVID-19 outbreak were showing at least modest growth. The housing data, however, have been the strongest of this expansion and were poised to see their best year in more than a decade. That is what the takeaway would have been if so much of the economy was not hunkering down right now. We suspect that single-family homebuilding will show a great deal of resiliency this year but suspect that multifamily construction may slow as apartment operators focus more of their attention on current projects and current operations.

February's data, like January's, was boosted by unseasonably mild weather. Single-family starts rose 6.7%, following a 4.9% drop the prior month. Home builders ramped up construction late last year, however, so construction began the year at a pace well ahead of the prior year's total build. Through February, single-family starts are currently running 20.6% ahead of the same period last year. One of the reasons single-family homebuilding has been so strong this year is single-family homes have been significantly underbuilt throughout most of the country over the past decade, resulting in record low inventories and sustained price increases ahead of wage growth and inflation. There is little doubt builders will scale back starts somewhat as layoffs mount in coming weeks but the industry is not likely to pull back as much as it has in prior recessions because activity has been so low for so long in an absolute sense.

The increase in single-family starts was led by a 18.5% spike in the South. That gain followed an 11.7% drop the prior month. Single-family starts in the South have averaged a 575,000-unit pace the past three months, accounting for 55% of single-family starts nationwide. The strength in the South is driven by the region's burgeoning population, particularly in Texas, Florida, Georgia, the Carolinas and eastern Tennessee. Single-family starts rose 4.9% in the Midwest and 3.0% in the Northeast but fell 13.8% in the West.

Multifamily starts fell 14.9% in February, following a 13.8% rise the prior month. Apartments account for the overwhelming majority of multifamily starts and overbuilding has been a recurring concern throughout the decade, despite strong demand and low vacancy rates. Affordability has been another recurring concern and the industry has been pivoting toward more affordable projects away from downtown areas. We suspect that the economic crisis emanating from the COVID-19 related shutdown will result in some pullback in apartment building and that may already be evident in the permits numbers. Multifamily permits fell 18.3% in February, following a 14.4% rise the prior month. Permits for projects with 5 units or more have averaged a 463,000 unit annual rate over the past three months, which is 15.6% below the pace of starts. By contrast, single-family permits have averaged a 973,000-unit pace, which is 6.9% below the pace of starts.



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