

Economic Indicator — May 18, 2021

Housing Starts Stumble in April

Summary

Supply Constraints Slow Home Building

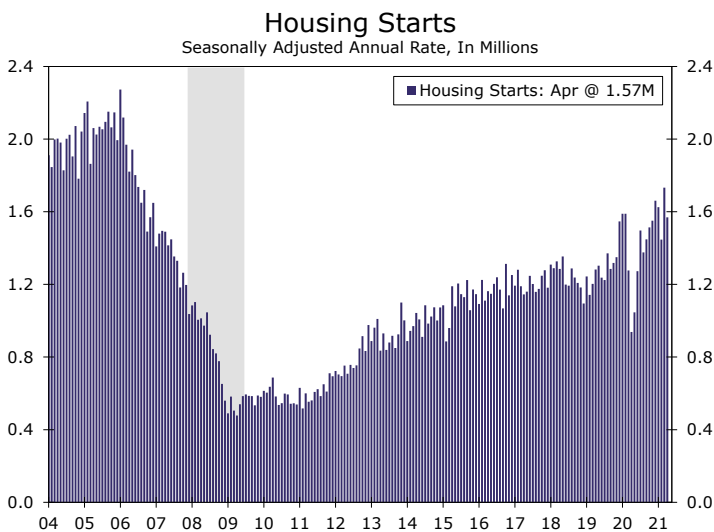
Housing starts fell 9.5% in April to a 1.569 million-unit pace. The drop was larger than expected, but only slightly so, and appears to have been amplified by unusually wet weather in the South and Midwest as well as ongoing shortages of lumber and labor. Single-family starts tumbled 13.4% to a 1.087-million unit pace, with most of the drop in the South and Midwest. Demand for single-family homes, however, remains as strong as ever. The monthly NAHB/Wells Fargo Home Builders Index, which leads by a month, remained unchanged in May at 83, and the current sales conditions series held at 88, while prospective buyer traffic fell one point to 73. Both series remain near historic highs.

Building permits held up better than starts. Overall permits rose 0.3%, with all the gain coming from projects with five units or more. Apartment construction appears to be revving back up, as demand has improved across the country, including many of the hardest hit urban markets. Permits for single-family homes fell 3.8% in April to a 1.149 million-unit pace but remain 5.7% higher than starts, suggesting that April's dip in starts could prove short-lived. Moreover, both the number of single-family homes under construction and single-family homes completed rose in April.

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

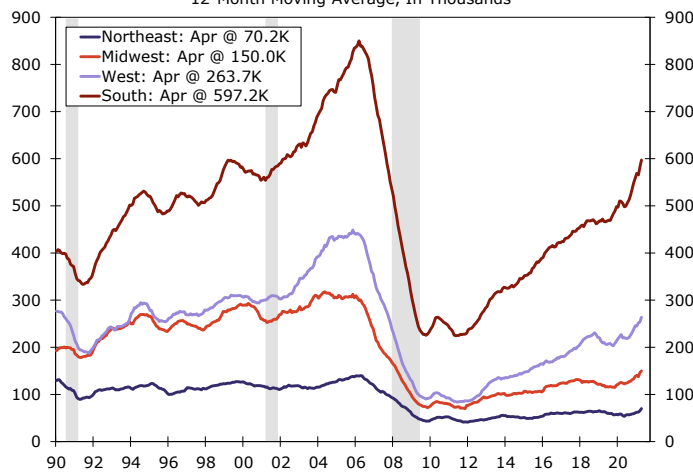
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Housing Starts Slip in April on Supply and Weather Issues

Housing starts came in well below expectations, with overall starts declining 9.5% to a 1.569 million-unit pace and single-family starts tumbling 13.4% to a 1.087 million-unit pace. Despite this past month's declines, demand for housing, and single-family homes in particular, remains white-hot. This is particularly true in the South, which showed uncharacteristic weakness during the month. The weather was a little wetter than usual this spring throughout much of the South, and with lumber, labor and appliances in short supply, many builders appear to have hit the pause button this past month. The number of single-family homes where permits have been authorized but construction has not yet started rose 4% in April and has been trending higher in recent months.

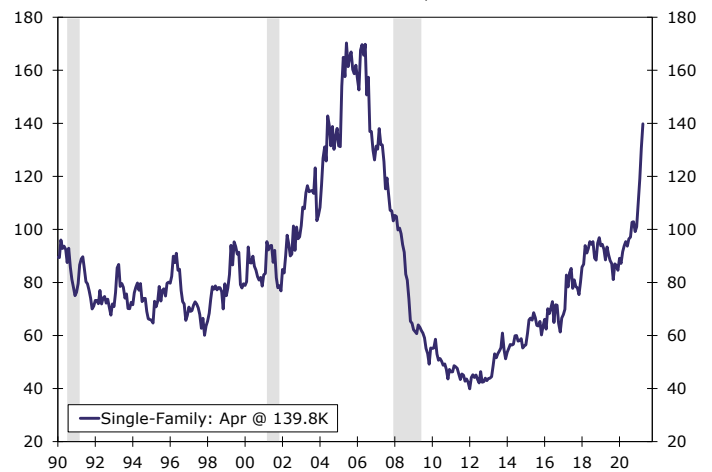
Permits for new homes and apartments held up better than starts. Overall permits rose 0.3%, with all the gain coming in projects with five units or more. Demand for apartments has roared back in recent months, as the reopening of the economy has gathered momentum. The improvement appears to have bolstered confidence of apartment developers, investors and lenders. As with single-family homes, the backlog of multifamily projects where permits had been issued but construction had not yet started has been trending higher since last summer and is back near its recent highs.

Single-Family Housing Starts by Region
12-Month Moving Average, In Thousands



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

Single-Family Homes Authorized, but Not Yet Started
At the End of the Month, NSA

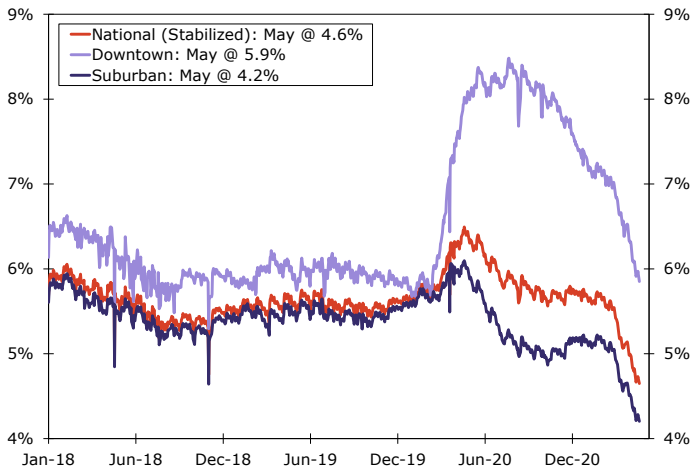


Source: U.S. Department of Commerce and Wells Fargo Securities

Single-family starts fell 13.4% in April to a 1.087-million unit pace. Starts fell in every region except the West, where they were unchanged for the month. The drop in single-family starts is eye-opening, as it is usually the more stable component of housing starts and demand for homes is clearly running strong across the country. We suspect that April's drop was due to some temporary factors. Rainy weather in the South, which accounts for more than half of all starts, and the Midwest appears to have slowed construction somewhat. That pause was amplified by the seasonal factors, which expect a large pickup in starts in April.

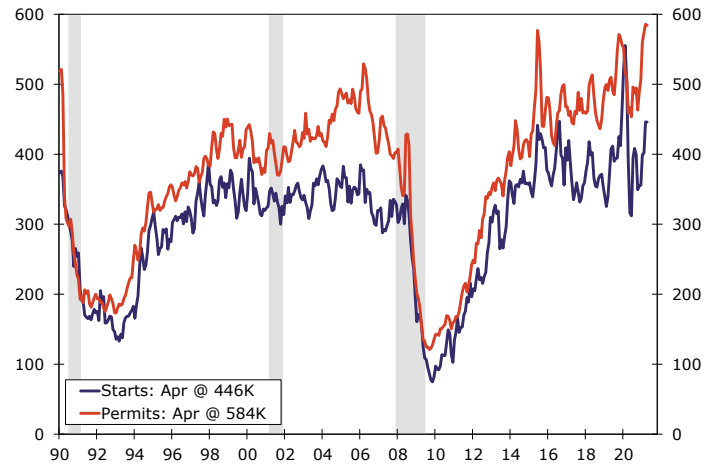
Supply shortages present an even greater challenge for builders. Shortages of lumber, appliances and other building materials have caused many builders to limit the number of homes they started in April. The problems appear to be most acute in South, where the number of homes authorized by building permits but not yet started jumped 5.4% to 78,000 units on a seasonally adjusted basis. The backlog of not-yet-started single-family homes has risen 26% since the end of the last year, which should provide strong momentum to home building later this year as supply catches up with demand.

Apartment Availability Rates



Source: CoStar Inc. and Wells Fargo Securities

Multifamily Housing Starts vs. Building Permits



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

Apartment projects are moving forward again. Demand for apartments began to recover last fall and leasing demand in hard-hit urban markets, including Manhattan and San Francisco, has seen new life in recent months. Vacancy rates have plummeted as leasing has picked up. The resurgence in apartment leasing has firmed up rents and reassured apartment owners that pessimism about the future of the apartment market has been overdone. Starts of projects with five units or more, which are mostly apartments, rose 4% in April to a 470,000-unit annual rate, with all of the increase coming from the West and Northeast. That continues a trend that became evident late last year, when the number of multifamily homes under construction began to climb in both regions.

We expect multifamily starts to ramp up further as supply-side challenges ease up. The backlog of projects with five units or more authorized by building permits but not yet started rose 5.4% in April and is up 22.5% since the end of last year. Lumber prices have eased a bit in recent days, as mills are scrambling to increase production amid still sky-high prices. Labor and many other key building materials remain in short supply, however, and continue to be major headwinds for home building until at least this fall.

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