

Economic Indicator — July 20, 2021

Housing Starts Easily Top Expectations in June

Summary

Housing Starts Easily Top Expectation in June

Housing starts rose 6.3% in June to a 1.643 million-unit pace, with both single-family and multifamily starts rising solidly. Data for May were revised slightly lower. The net result is still stronger than had been expected, however, and new home construction and apartment development both appear to be regaining any momentum they lost earlier this spring. Supply chain concerns continue to bedevil home builders, but shortages are beginning to ease somewhat, and price increases, most famously for lumber, have begun to moderate. Permits, which have been running well ahead of starts this year, fell 5.1% in June to a 1.598 million-unit pace, roughly consistent with starts.

Economist(s)

Mark Vitner

Senior Economist | Wells Fargo Securities, LLC
mark.vitner@wellsfargo.com | 704-410-3277

Home Building Regains Momentum As Supply Shortage Begin to Ease

Housing starts rose 6.3% in June to a 1.643 million-unit pace, with both single-family and multifamily starts rising solidly. Data for May were revised slightly lower. The net result is still stronger than had been expected, however, and new home construction and apartment development both appear to be regaining any momentum they lost earlier this spring.

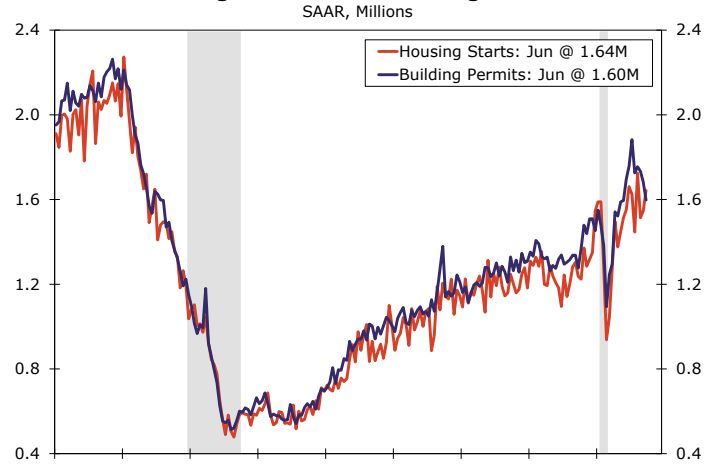
Housing permits fell 5.1% in June, marking their third consecutive drop. Single-family permits fell 6.3% and multifamily permits fell 2.6%. Permits tend to be less volatile than starts and have been running significantly above starts for the past year. June's decline brings permits back in line with starts, but there remains a large backlog of housing units authorized but not started.

The rise in housing units authorized but not started is consistent with the new home sales data, which show a persistent rise in share of sales where construction has not yet started. Builders have been managing their way through supply chain bottlenecks by limiting sales in new home communities. Once supply chain bottlenecks ease further, sales caps will be lifted and both sales and housing starts will strengthen. The latest data remain consistent with our forecast for 1.60 million housing starts this year.

Those that argue that the recent slide in permits bodes something more sinister for housing are missing just how much more permits have risen than starts. Permits through the first six months of this year total 865,500 units, which is a full 10% more than starts. Permits have been running ahead of starts for the past year, however, which has led to a persistent rise in the number of homes authorized but not yet started. That backlog has risen 43.3% over the past year, with most of the increase coming from single-family homes.

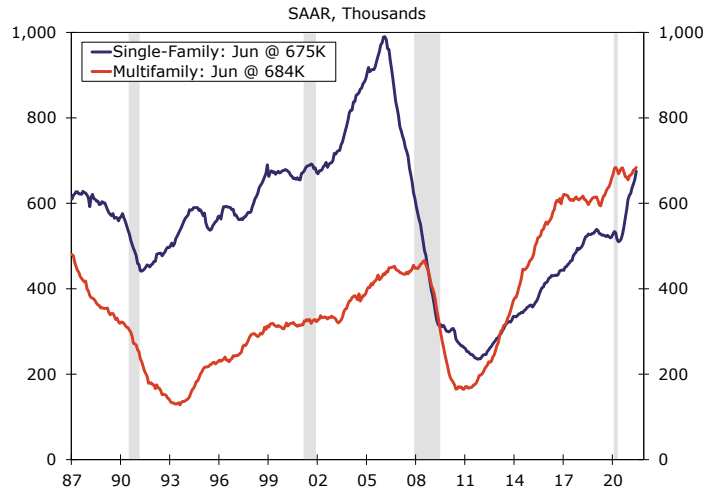
There has also been a steady rise in the number of homes under construction. Supply chain bottlenecks are lengthening the time that it takes to build a home, which has contributed to the increase. The number of homes under construction rose 1.8% in June to a 1,359 million-unit pace, up 14.5% from a year ago. Single-family homes accounted for most of the increase, rising 2.9% in June and up 31.8% over the past year. Multifamily homes under construction rose 0.7%, with apartments accounting for most of the increase. The increase in homes under construction will bring some much needed inventory to the market. Yesterday's NAHB/Wells Fargo Home Builders' Index noted a sharp drop in prospective buyer traffic, as buyers have little to look at it.

Housing Starts and Building Permits



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

New Homes Under Construction



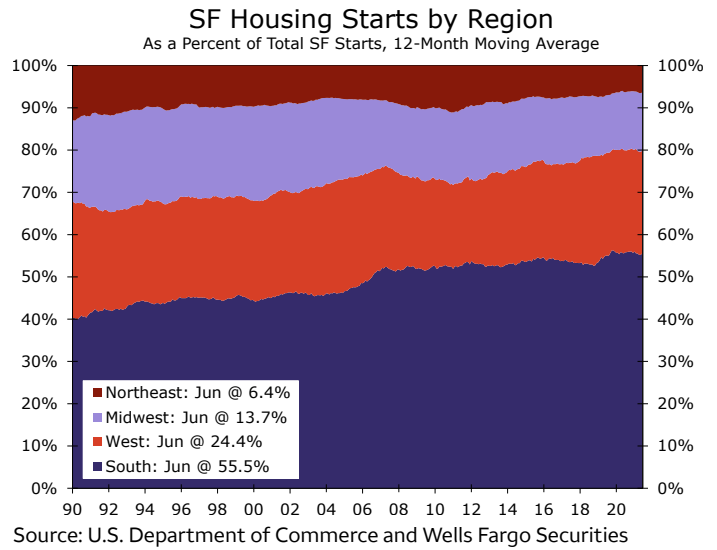
Source: U.S. Department of Commerce and Wells Fargo Securities

Home Building Regains Some Momentum

Single-family starts rose 6.3% to a 1.160 million-unit pace, which is the second highest level this year. All of June's increase took place in South, where single-family starts jumped 13.7% to a 672,000-unit annual pace. The South typically accounts for well over half of all the single-family homes built in the United States each year. The region continues to see an influx of new residents fleeing the Northeast and West Coast in search of more affordable housing costs and better quality of life.

Single-family starts also rose sharply in the Northeast, which accounts for the smaller share of single-family construction. In June, the Northeast saw single-family starts jump 34.4% to an 82,000-unit annual pace. Single-family starts were unchanged in the West and fell 19.9% in the Midwest.

Single-family permits fell 6.3% in June to a 1.063 million-unit pace, which is 97,000 units below starts. The pullback bears watching but really just brings single-family permits, which have totaled 588,800 units through the first six months of 2021, back in line with starts, which have totaled 563,500 units. Moreover, the number of single-family homes authorized but not yet started has risen to 144,000 units at the end of June.



Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

The 2021 Annual Economic Outlook: *Aftershocks and Divergence in the Post-Pandemic Economy* is available at wellsfargo.com/economicoutlook

Via The Bloomberg Professional Services at WFRE

And for those with permission at research.wellsfargosecurities.com

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	International Economist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	International Economist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economist	(704) 410-1681	shannon.seery@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Nicole Cervi	Economic Analyst	(704) 410-3059	nicole.cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	(704) 410-1437	sara.cotsakis@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes this report directly and through affiliates including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC to be reliable, but Wells Fargo Securities, LLC does not guarantee its accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or upon any opinions set forth herein. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial product or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2021 Wells Fargo Securities, LLC

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EEA, this report is distributed by WFSIL or Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE