

Economic Indicator — April 16, 2024

Residential Construction Pulls Back As Rates March Higher Starts and Permits Both Fell Sharply in March

Summary

Housing Starts Retreat in March

Total housing starts dropped 14.7% to a 1.32 million-unit pace during March. Single-family and multifamily starts both declined during the month. Although harsh weather in some parts of the country and the early Easter holiday partially explain March's decline in starts, single-family and multifamily permits also pulled back. The broad-based weakening in permits suggests builders and developers might be becoming less optimistic about prospective demand given persistent inflation and the potentially higher-for-longer interest rate environment.

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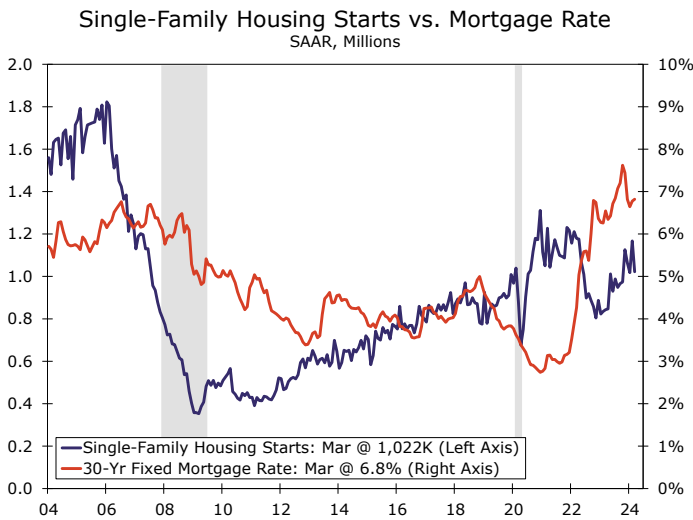
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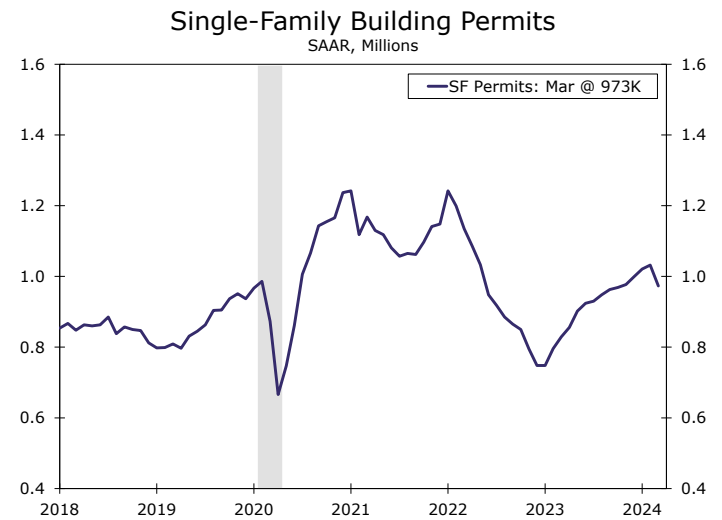
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Single-Family Construction Slips in March

- Single-family starts fell 12.4% in March, a sharp decline which partially offsets February's robust gain. On balance, single-family ground-breakings are still trending higher, with the pace of starts up 27.1% on a non seasonally adjusted year-to-date basis.
- The general improvement in single-family construction over the past year despite higher interest rates reflects builders' ability to leverage incentives such as mortgage rate buy-downs and price discounts to support sales. A dearth of available homes for sale in the existing market has been another boon for builders.
- Those dynamics appear to be shifting slightly, however. Resale supply remains tight, but inventories have risen so far in 2024. What's more, the slower-than-anticipated cooling in inflation has pushed out expectations for rate cuts this year. Consequently, interest rates have increased markedly over past several weeks, with the average 30-year mortgage rate shooting up to 7.4% as of April 15 according to Mortgage News Daily.
- The volatility in rates and fresh uncertainty in regard to monetary policy may be starting to give builders pause. Single-family permits fell 5.7% in March, the first monthly decline since January 2023.
- We still expect single-family construction to gradually improve over the course of this year, with a structural shortage in housing supply and sturdy economic growth as tailwinds. That said, higher interest rates may limit the pace of new development.

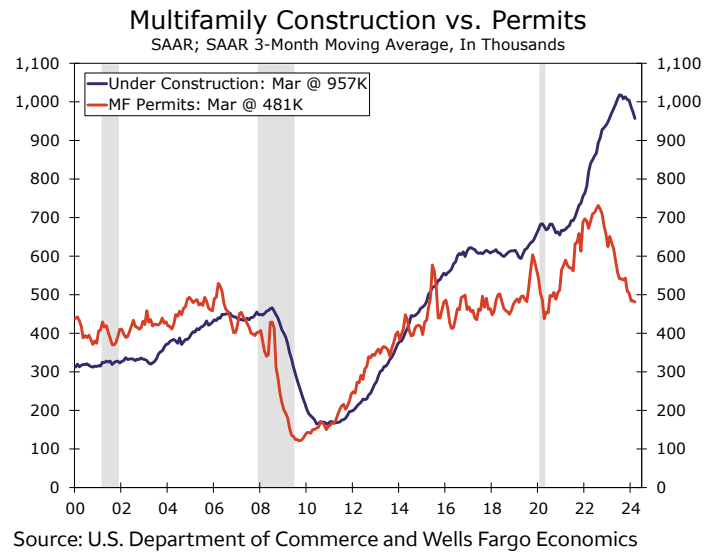
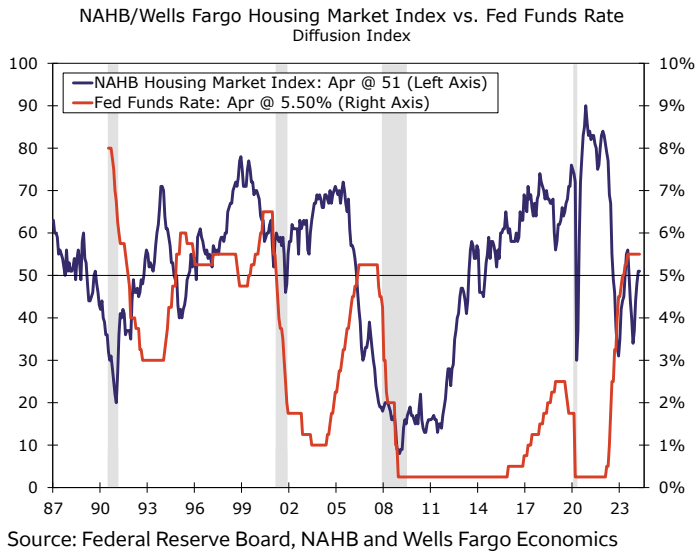


Source: U.S. Department of Commerce, Freddie Mac and Wells Fargo Economics



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- A sideways move in home builder confidence provides additional evidence that builders may be starting to reassess production plans. Builder sentiment held firm in April as the NAHB Housing Market Index came in unchanged at 51. On balance, builder confidence has improved this year, which signals cautious optimism for an economic soft landing and lower interest rates at some point in the future. That noted, April's pause suggests builders are viewing rising mortgage rates and the prospect of fewer rate cuts in 2024 as a threat to home buying demand.
- If rates remain elevated, builders may be forced to once again step up the use of incentives. Builders have increasingly pulled back from offering price cuts this year as mortgage rates stabilized below 7%. Just 22% of builders reported cutting prices in April, down from 24% in March and 36% in December. The use of sales incentives also dropped, falling to 57% in April, from 60%.
- Multifamily construction continued to pull back in March as rising apartment vacancies and fears of oversupply have impelled developers to pull back on new projects. Multifamily starts plummeted 21.7% over the month to a 299K-unit pace. Month-to-month movements for multifamily starts are highly volatile, but the down-trend in starts is more evident over the past year. Multifamily starts are now down 44.3% on a year-ago basis.
- Multifamily permits retreated 1.2% over the month and are down 20.2% over the year. Developers are focusing on working through existing projects as the count of units under construction fell for a fifth straight month to 957K, down from an all-time high of 1,018K seen in July 2023.



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