

Economic Indicator — October 19, 2021

Housing Starts Slip in September

Summary

- Total housing starts fell 1.6% to a 1,555K-unit pace in September. Despite the decline, new home construction is running at a solid pace. On a year-to-date basis, total starts are up 19.5% compared to the same period last year.
- Hurricane Ida, which ripped through wide swathes of the South and Northeast in early September, likely held back new construction in those areas.
- The monthly decline was owed almost entirely to a 5.0% drop in multifamily starts.
- Single-family starts were essentially unchanged, ending a two-month string of declines.
- Total building permits sunk 7.7% during the month, reversing the strong gain seen the prior month.
- Multifamily permits fell 18.3%, while single-family permits slipped 0.9%.
- Building material and skilled labor shortages continue to hamper new residential development. The number of homes under construction rose to a 1,426K-unit pace, the highest since 1974.
- Despite these headwinds, builder confidence strengthened in October. The NAHB Housing Market Index rose to 80 during the month, the highest level in three months. The single-family sales components, both present and future, rose solidly during the month, as did prospective buyer traffic.

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Hurricane Ida and Supply Scarcities Hinder Residential Construction

Acute shortages of building materials and skilled labor continue to stymie new residential construction. Total housing starts fell 1.6% to a 1,555K-unit pace in September. Hurricane Ida, which ripped through wide swathes of the South and Northeast in early September, also played a role in the monthly drop. Overall starts weakened in the Northeast and the South, falling 27.3% and 6.3% respectively. Meanwhile, starts rose 6.9% in the Midwest and 19.3% in the West.

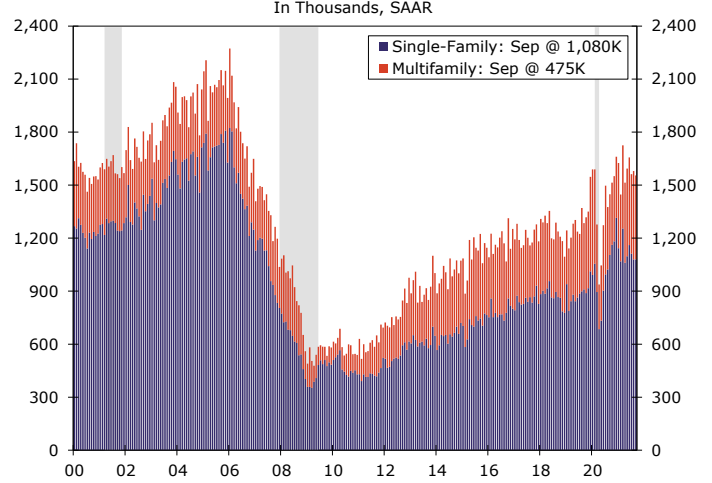
The overall monthly decline was owed almost entirely to a 5.0% drop in multifamily starts. Multifamily's backslide in September follows a robust gain the prior month, which is a reminder that multifamily starts can be highly volatile on a month-to-month basis. On a six-month moving average basis, multifamily starts are running at an elevated 478K-unit pace. This robust pace of activity indicates that climbing apartment rents, which have come along with resurgent leasing demand, are encouraging developers to move forward with projects.

Single-Family Construction Remains Solid

Single-family starts were essentially unchanged at 1,080K during September, ending a two-month string of declines. Single-family construction has cooled off slightly in recent months, but is still quite strong. For context, the average seasonally-adjusted annual pace of single-family construction between 2010 and 2019 was 682K units per month.

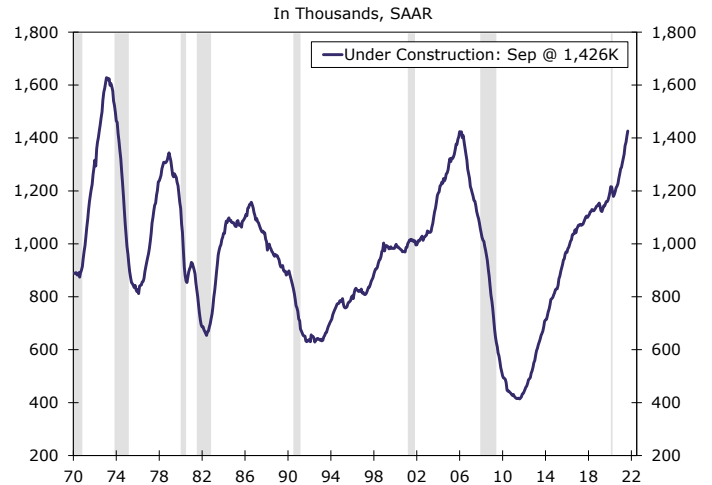
A rise in the number of homes under construction and a decline in homes completed offer the latest evidence that home building continues to be hampered by building material and skilled labor shortages. The number of homes under construction rose to a 1,426K-unit pace, the highest since 1974. Meanwhile, new home completions declined to a 1,240K-unit pace. Furthermore, total building permits sunk 7.7% during the month, reversing the strong gain seen the prior month. Multifamily permits fell 18.3%, while single-family permits slipped 0.9%

Housing Starts



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

New Homes Under Construction

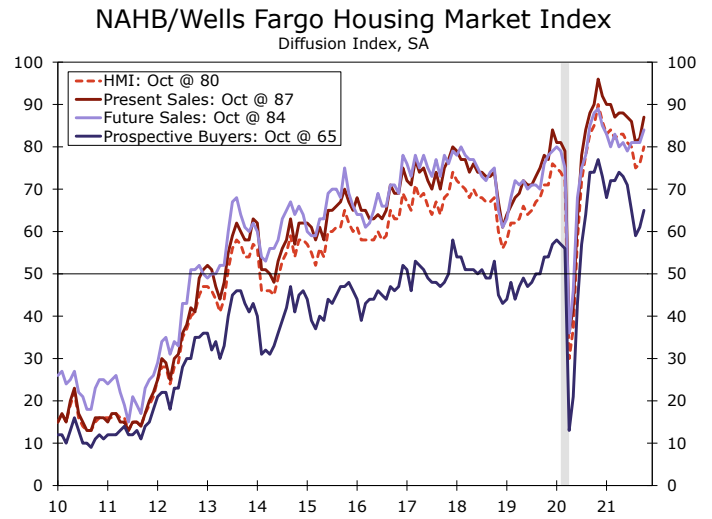


Source: U.S. Department of Commerce and Wells Fargo Securities

Builder Confidence Brightens in October

Lumber supplies have improved significantly this summer; however, a growing list of key material inputs, such as copper and steel, remain in short supply. We expect these supply constraints to ease somewhat this fall and winter, as construction enters a seasonally slow period in the Northeast and Midwest, freeing up resources for the South and West.

Despite these supply-side challenges, builders remain confident in their ability to sell just about anything they build. The NAHB Housing Market Index (HMI) rose to 80 during October, the highest level in three months. Driving the overall gain was an increase in current single-family sales, which rose five points to 87 during the month. The future sales component also improved, climbing three points to 84. Meanwhile, prospective buyer traffic rose to 65.



Source: NAHB and Wells Fargo Securities

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