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Economics Group

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Housing Starts Rise in November

Total housing starts jumped 3.2% to a 1.256 million-unit pace in November. Building permits also increased 5.0% during the month. Single-family starts continued to fall, while multifamily starts jumped 22.4%.

Multifamily Boosts Overall Starts

Total housing starts came in slightly stronger than expected and rose 3.2% during November. However, all of the monthly rise can be attributed to a 22.4% jump in the volatile multifamily segment. Single-family starts fell 4.6%, to an 824,000-unit pace. November marks the third consecutive monthly decline and brings single-family starts down to the lowest level since May 2017. Total starts were 3.6% lower year-over-year. This comparison is difficult, however, since November was the strongest month of 2017. Revisions for the prior two months were positive on balance and on a year-to-date basis, total starts are up 5.1% compared to 2017.

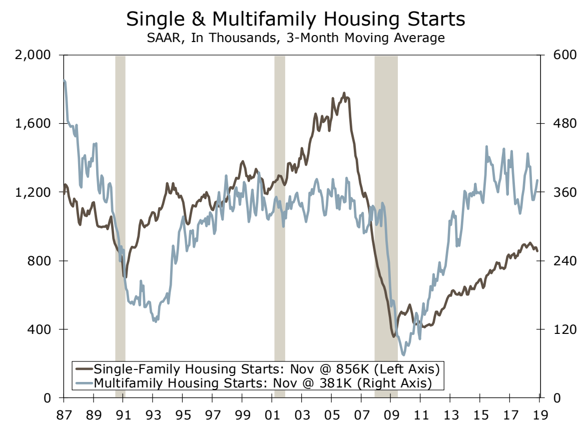
While new single-family construction has clearly slowed in recent months, some of November's weakness may be attributed to wildfires in California. The West saw a substantial 24.4% drop in single family starts, a pace well below recent history. Building permits in the West have also largely held up this year and have not seen such a dramatic drop-off. Starts surged 15.1% in the South, which might assuage some fears that residential construction has significantly slowed in the largest region for new homebuilding. The seasonally adjusted gain, however, results from the lack of a falloff in actual starts, making the seasonally adjusted jump less of a positive.

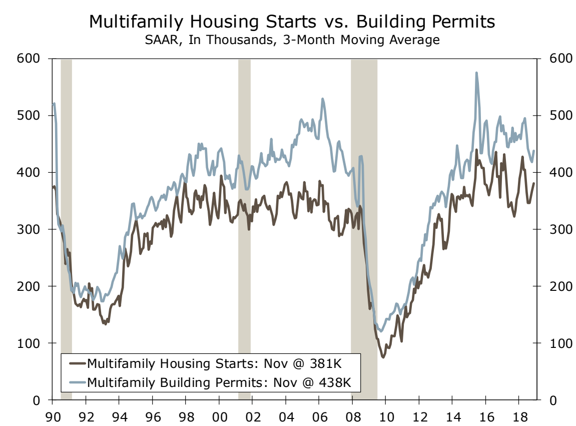
Building permits also registered a strong monthly gain and rose 5.0%. Similar to starts, nearly all of the gain occurred in multifamily permits, which jumped 14.8%. Meanwhile, single-family permits edged up just 0.1%. Given the permits data, we expect single-family to remain sluggish and look for multifamily starts to remain near their recent levels.

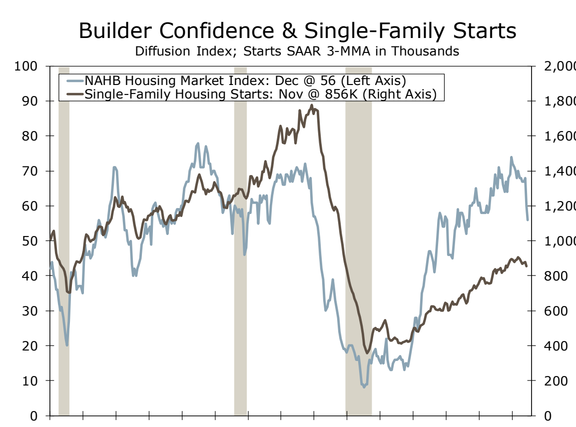
Builder Confidence Drops Again in December

After plunging eight points in November, the NAHB Housing Market Index fell four points to 56 in December. The index remains elevated relative to historical averages and the 67 average reading for 2018 is still roughly on par with 2017's average of 68. Moreover, any reading above 50 indicates that a majority of builders see current conditions as good rather than poor. Builders have now reported weakening housing demand for the second consecutive month, and the sharp 12 point decline since October is the largest two-month drop since 2001. Every component of the index edged lower over the month, notably in the present conditions component, which declined six points. Builder confidence in the outlook also diminished for the second straight month, as the future sales index fell four points to 61. Traffic of prospective buyers also dropped during the month.

Each region also took a hit in builder confidence, notably in the Northeast which saw a 15 point-decline after falling nine points in November. The Northeast, however, represents a relatively small region for new home building. More worrisome is the significant softening in the West and South where over 75% of new residential construction occurs. Each of those regions has seen a cumulative nine point drop over the past two months.







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

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