Housing Starts Stumble in June

Housing starts fell 0.9% to a 1.253 million-unit pace during June. A solid single-family gain failed to offset a sharp multifamily decline. While still subdued, activity should steadily improve in the second half of the year.

Single-Family Building Ready to Climb

New residential construction continues to be fairly sluggish. Total housing starts declined 0.9% during June, dragged down by a sharp 9.2% decline in the volatile multifamily segment. Single-family construction fared better and rose a solid 3.5%. Single-family building has now improved in three of the past four months. The overall improvement in single-family construction was evident in the West and South, which increased 9.8% and 1.1%, respectively. Single-family starts also gained 8.0% in the Midwest, but dropped 6.1% in the Northeast.

Still, overall building activity remains fairly subdued. Total starts leaped 6.2% on a year-over-year basis, however given overall construction slowed to a crawl in June of last year, the year-over-year comparison overstates the trend. On a year-to-date basis, total starts are still running 3.7% below last year’s pace. Builders have contended with several weather-related challenges this year, which likely caused delays and depressed overall activity. According to the NOAA, the first six months of the year were the wettest on record over the past 125 years.

That noted, we expect a slow and steady improvement in residential construction for the remainder of the year. Starts slowed markedly in the second half of 2018 alongside rising mortgage rates and sluggish new home sales. Mortgage rates have since dipped below 4.0% and should remain relatively low, which should bolster buying conditions further and provide a boost to demand. Released separately today, mortgage purchase applications rose 6.9% year-over-year for the week ending July 12th.

A steep 6.1% drop in total building permits during June may raise some eyebrows, however multifamily permits accounted for the entire decline. Multifamily permits dipped 16.8% to a 407,000-unit pace, the slowest since 2016. We note that multifamily permitting can be extremely volatile month-to-month and is prone to substantial revisions. Over the past three months, permits for apartment and condo building have averaged 467,000, a pace more consistent with the recent elevated trend. Furthermore, the drop in multifamily permits masks a 0.4% rise in the single-family category, the second consecutive gain, meaning we will likely continue to see modest improvements in single-family building activity in the second half of the year.

Builders steadily regaining confidence also points to further improvements in coming months. The NAHB Housing Market Index edged up to 65 during July, with both present and future sales, as well as prospective buyer traffic, gaining one point during the month. Despite remaining below the sky-high levels of last year, the topline index has improved in six of the past seven months, and gained nine points since last December’s collapse.

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