



# Economics Group

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## Housing Starts Stronger in August

*Housing starts rose 12.3% to the strongest pace since 2007. The headline was boosted by a surge in apartments, but single-family starts were also strong. Higher sales and builder optimism point to further improvement.*

### Single-Family Construction Poised for Growth

Higher builder confidence and an improving trend in single-family permits indicate that new home construction is finally beginning to catch up to the higher pace seen in new home sales.

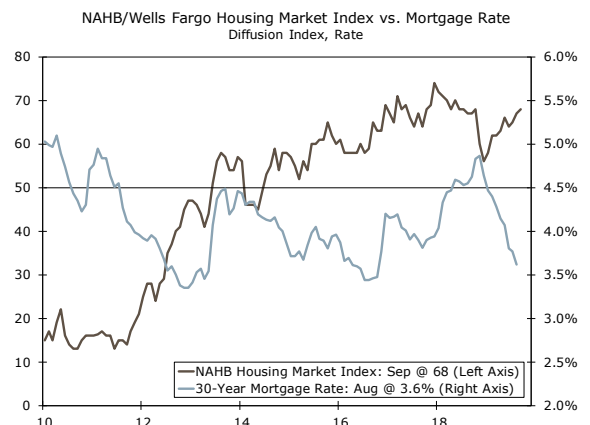
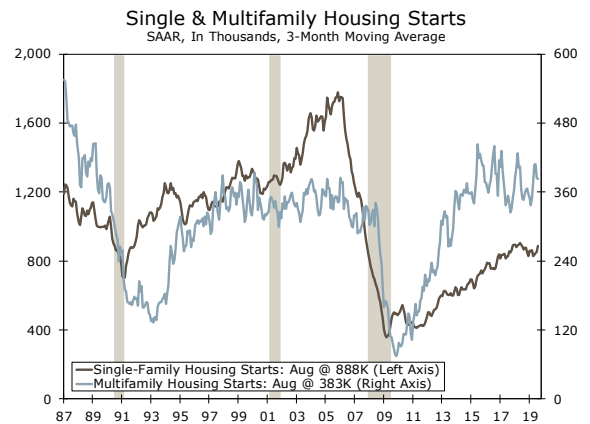
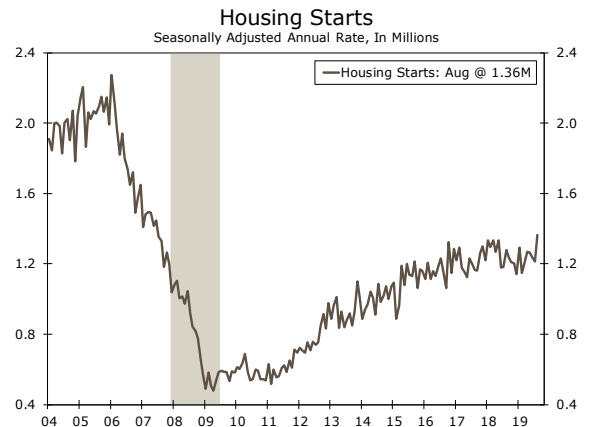
Total housing starts jumped 12.3% to a 1.36 million-unit pace, the highest since June 2007. The headline number surpassed all expectations, but was driven to a large extent by a 32.8% surge in multifamily starts. New apartment construction, which is notoriously volatile on a month-to-month basis, had briefly dipped below trend the past two months, so a catchup in August is not surprising.

Still, single-family starts were quite solid, rising 4.4% to a 919,000-unit pace, the highest since January 2019. Only three times in this long and gradual housing recovery have we seen single-family construction at a higher pace than in August. Single-family starts rose 3.6% and 5.3%, respectively, in the South and West, the two largest regions for residential construction. They were up 8.7% in the Midwest and down 1.7% in the Northeast. Nationwide, year-to-date single-family starts are down 2.7% over the same period last year.

Single-family permits were also encouraging, rising 4.5% to the strongest pace since July 2018. The outlook is gradually improving—single-family permits have now pieced together four consecutive gains, after falling each of the prior seven months, dating back to October 2018. Moreover, rising builder confidence and an improving sales picture point to continued strength in residential activity. The National Association of Homebuilders (NAHB) Housing Market Index rose to 68 in September, an 11-month high. The increase was due to an improvement in builders’ assessments of current sales, which have been boosted by the sharp decline in mortgage rates and strong labor market.

Still, we might expect stronger builder optimism and construction data given the sharp decline in mortgage rates—the average 30-year conventional mortgage rate has fallen over 130 bps since last November. We suspect builders are remaining cautious, despite the pickup in sales, after being forced to reduce prices to clear excess inventories earlier this year. Trade policy uncertainty and stock market volatility are also likely holding back homebuilders, who are wary of a sudden pullback in demand.

Still, the stronger sales pace and improving builder confidence should feed through to stronger construction later this year. The Fed will almost certainly announce another rate cut this afternoon, providing further help for builders facing tighter credit recently, and easing some of the supply-side challenges of meeting the higher demand. After being a drag on overall GDP growth for six straight quarters, residential investment is finally poised to boost growth in the third quarter and through next year.



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