Homebuilders Finally Have Some Reason to Cheer

*Single-family housing starts rose 2.4% to a 938,000-unit pace in November. Multifamily starts rose 4.9%, and overall building permits rose 1.4%. The strong numbers back up yesterday’s five-point jump in the NAHB index.*

**Housing Continues to Build Momentum**

Homebuilding appears to be gaining momentum, as housing starts handily beat expectations during November and starts for the prior month were revised higher. Overall starts rose 3.2% to a 1.365 million-unit pace, the second strongest since 2007. Single-family starts rose 2.4%, marking the fifth rise in the past six months, while multifamily starts rose 4.9%, following an 11.8% rise the prior month. The outlook has improved for both single-family and multifamily. Overall, we expect housing to contribute modestly to fourth quarter GDP growth and offset some of the weakness in capital spending. We have raised our housing outlook for 2020 slightly, and housing is one of the bright spots in our overall 2020 economic outlook.

As good as the data have been, overall starts still trail permits by a wide margin. Permits rose 1.4% to a 1.482 million-unit pace, the highest in 12 years. Permits are less volatile and tend to lead starts by a month or two, but a relatively large proportion of homes are started the very same month a permit is issued. The bulk of the gap between starts and permits is in apartment construction. Permits for projects with five units or more—mostly apartments—are running about 100,000 units ahead of starts. The gap likely reflects concerns about overbuilding in some submarkets and soaring construction costs. The lack of construction workers is also holding back starts. Demand for apartments remains surprisingly strong, and vacancy rates have retreated back near their cycle lows. The overhang in permits creates some upside risk to housing starts going forward.

Single-family construction has been steadily trending higher for the past six months. Starts were beaten down a year ago when interest rates spiked toward the end of the year. The Fed’s pivot toward lower rates eventually sparked a rebound, once builders cleared out inventories and reconfigured their business models to focus more on entry-level housing. November’s 938,000-unit pace marks the highest pace for single-family starts since January. For the year, single-family starts are likely to come in very close to last year’s total of 876,000 units. The momentum is completely different, however, with housing starts in free fall late last year and showing signs of a legitimate recovery late this year.

Yesterday’s five-point spike in the NAHB/Wells Fargo Housing Market Index to 76 brought it to its highest reading since 1999. Homebuilders are definitely feeling good about the sales environment. The present sales component jumped seven points in November to an astonishing 84 and prospective buyer traffic rose four points to 58. The biggest hurdles for builders are securing affordable well-located lots and construction workers. With interest rates below 4% and the leading edge of Millennials reaching their late thirties, homes are selling quickly. For the first time since the housing bust, homebuilders finally have the wind at their back.

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Source: U.S. Department of Commerce, National Association of Homebuilders and Wells Fargo Securities
Jay H. Bryson, Ph.D.  Acting Chief Economist  (704) 410-3274  jay.bryson@wellsfargo.com
Mark Vitner  Senior Economist  (704) 410-3277  mark.vitner@wellsfargo.com
Sam Bullard  Senior Economist  (704) 410-3280  sam.bullard@wellsfargo.com
Nick Bennenbroek  Macro Strategist  (212) 214-5636  nicholas.bennenbroek@wellsfargo.com
Tim Quinlan  Senior Economist  (704) 410-3283  tim.quinlan@wellsfargo.com
Azhar Iqbal  Econometrician  (212) 214-2029  azhar.iqbal@wellsfargo.com
Sarah House  Senior Economist  (704) 410-3282  sarah.house@wellsfargo.com
Charlie Dougherty  Economist  (704) 410-6542  charles.dougherty@wellsfargo.com
Erik Nelson  Macro Strategist  (212) 214-5652  erik.f.nelson@wellsfargo.com
Michael Pugliese  Economist  (212) 214-5058  michael.d.pugliese@wellsfargo.com
Brendan McKenna  Macro Strategist  (212) 214-5637  brendan.mckenna@wellsfargo.com
Shannon Seery  Economic Analyst  (704) 410-1681  shannon.seery@wellsfargo.com
Matthew Honnold  Economic Analyst  (704) 410-3059  matthew.honnold@wellsfargo.com
Jennifer Licis  Economic Analyst  (704) 410-1309  jennifer.licis@wellsfargo.com
Hop Mathews  Economic Analyst  (704) 383-5312  hop.mathews@wellsfargo.com
Coren Burton  Administrative Assistant  (704) 410-6010  coren.burton@wellsfargo.com