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Economics Group

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Housing Starts Drop More Than Expected

Housing starts tumbled 11.0 percent in October to a 1.06 million-unit pace. Despite this drop, we feel October's weakness is largely transitory and more reflective of the noisy series than a sign of an impending slowdown.

Volatile Multifamily Leads Decline

Housing starts fell more than expected in October, tumbling 11 percent. Both single-family and multifamily declined, although most of the slide was due to the 25.1 percent tumble in multifamily starts. Multifamily starts are notoriously volatile, and looking at longer-term trends can be more instructive than the month-to-month changes. Multifamily starts are up 10.4 percent year-to-date from the same period in 2014, which is more indicative of the recent strength seen in the multifamily sector. Single-family starts slipped a more modest 2.4 percent in October, although they have increased a more robust 10.1 percent on a year-to-date basis.

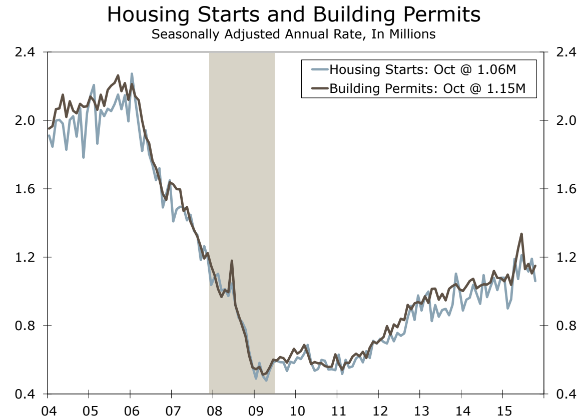
A decline in October starts was expected, largely a result of the drop in September permits. Despite October's moderation in starts, 2015 is still shaping up to be a better year for housing, with total year-to-date starts jumping 10.2 percent from a year ago. In addition, our outlook for the housing market remains intact and October's slowdown should prove transitory. Permits bounced back strongly in October, jumping more than expected to 1.15 million. Moreover, the National Association of Homebuilder's (NAHB) Housing Market Index has been above 60 for the past six months through November, suggesting demand for new homes remains solid. That said, we expect continued volatility to end 2015. Winter months often contain additional volatility because of the exaggerated impact of the seasonal-adjustment process. The bulk of actual homebuilding occurs during warmer months. El Niño should be a modest positive for reported starts in coming months.

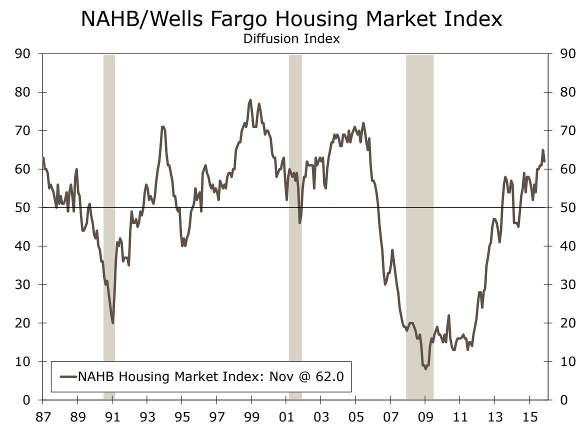
Regional View

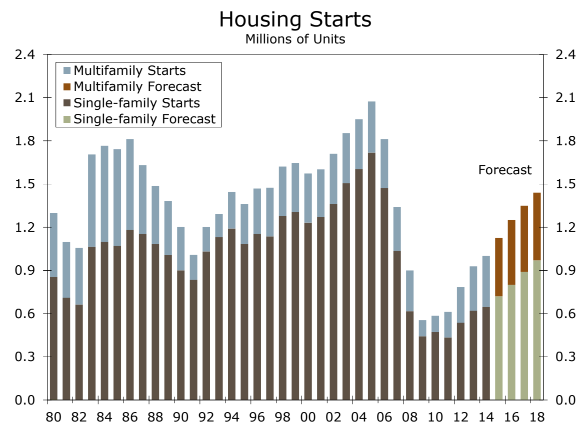
October's decline was concentrated in the South and West census regions, the two largest regions for housing starts. Total starts tumbled 18.6 percent in the South and 16.2 percent in the West, a result of large declines in multifamily starts. Strong year-to-date gains have been seen in these regions from a year ago, and we again feel the October figures are largely month-to-month noise, amplified by the seasonal-adjustment process. Starts should return to the 1.15 million-unit range in coming months.

Housing Should Continue to Support Growth

Despite headwinds in other parts of the economy, housing has held up relatively well and we expect housing to continue to be a bright spot in the domestic economy. Interest rates should remain supportive even if the Fed does proceed with a rate hike in December. In addition, inventories remain relatively tight for both new and existing homes, which has led to steady gains in home prices. This makes new construction more attractive, and should support starts in the coming years. We look for housing starts to average 1.25 million in 2016 and 1.35 million in 2017.







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

Wells Fargo Securities, LLC Economics Group

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