



## Construction Numbers Don't Mirror Growing Builder Optimism

Even though the National Association of Home Builders (NAHB) reported the third consecutive increase in its measure of home builder confidence, actual residential construction activity fell. The residential construction report for January shows both the rate of permitting and housing starts declined from the previous month, the second straight loss for starts.



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The U.S. Census Bureau and the Department of Housing and Urban Development said construction began on residential properties at a seasonally adjusted annual rate of 1.331 million units. This was down 14.8 percent from the December rate of 1.562 million. The December rate was, however, a substantial upgrade from the 1.460 million units originally reported. On a year-over-year basis, starts were almost flat, with a decline of 0.7 percent.

Single-family starts fell 4.7 percent to an annual rate of 1.004 million units but that was an improvement of 22.0 percent from the prior January. Multifamily starts, at 314,000 units, were down 35.8 percent from December and 37.9 percent on an annual basis.

On an unadjusted basis, the report says there were 93,700 units started during the month, 68,700 of them single-family houses. The December numbers were 108,800 and 72,300, respectively.

The setback for permitting was more modest. Total authorizations were at an annual rate of 1.470 million, a 1.5 percent dip from 1.493 million in December and an increase of 8.6 percent for the year. The 1.015-million-unit rate for single-family houses marked a 1.6 percent gain for the month and 35.7 percent year-over-year. The permitting rate for multifamily units dropped 9.0 percent and 26.6 percent.

Analysts polled by Econoday overshot the mark for both starts and permits. They projected that starts would be at a rate of 1.470 million units and permits would come in at 1.510 million units.

Before seasonal and annual adjustments, permits were issued at a rate of 112,700, up from 104,900 the prior month. Single-family permits increased from 64,800 to 75,400.

NAHB said its Housing Market Index (HMI) rose another 4 points in February to 48. This is the highest reading since last August and represents a 14-point increase over the last three months. NAHB economist Robert Dietz said “Expectations that mortgage rates will continue to moderate in the coming months, the prospect of future rate cuts by the Federal Reserve later this year, and a protracted lack of existing inventory helped provide a boost to builder sentiment” over the last three months.

He added “Buyer traffic improved at the start of 2024, as even small declines in interest rates produce a disproportionate positive response among likely home purchasers. And while mortgage rates still remain too high for many prospective buyers, we anticipate that due to pent-up demand, many more buyers will enter the marketplace if mortgage rates continue to decline this year.”

The NAHB/Wells Fargo monthly survey of builders gauges their perceptions of current single-family home sales and sales expectations for the next six months as “good,” “fair” or “poor.” The survey also asks builders to rate traffic of prospective buyers as “high to very high,” “average” or “low to very low.” Scores for each component are then used to calculate a seasonally adjusted index where any number over 50 indicates that more builders view conditions as good than poor.

All three of the major HMI indices posted gains in February. The HMI index charting current sales conditions increased 4 points to 52, the component measuring sales expectations in the next six months rose 3 points to 60 and the component gauging traffic of prospective buyers increased 4 points to 33.

Looking at the three-month moving averages for regional HMI scores, the Northeast increased 3 points to 57, the Midwest gained 2 points to 36, the South rose 5 points to 46 and the West registered a 6-point gain to 38.

Those attitudes were not reflected in regional housing starts which declined across the board. They tumbled 20.6 percent in the Northeast compared to December and were 18.8 percent lower than in January 2023. The Midwest suffered a 30.0 percent loss although the region’s starts were up 10.9 percent for the year. The South had declines of 9.7 percent and 4.2 percent from the two earlier periods, while the West dropped by 15.7 percent month-over-month but was 11.4 percent higher than 12 months earlier.

The regional figures for permitting were more upbeat. The Northeast rose 19.4 percent and 4.5 percent for the month and year and the Midwest was up 6.6 percent and 18.0 percent. The South posted a monthly loss of 7.0 percent but was still up 3.9 percent for the year. Permitting in the West was 1.5 percent higher than in December and 16.7 percent above the previous January rate.

The residential construction report estimated that completions were running at a 1.416-million-unit rate in January, down 8.1 percent from the prior month. An estimated 96,300 homes were completed during the month, down from 148,000 in December.

At the end of January there were 1,676 million housing units under construction, 680,000 of them single-family houses, and a backlog of 267,000 permits.