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May 18, 2022 • 630.517.7756 • www.ftportfolios.com

April Housing Starts

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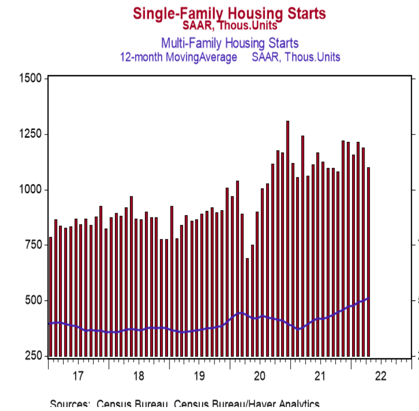
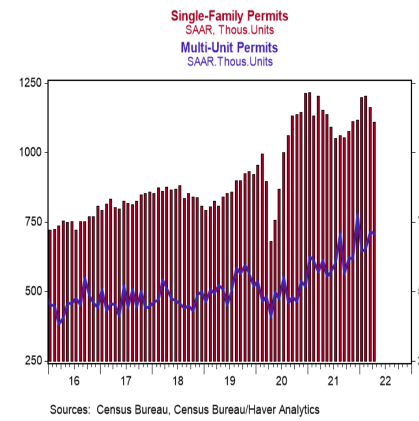
- Housing starts declined 0.2% in April to a 1.724 million annual rate, below the consensus expected 1.756 million. Starts are up 14.6% versus a year ago.
- The drop in April was due entirely to single-family starts. Multi-unit starts rose in April. In the past year, single-family starts are up 3.7% while multi-unit starts are up 40.5%.
- Starts in April fell in the Northeast and Midwest but rose in the South and West.
- New building permits fell 3.2% in April to a 1.819 million annual rate, narrowly beating the consensus expected 1.814 million. Compared to a year ago, permits for single-family homes are down 3.6% while permits for multi-unit homes are up 15.7%.





Implications: Housing starts declined for the second month in a row in April as builders continued to navigate rising mortgage rates and ongoing supply-chain issues. Notably, residential construction is still just 3% below the fastest pace since 2006 set in February, demonstrating resiliency despite the pressure coming from both the supply and demand sides of the housing market. Single-family construction was entirely responsible for the decline in April, posting a decline of 7.3%. Meanwhile, multi-unit construction surged 15.3% in April. In the past year multi-unit construction is up 40.5% while new single-family construction has risen just 3.7%. In our opinion, there are two major reasons developers are shifting resources towards apartment buildings. First, rental rates are rising rapidly due to the end of the national eviction moratorium and people moving back to the more expensive cities now that the worst of the COVID restrictions have ended. Both Zillow and Apartmentlist.com estimate that rental costs for new tenants are up 16.4% in the year ending April 2022, easily exceeding typical gains in the 3.0 - 4.0% range. Second, 30-year mortgage rates are now above 5%, pushing some potential buyers back into the rental market and away from purchasing single-family homes. Recent distributional effects aside, the level of new housing starts remains impressive given that the number of homes already under construction are at the highest level on record back to 1970. Moreover, builders still have a huge number of permitted projects sitting in the pipeline waiting to be started. In fact, the backlog of projects that have been authorized but not yet started is currently the highest since the series began back in 1999. These figures illustrate a slower construction process due to a lack of workers and other supply-chain difficulties. In this context, it's not surprising to see new building permits fall 3.2% in April. With plenty of future building activity already in the pipeline, builders looking to boost the near record-low levels of inventory to satisfy buyers, and as more Millennials finally enter the housing market, new construction in 2022 is very likely to surpass the 1.605-million units started last year despite ongoing headwinds. Keep in mind the US needs roughly 1.5 million housing starts per year based on population growth and scrappage (voluntary knockdowns, natural disasters, etc.), and 2021 was the first year in the aftermath of the 2008/9 recession that has crossed that threshold. In other recent housing news, the NAHB Housing Index, which measures homebuilder sentiment, declined to 69 in May from 77 in April. While this reading remains elevated from a historical standpoint, signaling optimism from developers, supply chain issues and rising mortgage rates are having a negative impact.

Housing Starts *SAAR, thousands*	**Monthly** *% Ch.*	**Apr-22** *Level*	**Mar-22** *Level*	**Feb-22** *Level*	**3-mth** *moving avg*	**6-mth** *moving avg*	**Yr to Yr** *% Change*
Housing Starts	**-0.2%**	1724	1728	1777	1743	1728	14.6%
Northeast	**-23.2%**	182	237	134	184	152	16.7%
Midwest	**-22.0%**	184	236	234	218	234	2.2%
South	**10.6%**	926	837	999	921	921	18.4%
West	**3.3%**	432	418	410	420	421	11.6%
Single-Unit Starts	**-7.3%**	1100	1187	1213	1167	1182	3.7%
Multi-Unit Starts	**15.3%**	624	541	564	576	547	40.5%
Building Permits	**-3.2%**	1819	1879	1857	1852	1837	3.1%
Single-Unit Permits	**-4.6%**	1110	1163	1204	1159	1151	-3.6%

Source: U.S. Census Bureau