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Single-Family Home Building Set for Gains in 2024

Despite elevated interest rates, home builder sentiment and construction starts are showing the potential for housing sector growth in the coming months. In fact, the reason for recent increases for the 10-year Treasury rate, which is now hovering near 4.3%, is ongoing solid economic conditions. For example, in February, wages were 4.3% higher than a year ago and 275,000 jobs were created. The unemployment rate remains low at 3.9%, which is helping to support for-rent and for-sale housing growth.

Indeed, the moderately strong economic data are keeping upward pressure on what had been a declining trend for inflation. In February, the Consumer Price Index (CPI), the broadest measure of inflation, was up 3.2% from a year ago. While inflation data made progress in late 2022 and early 2023, the CPI has been in the 3% range since May 2023. The reason for the lingering and unfinished inflation challenge continues to be housing inflation, which is due to a lack of housing supply. The shelter inflation component of overall inflation was up 5.7% from a year ago. This is lower than at the start of the year, but for shelter to fall back to the inflation reported in the rest of the economy, additional home building will be required.

Home construction continues to be challenged by supply-side issues. For example, gypsum pricing was up 3% in February, and concrete prices are up more than 7% from a year ago. Meanwhile, a shortage of skilled labor continues, with 413,000 open construction sector jobs. There were only 293,000 open jobs a year ago, a sign of ongoing growth for construction workers.

Despite these challenges, with the Fed expected to cut the short-term federal funds rate later this year, builders are anticipating more gains for building. The NAHB/Wells Fargo Housing Market Index (HMI) increased to a level of 51 in March. This was the first time HMI was above the break-even level of 50 since last July. Only 24% of builders reported using price cuts in March, which was the lowest share since last summer.

Consistent with improving builder sentiment, housing starts expanded in February. Single-family starts increased 11.6% to a 1.13 million seasonally adjusted annual rate, up 35.2% compared to a year ago. The three-month moving average (a useful gauge, given the recent volatility) is up to over 1 million starts. The multifamily sector increased 8.3% to an annualized 392,000 pace for 2+ unit construction in February. However, multifamily construction is down 34.8% on a year-over-year basis, with additional declines expected ahead as housing supply for apartments increases later this year.

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