

Economic Report

New-home construction surges to post-Great Recession high in October, driven by rise in single-family starts

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Americans are looking to buy homes in the suburbs, but construction firms can't keep pace with demand



The pace of home construction continued to increase in October, a reflection of Americans' strong interest in buying homes thanks to low mortgage rates.

The numbers: U.S. builders started construction on homes at a seasonally-adjusted annual rate of 1.53 million in October, representing a 4.9% increase from the previous month's figure, the U.S. Census Bureau [reported Wednesday](#).

Permitting for new homes occurred at a seasonally-adjusted annual rate of 1.545 million in October, unchanged from September.

Economists polled by MarketWatch had expected housing starts to occur at a pace of 1.49 million and building permits to come in at a pace of 1.57 million.

What happened: The upsurge in housing starts was driven by a 6.4% rise in single-family starts, as multifamily construction activity dipped once again, this time by 3.2%.

All regions except the Northeast experienced an increase in housing starts despite rising coronavirus cases across many parts of the country, led by the 12.9% increase in the South. Permitting rose slightly in the South, West and Midwest, but fell markedly in the Northeast.

The big picture: The housing starts report follows yesterday's release of the November [home builder confidence index](#) from the National Association of Home Builders. The index inched higher for the fourth consecutive month, demonstrating the upbeat outlook in the construction industry.

Indeed, virtually every home builder is seeing rising sales as Americans look to leave urban areas for larger homes in the suburbs only to find very few existing homes up for sale.

But builders naturally face roadblocks as they attempt to ramp up the pace of production. There's only so much skilled labor to go around, and the availability of buildable lots and supplies also puts constraints on the speed with which they can construct new homes.

Of course, home-building firms aren't necessarily complaining about this. "Those operating in many other sectors of the economy would love to have such problems," noted Joshua Shapiro, chief U.S. economist at financial consulting firm Maria Fiorini Ramirez.

What they're saying: "Demand has been boosted by record-low mortgage rates and a sudden shift in preferences toward larger homes with more space outside the core of major cities. And, there simply has not been enough resale supply to meet this demand," Robert Kavcic, senior economist at BMO Capital Markets, wrote in a research note.

"Home builders are walking a tightrope between increasing costs of labor, materials and land, and eager buyers seeking larger homes in suburban neighborhoods. While they are well-positioned to meet the needs of buyers in these neighborhoods, the volume of new construction still lags the number of buyers," said George Ratiu, senior economist at Realtor.com.