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September Housing Starts: Multi-Family Takes A Tumble . . . Or Does It?

- > Total housing starts fell to an annualized rate of 1.047 million units; total housing permits rose to an annualized rate of 1.225 million units.
- > Single family starts rose to 783,000 units while single family permits rose to 739,000 units (annualized rates).
- > Multi-family starts fell to 264,000 units and multi-family permits rose to 486,000 units (annualized rates).

Total housing starts fell to an annual rate of 1.047 million units in September, far below the consensus estimate of 1.175 million units and even further below our forecast of 1.197 million units. At the same time, however, at 1.225 million units total housing permits blew by both the consensus forecast of 1.165 million units and our forecast of 1.192 million units. As anyone with even a passing familiarity with the data on residential construction would suspect, the multi-family segment of the market is the primary culprit behind the sharply divergent data on starts and permits. Multi-family starts plummeted to an annual rate of 264,000 units, the lowest monthly rate since June 2013, but at the same time multi-family permits soared to an annual rate of 486,000 units. Barring the permit counts seen in mid-2015 that were skewed by expiring tax credits in New York, this is the second highest monthly rate since June 2008.

Quite frankly, the September data don't make a lot of sense to us, at least the headline numbers. As our regular readers by now know, this is not at all an uncommon reaction for us. As we routinely point out, the seasonally adjusted annualized numbers in any given month convey little useful information as month-to-month movements often tend to be more about swings in seasonal adjustment factors than about swings in the actual numbers of units being permitted or started. This is why our focus is on the trends in the unadjusted data, specifically the 12-month moving sums of permits and starts. For September we had forecasted unadjusted starts of 110,000 units, which turned out higher than the 95,000 units actually started. Our miss was in the multi-family segment, as only 27,000 units were started, down from 35,000 in August. As to permits, we had forecasted 106,000 units on an unadjusted basis, only slightly lower than the 108,000 units actually permitted..

The chart below illustrates our point about the relative stability in the underlying trends. The recent dip in total starts reflects multi-family starts easing from what we expect will prove to be the cyclical peak,

though it's hard not to think September's decline in multi-family starts overstates the case. This is supported by unadjusted multi-family permits having risen in each of the four broad regions in September, while unadjusted starts rose in the West but fell sharply in the other three regions. Though not nearly to the extent seen in the September data, we've for some time noted we expect multi-family construction to taper off.. This is in large measure due to the notably high number of units under construction. As of September, there were 594,000 units under construction in structures with five-or-more units, which is a level last seen in the mid-1970s.

The focus on the noisy multi-family numbers thus far is by no means intended to absolve the single family segment, as there is ample evidence of seasonal adjustment noise that inflated the headline starts number. For instance, the unadjusted data show 68,000 single family starts, slightly below our forecast of 71,000. But, a generous seasonal adjustment factor yielded the headline number 783,000 single family starts on an a seasonally adjusted, annualized basis. In reality, over the past 12 months there have been 761,500 single family units started, per the unadjusted data. This is the highest such total since July 2008. But, as seen in the chart below, what had been a slow upward grind in single family starts has flattened out of late and what remains sluggish growth in single family permits offers little reason to expect a meaningful pickup in the pace of single family starts any time soon. One support, however, will be starts on units that have been sold prior to construction having been started, units which over recent months have accounted for an atypically high share of total new home sales.

Even in a series known, if not necessarily loved, for its high degree of volatility, including loud seasonal adjustment noise, the September data on housing starts and permits stand out. That having been said, the data do not change how we see the housing market progressing over coming quarters – a diminishing level of multi-family construction and more of the slow, steady grind higher in the single family segment of the market.

