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## January Residential Construction: Steady Growth But Single Family More Of A Driver

- > Total housing starts fell to an annualized rate of 1.246 million units; total housing permits rose to an annualized rate of 1.285 million units.
- > Single family starts rose to 823,000 units while single family permits fell to 808,000 units (annualized rates).
- > Multi-family starts fell to 423,000 units and multi-family permits rose to 477,000 units (annualized rates).

Total housing starts fell to an annualized rate of 1.246 million units in January, with a modest increase in single family starts being negated by a drop in multi-family starts. January's decline in multi-family starts came after a notably robust rate of starts in December, and atypically mild January weather helped cushion the seasonal decline in starts. The question, however, is to what extent this simply pulled construction forward from February or March, with the answer to be provided by the data over the next couple months. Total housing permits rose to an annualized rate of 1.285 million units in January.

As we routinely note, we have little use for the seasonally adjusted and annualized headline numbers on the monthly residential construction and sales reports. Instead, we focus on the trends in the not seasonally adjusted data. In January, there were 82,500 total housing starts, a bit above our forecast of 80,200 units, with single family starts increasing 1.7 percent from December while multi-family starts fell by 15.8 percent. January's starts leave the 12-month moving sum of total housing starts at 1.182 million units, the highest total since April 2008, and the 785,100 single family starts over the past 12 months is the highest such total since June 2008. As for housing permits, January saw permits issued for 86,800 units, a bit ahead of our forecast of 83,700 units. Total permits were down 5.0 percent from December, but it is worth noting this is far smaller than the typical January decline in permits. Over the past 12 months, there have been a total of 1.185 million housing permits issued, and the 755,600 single family permits issued over the past 12 months is the highest such total since May 2008.

On a not seasonally adjusted basis, total starts rose in the Northeast on higher multi-family starts, while the South saw increases in both single family and multi-family starts. Total starts fell in the Midwest and West, with both regions seeing declines in both single family and multi-family starts. Each of the four broad Census regions is seeing steadily rising single family activity. The Northeast and South have seen multi-family starts back off prior highs, the Midwest and West not so much. It

is worth noting, however, that in the Northeast the decline in multi-family activity is skewed by the now-expired tax incentives in New York that led to a spurt of multi-family development in 2015.

As seen in the first chart below, both permits and starts continue on a gradual upward path. Beneath the surface, however, there has been a subtle shift away from multi-family construction towards single family construction. We have noted we think we've passed the cyclical peak for multi-family permits and starts but see more room to the upside for single family activity. The issue, however, is we don't see much capacity for the rate of increase in single family construction to pick up, given what remain binding constraints in the form of shortages of lots and labor along with more stringent, and costly, entitlement processes.

What remains to be seen, however, is whether or not single family activity will increase fast enough to fill the void left by declining multi-family activity. The outlook for multi-family construction is getting increasingly clouded by what has been a curious decline in the rate of multi-family completions over the past few months, with completions falling to their lowest level since March 2015 in January. This leaves 622,000 multi-family units under construction, with 611,000 of those units in structures with five or more units. For those lacking the proper historical perspective, that's a really, really big number, or, to be a bit more precise, the highest total since September 1974. While multi-family starts have eased from what we believe will prove to be the cyclical peak, with this large of a construction backlog it is almost inconceivable that both permits and starts won't see much sharper declines over coming months.

We continue to see the demand side fundamentals in the housing market as quite healthy, though we do worry that higher mortgage interest rates could be a bigger drag in conjunction with what has been heady house price appreciation. Our concerns have been, and remain, mainly on the supply side – too little single family, too much multi-family.

