



*This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.*

### June Residential Construction: Slow Steady Grind Higher

- > Total housing starts rose to an annualized rate of 1.215 million units; total housing permits rose to an annualized rate of 1.254 million units.
- > Single family starts rose to 849,000 units while single family permits rose to 811,000 units (annualized rates).
- > Multi-family starts rose to 366,000 units and multi-family permits rose to 443,000 units (annualized rates).

After a notably slow May, residential construction activity rebounded smartly in June, with housing permits and starts both coming in well ahead of expectations. Total housing starts rose to an annual rate of 1.215 million units with both single family and multi-family starts rising, and total housing permits jumped to an annual rate of 1.254 million units from May's rate of 1.168 million units. Given the inherent volatility in the residential construction data from one month to the next, it is far more important to focus on the underlying trends than the headline numbers. Adding the June data to the mix shows the same slow steady grind higher that has by now become familiar but doesn't figure to change any time soon.

As always with the residential construction data, our emphasis is on the not seasonally adjusted data. In June, there were 116,800 total starts, ahead of our forecast of 110,500 units. June saw 83,100 single family starts, above our forecast of 80,100 starts, making June the strongest month for single family starts since August 2007. There were 33,700 multi-family starts in June, topping our forecast of 30,400 starts. What jumps out at us in the data on multi-family starts, however, is the strength in the Northeast region and the weakness in the South region. The 9,100 multi-family starts in the Northeast is a number last seen in the frenzied days of mid-2015 when developers were rushing to take advantage of expiring tax credits in New York. We will note that over the past few months multi-family starts in the region have been lagging permit issuance by a wide margin, so the jump in June could reflect a bit of payback. In the South region, the 7,900 multi-family starts in June is the lowest total since August 2012.

That slowdown in starts, however, doesn't look like it will last based on the permit data. Indeed, given the inherent volatility in the month-to-month data, it's hard for us to be surprised by anything we seen in the residential construction data in any given month. That said, we have to admit to being surprised by the jump in multi-family permits in June. The not seasonally adjusted data show 43,700 multi-family permits, far

outpacing our forecast of 33,100 permits. Multi-family permits rose, and sharply so, in the Midwest, South, and West regions; the decline in the Northeast region comes off the spike seen in June. At 81,700 units, single family permits were a bit stronger than our forecast of 80,500 units, with permits rising in each of the four broad Census regions. Over the past 12 months, there have been 1.196 million total housing starts and 1.240 million total housing permits issued, with single family activity rising steadily and multi-family activity having flattened out.

As our regular readers know, we have for some time been looking for multi-family activity to shift into a slower gear given the magnitude of the supply backlog. June marks the seventh consecutive month in which there were more than 600,000 units under construction in structures with five-or-more units, which is a number last seen in the mid-1970s. We have repeatedly noted we have no doubt as to the strength of demand for multi-family units, i.e., rental apartments, but our view is that supply has simply gotten too far ahead of demand. Our view has been that as we begin to see more progress on the back end, i.e., a faster rate of completed multi-family units coming on to the market, that will result in a more pronounced slowdown on the front end, i.e., sharper declines in multi-family permits and starts. While there has been a modest increase in the rate of multi-family completions, as seen in our chart below, that has basically not made a dent in the backlog of multi-family units under construction. That said, we are still surprised by the extent to which multi-family permits rose in June.

Out of the vast catalog of residential construction data, the one single number we'll be watching most closely over coming months will be multi-family completions. This will tell us either that we're correct in our view on multi-family, but the cycle is just taking longer to play out than we expected, or that we're just flat-out wrong. On the single family side, however, there is far less mystery, as single family permits and starts will likely continue to rise at the same slow but steady pace seen for some time.

