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### October Housing Starts: October's Headline Numbers Overstate The Case . . .

- Total housing starts rose to an annualized rate of 1.323 million units; total housing permits rose to an annualized rate of 1.229 million units.
- Single family starts rose to 869,000 units while single family permits rose to 762,000 units (annualized rates).
- Multi-family starts rose to 454,000 units and multi-family permits fell to 467,000 units (annualized rates).

Okay, we know what you're thinking – here they go again, can't just take a good number and be happy about it and let it go at that. We'd beg to differ, but, nonetheless, here we go again . . . Total housing starts jumped to an annual rate of 1.323 million units in October, well above the consensus forecast and even higher than our forecast of 1.262 million units, which was the highest forecast in the survey. Total housing permits rose to an annual rate of 1.229 million units, again above both the consensus and our forecast, also the highest, of 1.222 million units. These numbers are the product of a few different factors, including a rebound in multi-family starts from September's oddly large decline, a further grind higher in the single family segment of the market, and a healthy dose of seasonal adjustment noise. As our regular readers by now know, when it comes to the data on residential construction and sales, our focus is squarely on the not seasonally adjusted data and, the shiny October headline numbers notwithstanding, the trends in the raw data look pretty much the same. But, so as not to be accused of being total buzzkills, in our charts below we show the data both ways, the seasonally adjusted annualized data and the not seasonally adjusted data, and we'll leave it for each reader to view the data in the way that best suits them.

On a not seasonally adjusted basis, there were 114,900 total starts in October, a bit higher than our forecast of 109,900 units. Both single family starts and multi-family starts were higher in each of the four broad Census regions; the South region posted trend-like numbers after steep drop-offs in activity in September. Looking at the 12-month moving sum of unadjusted starts, our preferred gauge of the underlying trends, there have been 1.168 million units started over the past 12 months, the highest such total since May 2008. Beneath this total single family starts continue their steady grind higher while multi-family starts remain at a high level though off levels seen in prior months.

As for permits, we had forecasted 106,500 units on a not seasonally adjusted basis, and the actual number came in at 97,900 units with both

single family and multi-family permits declining. Single family permits were flat in the Northeast but down in the three remaining regions, while multi-family permits rose in the Midwest but fell in the three remaining regions, sharply so in the Northeast and South.

Again, we see the chart showing the trends in the unadjusted data as the proper way to look at the data on starts and permits, and like these trends our view of the housing market has not changed materially for some time now. We remain concerned about the number of multi-family units in the pipeline; as of October there were 597,000 units under construction in structures with five-or-more units, which as we've noted before is a number one has to go back to the mid-1970s to see. There has already been deterioration in rent growth in many large markets and that figures to become more pronounced as more and more of these units come on to the market. To be sure, we are by no means downplaying what remains solid growth in demand, our point instead is that supply has gotten ahead of that demand and the imbalance figures to widen over coming quarters.

As for single family, we've viewed the demand side fundamentals as solid for some time now, but have expressed concerns over the supply side, which has been the primary reason our forecasts for single family construction have been well below consensus. Shortages of lots and labor and a more cumbersome and costly regulatory framework have all acted as drags on single family construction, and none of those factors is going away any time soon. Now, however, we are becoming concerned with the recent upturn in mortgage interest rates, particularly in light of what has been sturdy price appreciation over recent quarters. The point isn't that the increases in mortgage rates seen to date will choke off demand, but instead that if rates continue to climb higher we will see demand erode, particularly at the lower price points.

So, feel free to enjoy the October headline numbers, but be mindful the underlying trends look pretty much the same, and keep a cautious eye out for further increases in mortgage interest rates.

