ECONOMIC UPDATE

REGIONS

June 18, 2019

May Residential Construction: A Solid Report Despite Dip In Headline Number

- Total housing starts fell to an annualized rate of 1.269 million units; total housing permits rose to an annualized rate of 1.294 million units
- Single family starts fell to 820,000 units and single family permits rose to 815,000 units (annualized rates)
- Multi-family starts rose to 449,000 units and multi-family permits fell to 479,000 units (annualized rates)

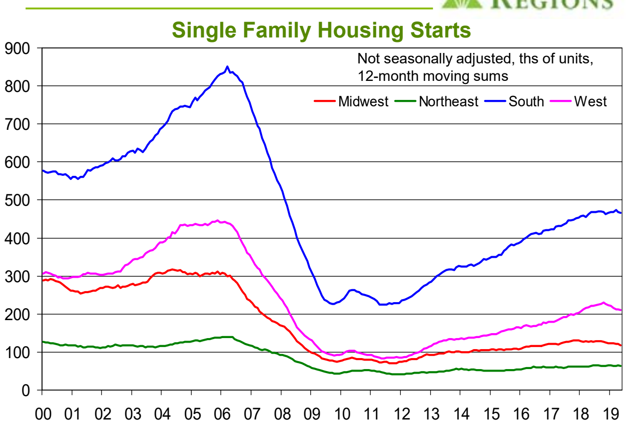
Total housing starts fell to an annualized rate of 1.269 million units in May, topping our above-consensus forecast of 1.253 million units, while total housing permits rose to an annualized rate of 1.294 million units, shy of our forecast of 1.306 million units. It should be noted that May's decline in housing starts comes off of a significant upward revision to the initial estimate of April housing starts – the initial estimate of 1.235 million starts was revised up to 1.281 million starts, with both single family and multi-family starts revised higher. It should also be noted that the revisions to the initial estimates for April stem from upward revisions to the not seasonally adjusted data, as opposed to the seasonal adjustment factors used to estimate the headline starts number being revised higher. It has been on the basis of the trends in the not seasonally adjusted data that we have argued the housing market was on firmer footing than was apparent in the headline numbers, and that is even more so the case with the May report. The weakness seen between November 2018 and January 2019 is still apparent in the trending data, but this effect will abate over coming months.

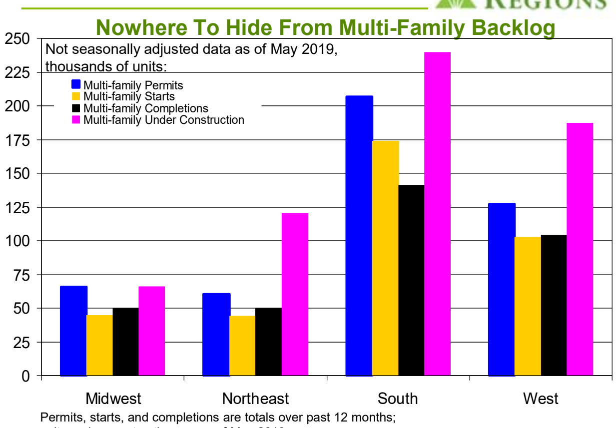
On a not seasonally adjusted basis, there were 118,700 total housing starts in May, ahead of the 116,400 starts our forecast anticipated. We noted in our weekly *Economic Preview* that our expectations for May were somewhat tempered by the not seasonally adjusted data for April having been stronger than is typical for the month. That the April data are now shown to have been even stronger goes to our earlier point about the housing market being on firmer footing. There were 44,100 single family starts in the South region in May, which aside from April 2018 is the strongest month since July 2007. It is also worth noting that while the not seasonally adjusted data show single family starts in the Midwest region have posted solid gains over the past two months, the level of starts is lower than normal for April and May, which points to the lingering effects of flooding in the region. The unadjusted data show 40,4000 multi-family starts in May, the highest monthly total since October 2016, led by 21,200 multi-family starts in the South region, the highest monthly total in that region since September 2015.

On a not seasonally adjusted basis, there were a total of 124,000 housing permits issued in May, topping our forecast of 121,500 permits. Both single family permits (81,200 units) and multi-family permits (42,800 units) were a bit higher than our forecast anticipated. Single family permits were higher in each of the four broad Census regions, with the 44,700 single family permits in the South (not seasonally adjusted) the highest monthly total in that region since July 2007. The unadjusted data show that over the past 12 months, there have been a total of 1.222 million housing starts and a total of 1.292 million housing permits. Both figures are easily below the cycle highs seen last fall, which reflects two factors. One is the hit to the single family segment in late-2018 stemming from affordability constraints resulting from rising mortgage rates and a prolonged period of rapidly rising house prices. The other factor is the gentle, albeit, downward drift in multi-family permits and starts. While the first of these factors is clearly reversing, as is readily apparent in the raw data, we expect the second of these factors to remain in place over coming quarters.

As we have been pointing to for months (lots of months, actually), there remains a yawning gap between multi-family starts and multi-family completions, and this gap shows no signs of narrowing. What remains somewhat puzzling, at least to us, is that the drop-off in multi-family permits has not been more pronounced, and the multi-family starts-to-permits ratio remains notably low. While we do not see the jump in starts in May being sustained over coming months, we've been at this long enough to know the multi-family segment of the housing market marches to the beat of its own drummer, so we'll see.

All in all, the report on May residential construction – including the upward revisions to the April data – bolster our confidence in the single family segment of the housing market. Elevated consumer confidence and low mortgage interest rates should sustain steady, albeit gradual, growth over coming months. We look for multi-family activity to ease further, but the month-to-month data will remain volatile, as always.





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