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December Housing Starts: Mischievous Multi-Family Sector Foils Yet Another Forecast

- > Total housing starts fell to an annualized rate of 1.149 million units; total housing permits fell to an annualized rate of 1.232 million units.
- > Single family starts fell to 768,000 units while single family permits rose to 740,000 units (annualized rates).
- > Multi-family starts fell to 381,000 units and multi-family permits fell to 492,000 units (annualized rates).

Total housing starts fell sharply in December to an annualized rate of 1.149 million units while total housing permits fell to an annualized rate of 1.232 million units. Starts came in well below the consensus estimate of 1.200 million units and even further below our forecast of 1.254 million units, while permits were easily ahead of both the consensus estimate and our forecast. With both starts and permits, however, the misses can be traced to the mischievous multi-family segment of the housing market as the staid (at least these days) single family sector continues along a path of steady improvement. As such, while the headline starts number will be taken as a "big miss" the data don't do anything to alter our view of underlying housing market trends.

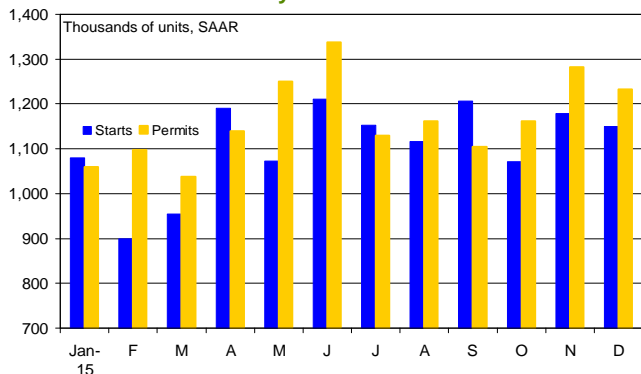
The split behind our forecast of 1.254 million starts in December was 762,000 single family starts and 492,000 multi-family starts. The actual split was 768,000 single family starts and 381,000 multi-family starts. In our weekly preview we made note of the 555,000 multi-family permits issued in November and expected this spike in permits along with what was warmer than normal weather to lead to a similar spike in multi-family starts in December, magnified by what we expected to be a big push from seasonal adjustment factors. Okay, sure, wrong is wrong, but it seemed like a good thought at the time. One constraint on multi-family starts may have been not the temperature but the precipitation, as many parts of the country were warm and wet, which could have kept builders from breaking ground on multi-family projects. Whatever the cause, the percentage decline in not seasonally adjusted multi-family starts was the largest in any December since 2008. For what it's worth, the starts data are at odds with the construction employment data which clearly exhibit seasonal adjustment noise. We'll also note over the past few months a sizeable gap has developed between multi-family permits and starts, with starts lagging far behind permit issuance. That multi-family permits did not fall nearly as sharply as we expected in December helped further widen this gap. This suggests that at some point over coming months it is reasonable to expect the sort of spike in multi-family starts we had pegged for December.

As for the single family segment of the market, as noted above starts were right in line with our forecast, and this was also the case with permits with the annual rate of 740,000 units just shy of our forecast of 744,000 units. Though starts declined from November's 794,000 unit rate, that figure was highly skewed by favorable seasonal adjustment and December's rate is more in line with the underlying run rate. This is more apparent in the permit data which have shown the same steady, albeit somewhat slow, improvement for the past several months.

Across the four broad Census regions, multi-family starts were up in the Northeast region in December but down in the Midwest, South, and West regions, and this is the same pattern seen in the multi-family permit data. It is worth noting, however, that while the South logged a decline in multi-family permits in December, that decline came off of what in November was the highest monthly rate since March 2006 and still leaves multi-family permits well above the underlying run rate. In the single family segment, starts were down in each of the four Census regions in December while permits were down slightly in the West region but up in the Midwest, Northeast, and South regions. With the December data we have a first – still preliminary – look at 2015 as a whole. For the year, total starts were up 10.8 percent with single family starts up 10.4 percent and multi-family starts up 11.4 percent. Total housing permits were up 11.5 percent in 2015, with single family permits up 7.2 percent and multi-family permits up 18.3 percent (these figures are based on the not seasonally adjusted data).

As we noted at the outset, the December data do not alter our view of the underlying trends in residential construction. Our forecast of just over 1.2 million total starts in 2016 is, as is by now usual, below consensus. We look for further steady growth in single family starts and expect the second half of the year will see the pace of multi-family starts ease, particularly given the sheer volume of multi-family units currently under construction. History, however, tells us to feel more confident in our single family forecast than in our multi-family forecast.

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Slow, Steady Improvement Still The Single Family Story

