ECONOMIC UPDATE

REGIONS

November Housing Starts: Multi-Family Starts Take A(nother) Tumble

› Total housing starts <u>fell</u> to an annualized rate of 1.090 million units; total housing permits <u>fell</u> to an annualized rate of 1.201 million units.
› Single family starts <u>fell</u> to 828,000 units while single family permits <u>rose</u> nominally to 778,000 units (annualized rates).
› Multi-family starts <u>fell</u> to 262,000 units and multi-family permits <u>fell</u> to 423,000 units (annualized rates).

For the second time in the last three months, a sharp decline in multi-family housing starts dragged down total starts. In November, total housing starts fell to an annual rate of 1.090 million units, well below the consensus estimate of 1.230 million units and even further below our forecast of 1.284 million units. Single family starts were a bit lighter than anticipated, but the main culprit behind the miss on the November headline number is multi-family starts, which came in at an annual rate of just 262,000 units, well below trend. November marks the second time in the past three months multi-family starts came in well below the run rate – in September there were just 271,000 multi-family starts (annual rate). Total housing permits, which are less volatile than starts, fell to an annualized rate of 1.201 million units in November.
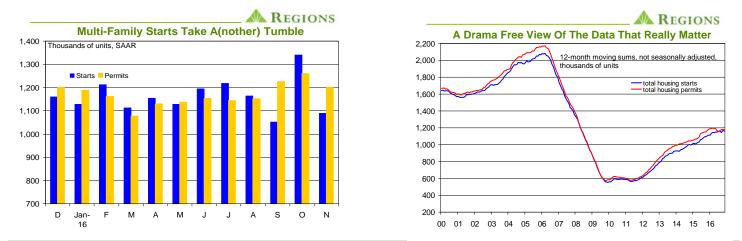
As we routinely stress, we rely on the not seasonally adjusted data to assess the underlying trends in residential construction. In November, not seasonally adjusted starts fell to 82,800 units, well below our call for 101,000 units. While the 60,700 single family starts were in line with our forecast, multi-family starts fell well short, at 22,100 units. On a not seasonally adjusted basis, there were 1,900 multi-family starts in the Northeast region, the fewest since April 2013. Multi-family starts were down in the other three broad Census regions, sharply so in the Midwest. While the inclination may be to brush off the sharp declines in multi-family starts in the Midwest and Northeast in November as a function of the weather, the data on single family starts does not support this contention. We will note that the Northeast saw 9,100 multi-family starts in October, an atypically high number for the region, so November may have been payback for that.

On a not seasonally adjusted basis, there were 90,200 housing permits issued in November, below our forecast of 98,300 units. There were 55,800 single family permits, in line with our forecast, but we were too high on multi-family permits, of which 34,300 were issued. We think the 12-month moving sum of the unadjusted data is the best gauge of underlying trends in the housing data, and we show this in our second

chart below. Over the past 12 months, there have been 1.162 million units started and 1.178 million permits issued. As seen in the chart, the 12-month moving sums have been fairly flat over recent months, but this masks what has been a shift in the composition of these totals – a steady, even if frustratingly slow, increase in single family activity and a slow downturn in multi-family activity that nonetheless leaves multi-family starts and permits at levels well above longer-term norms.

Whatever concerns we have with the November data, the miss on the headline starts number is not one of them. Here are a few things we do find worthy of concern. First, multi-family completions continue to badly lag behind permits and starts. As of November, there were just over 601,000 multi-family units under construction, 591,000 of which were units in structures with five-or-more units. This number has barely budged for some time now and, as we've noted before, one has to go back to the mid-1970s to see such elevated numbers on a consistent basis. While the trend towards "building higher" due to having less land to build on has slowed build times, we're beginning to wonder if there aren't some developers intentionally slowing construction out of concern over a potential spike in deliveries over coming quarters. We don't know this to be the case, but we do wonder. On the single family front, it is true that on an over-the-year basis single family permits are up 11.6 percent from last November. But, the increase in the trend rate of single family starts continues at only a grudging pace. There are, the post-election jump in builder optimism notwithstanding, constraints on lots and labor that continue to hold down single family construction; the post-election spike in mortgage interest rates will, if it runs further in coming months, at some point act as a curb on demand.

All in all, the November headline numbers don't change our view of the housing market, and there are some trends in the raw data that merit attention, and at least some concern. While we see overall housing demand as remaining healthy, we remain concerned on the supply side of the market – too much in multi-family, too little in single family.

Multi-Family Starts Take A(nother) Tumble
Thousands of units, SAAR
■ Starts ■ Permits

A Drama Free View Of The Data That Really Matter
12-month moving sums, not seasonally adjusted, thousands of units
— total housing starts
— total housing permits