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April Residential Construction: Single Family Grinds Higher, Multi-Family Slowly Fades

- > Total housing starts fell to an annualized rate of 1.172 million units; total housing permits fell to an annualized rate of 1.229 million units.
- > Single family starts rose to 835,000 units while single family permits fell to 789,000 units (annualized rates).
- > Multi-family starts fell to 337,000 units and multi-family permits rose to 440,000 units (annualized rates).

As it is wont to do, the latest monthly report on residential construction confounded expectations, and decidedly so. Total housing starts fell to an annualized rate of 1.172 million units in April, with single family starts rising modestly and multi-family starts dropping sharply. The headline starts number was well below the consensus forecast of 1.260 million units and below our forecast of 1.252 million units. Total housing permits fell to an annualized rate of 1.229 million units, well below the consensus forecast of 1.270 million units and below our forecast of 1.241 million units. So, while we still hold out hope that one month we'll get the report on residential construction and not be at all surprised by anything we see, this just isn't that month.

As our regular readers by now know, we put far more emphasis on the not seasonally adjusted data on residential construction and sales. On a not seasonally adjusted basis, there were 106,600 total starts, a bit below our forecast of 110,200. There were 78,000 single family starts in April, just shy of our forecast of 80,600, but April was nonetheless the best month for single family starts since September 2007. Over the past 12 months there have been 798,400 single family starts, the highest such total since June 2008. April saw 28,600 multi-family starts, also a bit below our forecast, and this leaves the running 12-month total at 394,300 units, slightly off what we think will be the cyclical peak of just over 400,000 units. Total starts rose in the Midwest, South, and West regions in April, but fell in the Northeast.

It is the permit data that, at least for the April data, better illustrate the value of the unadjusted data over the seasonally adjusted annualized data. Per the latter, there were 440,000 multi-family permits issued in April, which seems yet another illustration of the time worn principal that if there's already too much of it, let's do more. The raw data, however, show multi-family permits fell slightly in April, with 33,900 units permitted. Our forecast had been for a larger decline, and the running 12-month total of multi-family permits stands at 457,900 units, which still seems too high given current market conditions. Specifically,

as of April there were 621,500 multi-family units under construction, with 612,100 of those units in structures with five or more units, the highest number since September 1974. As seen in our chart below, the backlog of multi-family units suggests more pronounced declines in permits and starts than we have seen to date. We suspect that once the rate of completions, which remains notably low, picks up, that will add a greater sense of urgency to the thus far leisurely retreat in multi-family construction. Build times for multi-family are slower than has been the case in past cycles; shortages of skilled labor are one factor but another factor is land constraints mean many multi-unit structures are being built higher, rather than wider, which takes longer. Even so, that there has not yet been a more pronounced pullback, despite what has been a notable tightening of bank lending standards, is more than a bit puzzling, and one can be excused for thinking this may not end well.

There was a sharp decline in single family permits in April, which is the case in the unadjusted and the adjusted data. Still, the raw data offer a more clear explanation. The 69,000 single family permits issued in April is a healthy number, just not quite as healthy as the 77,100 single family permits issued in March, which was the most single family permits issued in any month since August 2007. Over the past 12 months there have been 772,000 single family permits, the highest since mid-2008 and a continuation of the slow grind higher that has for years now been reflected in our forecasts for single family activity. While each of the four broad Census regions posted sizeable increases in single family permits in March, the South and West regions gave back some of those gains in April. The 12-month totals of single family permits continue to push higher in each of the four broad regions.

Our outlook for the housing market has not changed for quite some time. A healthy demand side of the market with slow supply growth masking a shifting mix between single family and multi-family activity. Thus far we've had little reason to change our call, but at some point the pullback in multi-family construction will become more pronounced.

