ECONOMIC UPDATE

REGIONS

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May Residential Construction: What's Taking So Long?

- Total housing starts fell to an annualized rate of 1.092 million units; total housing permits fell to an annualized rate of 1.168 million units.
- Single family starts fell to 794,000 units while single family permits fell to 779,000 units (annualized rates).
- Multi-family starts fell to 298,000 units and multi-family permits fell to 389,000 units (annualized rates).

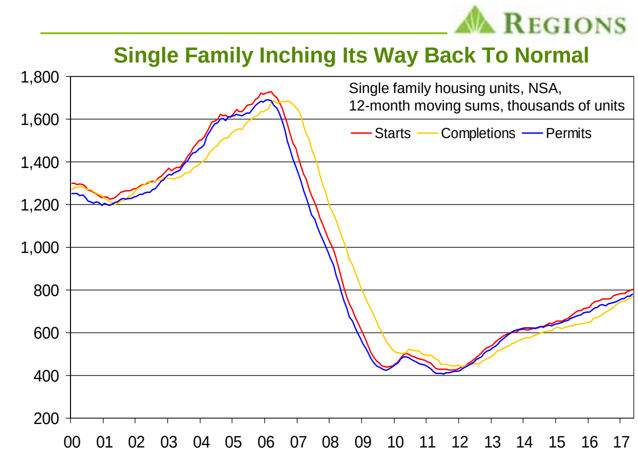
As is only fitting for a data series in which the numbers are habitually all over the map, the reactions to the report on May residential construction have been all over the map. Some have seized on the drops in the headline numbers for permits and starts as a sign that the housing market is over, while one analyst proclaimed the drop in housing starts is proof of how strong the demand for rental housing is. If either of those makes any sense to you, feel free to stop reading right now. As for anyone looking beyond the headline numbers and sifting through the data, we think a perfectly natural question is "what's taking so long?" The best part about this question is that it applies to both the single family and multi-family segments of the market, as in, what's taking so long for the pace of single family construction to pick up and what's taking so long for multi-family construction to fall at a faster pace.

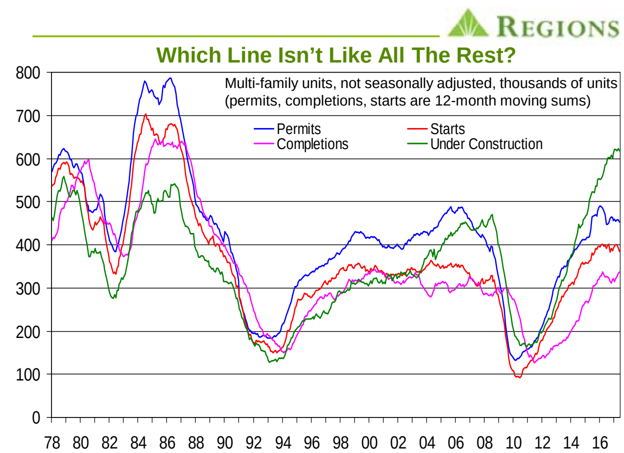
On a seasonally adjusted annualized basis, total housing starts fell to 1.092 million units in May, with total housing permits falling to 1.168 million units, both below the consensus forecasts. These numbers reflect lower rates of permits and starts for both single family and multi-family units. As to the numbers that actually matter, i.e., the not seasonally adjusted data, total housing starts slipped to 102,300 units, below our forecast of 110,500 units, while total housing permits rose to 112,900 units, above our forecast of 108,400 units. The details show single family starts slipped slightly from 77,300 units in April to 76,800 units in May, while multi-family starts fell to 25,500 units, the fewest since January 2016. As for the slight decline in single family starts, keep in mind that April saw the most single family starts since October 2007, and the May number is the second highest over that period. May saw 78,300 single family permits issued, the most in any month since August 2007, with 34,600 multi-family units permitted.

We repeatedly point to the 12-month moving sums of permits and starts as the most reliable gauge of the underlying trends, and these trends are apparent in our charts below. On the single family side, the past 12 months have seen 803,900 single family starts, the highest such total since June 2008, as is also the case with the 779,900 single family permits issued over the past year. Still, as seen in our first chart below, it remains a slow, steady upward grind for single family. Supply constraints, in the form of shortages of buildable lots, labor, and in some instances materials, in conjunction with a costlier and slower entitlement process remain considerable drags on the pace of new construction as demand for single family homes remains quite healthy.

As for multi-family activity, over the past 12 months there have been 384,700 units started, down from a peak of over 402,000 units, with 452,300 units having been permitted. While permit issuance has drifted lower, it has done so at what seems like a glacial pace, at least in light of what remains a considerable backlog of units under construction. As of May, there were 617,800 multi-family units under construction, of which 607,800 units were in structures of five-or-more units. While the number of completions picked up slightly in May, the backlog of units under construction remains larger than at any point since the mid-1970s. Labor shortages are hindering construction in the multi-family segment, though nowhere near to the extent as in the single family segment. A bigger constraint is that, with increased densities in most larger urban areas, developers are building higher, rather than wider, which adds to construction times. Back to our earlier point, that the construction backlog remains so large makes it natural to wonder why the pace of multi-family permit issuance and construction starts has not fallen off at a faster rate. We rather suspect this will indeed be the case once more and more completed units come on line, and we'll also note a growing gap (in the not seasonally adjusted data) between permit issuance and starts, which begs the question of why pull the permits in the first place.

In any event, the pace of single family activity is not likely to pick up to any material degree, but the pace of decline in multi-family activity will, at some point. It will help to keep these details in mind when trying to make sense of the headline numbers over coming months, unless of course you prefer to rise and fall with the headline numbers.





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