ECONOMIC UPDATE

REGIONS

September 19, 2017

August Residential Construction: Starts Flattening Out, But Mix Continues To Shift

- Total housing starts fell to an annualized rate of 1.180 million units; total housing permits rose to an annualized rate of 1.300 million units.
- Single family starts rose to 851,000 units while single family permits fell to 800,000 units (annualized rates).
- Multi-family starts fell to 329,000 units and multi-family permits rose to 500,000 units (annualized rates).

Total housing starts fell to an annual rate of 1.180 million units in August from an upwardly revised rate of 1.190 million units in July, coming in slightly ahead of our forecast of 1.168 million units. Total housing permits jumped to an annual rate of 1.300 million units, trouncing our forecast of 1.162 million units thanks to a spike in multi-family permits that we obviously did not see coming. Though the state level data (not yet available) will provide more clarity, at least for now there are few obvious signs that Hurricane Harvey impacted the August data for the South region. The September data, however, will be another story as construction activity in both Florida and Texas will to some extent have been held down by the hurricanes. As things stand now, the underlying trends in residential construction remain pretty much the same, with steady growth in single family activity and, despite the jump in permits in August, multi-family activity gradually decelerating.

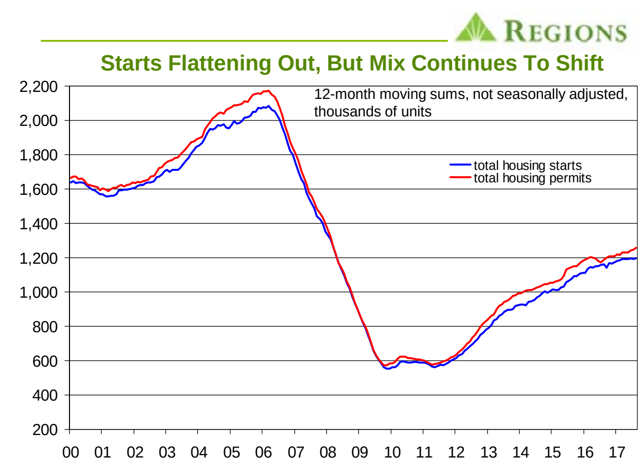
On a not seasonally adjusted basis, there were 103,300 total starts in August, just shy of our forecast of 104,000 starts. Single family starts fell to 76,100 units, with declines in each of the four broad Census regions. Multi-family starts fell to 27,200 units, rising in the Midwest and falling in the other three regions. We will note, however, that the original estimate for multi-family starts in the South in July was revised sharply higher, with the initial estimate of 6,500 units (which we noted last month was an oddly low total) revised up to 14,700 units, which entirely accounts for the upward revision to total housing starts for July. The August data put the running 12-month total of not seasonally adjusted housing starts at 1,194,700 units, with 828,600 single family starts over that same period, the highest such total since May 2008.

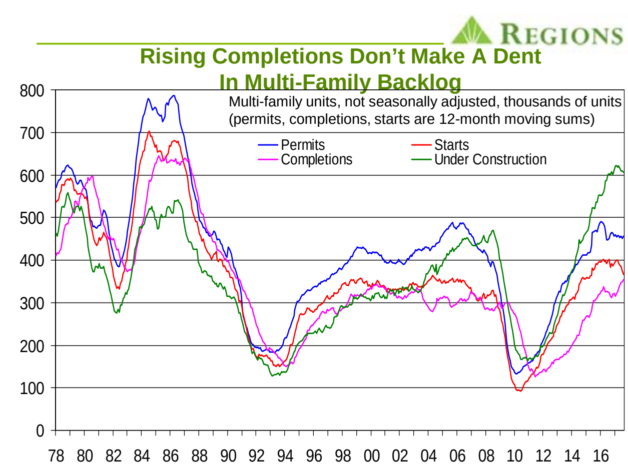
The not seasonally adjusted data show 122,600 total permits issued in August, easily topping our forecast of 105,200 units. There were 76,500 single family permits, in line with our forecast, but where we missed badly was on multi-family permits, with 46,100 units permitted in August. Multi-family permits were higher in the Midwest, South, and West regions and down in the Northeast. The 19,800 multi-family permits in the South region is the highest monthly total since May 2007. It seems unlikely that this reflects a post-Harvey spike, given conditions in the Houston metro area in the aftermath of Harvey in the final week of August. In the absence of yet to be released state and metro area level data, however, we don't have a good explanation for the elevated level of multi-family permit issuance in the South region in August. In any event, the running 12-month total of not seasonally adjusted permits now stands at 1,256,700 units, with the 799,800 single family permits marking the highest such total since April 2008.

The spike in multi-family permits in August is even more puzzling in the context of the data on starts and units under construction. As seen in our chart below, the raw data clearly show multi-family starts have turned downward, and this is consistent across the four broad Census regions. At the same time, though completions continue to inch higher, the pipeline of multi-family units under construction remains swollen. There are still over 600,000 multi-family units under construction, which is a number last seen on a consistent basis back in the mid-1970s.

Though in any given month there can obviously be sizeable gaps between the number of units permitted and the number of units started, over time the two should be fairly closely aligned. We are seeing the opposite in the unadjusted data, i.e., the ratio of multi-family starts to multi-family permits on a running 12-month basis continues to decline, and again this is the case in each of the four broad Census regions, and this had been the case even before the spike in permits reported in the August data. This will bear watching over coming months, but as the data for the next few months will be impacted by the hurricanes it will be some time before there is any clarity in the multi-family data.

While the multi-family data continue to send few clear signals, that is not the case in the single family segment of the housing market. The steady, even if somewhat slow, improvement here is still the most relevant aspect of the residential construction data.





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