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## May Residential Construction: Questions Remain On The Supply Side Of The Market

- Total housing starts rose to an annualized rate of 1.350 million units; total housing permits fell to an annualized rate of 1.301 million units.
- Single family starts rose to 936,000 units while single family permits fell to 844,000 units (annualized rates).
- Multi-family starts rose to 414,000 units and multi-family permits fell to 457,000 units (annualized rates).

Total housing starts rose to an annualized rate of 1.350 units in May, easily besting the 1.306 million unit pace we and the consensus expected. Total housing permits fell to an annualized rate of 1.301 million units, below the 1.343 million units we expected and the 1.350 million unit consensus forecast. As always, the real story in the data on residential construction is told by the not seasonally adjusted data, which show activity the single family segment continuing to pick up pace while in the multi-family segment an already bloated supply pipeline continues to become even more so.

The not seasonally adjusted data show that in May a total of 124,900 units were started and permits were issued for 124,900 units. Under the heading of "for what it's worth which isn't much," May is the first month we can find (going back to 1970) in which total starts and total permits matched. Sure, that we are so smitten with this nugget of useless information means we need to get out more, but we knew that way before today's release. In any event, both permits and starts were slightly above our forecasts (122,600 permits and 119,600 starts). Both single family permits, at 84,400 units, and single family starts, at 88,300 units, were the highest in any month since August 2007.

As we noted in our weekly *Economic Preview*, the April data for the South region were notably strong, offering the first hints of the post-hurricane bounce in construction activity we had been watching for, and we expected starts to moderate slightly but remain somewhat elevated in May. This turned out to be the case; after 48,300 single family starts in April, the South region saw 45,000 single family started in May, easily above what had been the run rate prior to April. Single family starts were notably strong in the Midwest (16,700 units, the most since October 2007) and the Northeast (6,200 units), and basically flat (20,400 units) in the West.

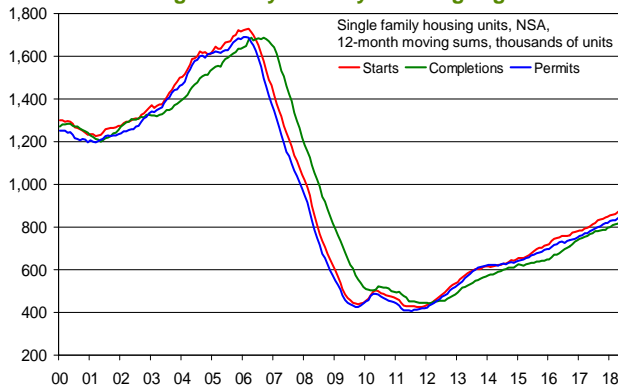
It is the permit data, however, that illustrate our point in the value of looking at the not seasonally adjusted data. Contrary to the analyst we

heard expressing disappointment in a "weak" permits number, we see strength. The unadjusted data show single family permits rose in each of the four broad Census regions in May, and the running 12-month total of unadjusted single family permits stands at 847,000 units, the highest since March 2008. That the running 12-month total of single family completions stands at its highest since November 2008 doesn't alter our view that the issues in the single family segment are on the supply side of the market – builders are going about as fast as they can but, given constraints on lots and labor, are nonetheless seeing backlogs of unfilled orders continue to grow.

To be sure, we could also say the same about the multi-family segment of the housing market – the issues are on the supply side of the market – though for entirely different reasons, as seen in our second chart below. As of May, there were 617,300 multi-family units under construction, the 23<sup>rd</sup> consecutive month in which this number has been above 600,000, and one has to go back to the mid-1970s to find such a large and persistent backlog. While multi-family permits and starts had been fading, albeit only slowly, the spike in the South region over the past two months, which again seems likely driven by the start of post-hurricane rebuilding, is making it more difficult to get a sense of which direction multi-family activity is heading. The sheer magnitude of the backlog of multi-family units under construction implies a more pronounced pullback in multi-family permits and starts than has been seen to date, but completions are likely to continue rising, even if at a notably slow pace, for some time to come.

We have the same question – how much longer can this continue – for both the single family and multi-family segments of the housing market, but we ask for different reasons. In the single family segment, sharply higher materials costs and rising mortgage interest rates will impact both supply and demand, while in the multi-family segment a mammoth pipeline of multi-family units under construction leads us to wonder when we will see a more pronounced pullback in permits and starts.

**Single Family Steadily Grinding Higher**



**Multi-Family Pipeline Getting More, Not Less, Crowded**

