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August Residential Construction: Main Housing Market Themes Remain Intact

- Total housing starts rose to an annualized rate of 1.282 million units; total housing permits fell to an annualized rate of 1.229 million units.
- Single family starts rose to 876,000 units while single family permits fell to 820,000 units (annualized rates).
- Multi-family starts rose to 406,000 units and multi-family permits fell to 409,000 units (annualized rates).

Total housing starts rose to an annualized rate of 1.282 million units in August, topping our above-consensus forecast of 1.248 million units, while total housing permits fell to an annualized rate of 1.229 million units, shy of our below-consensus forecast of 1.302 million units. The mix of both permits and starts was weighted less towards single family and more towards multi-family than our forecast anticipated, but not to a large degree. Of more significance, the unadjusted data for August do nothing to change what for some time have been the two main underlying themes in the housing market – steady but slow growth in the single family segment and a stubbornly large backlog of multi-family units under construction. There is little in the August data to suggest either one of these themes will change anytime soon.

The not seasonally adjusted data show total starts of 113,400 units in August, topping our forecast of 110,100 units. At 79,100 units, single family starts fell a bit short of our forecast of 81,300, while there were 34,300 multi-family starts in August. The unadjusted data show single family starts rose in the South and West regions and fell in the Midwest and Northeast. Nationally, there have been 885,300 single family starts over the past 12 months, the highest such total since April 2008. Over the same time, there have been 374,000 multi-family units started, a total that has edged higher over recent months but which remains below the levels seen in 2017. In August, multi-family starts rose in the Midwest and South regions and fell in the Northeast and West regions.

The not seasonally adjusted data show permits were issued for 114,800 housing units in August, a bit below our forecast of 117,200 units. The 77,800 single family permits came in below our forecast of 80,900 units, with permits issued for 37,000 multi-family units, just ahead of our forecast of 36,300 units. Total housing permits rose in the Midwest, South, and West regions in August and fell in the Northeast region. Over the past 12 months, there have been 856,700 single family permits issued, the highest such total since March 2008, while over the same time permits have been issued for 457,200 multi-family units, a total

that has been slipping over recent months, but at a rate that seems slower than should be the case.

So, where does this all leave us? On a year-to-date basis through August, single family permits are up 6.5 percent and single family starts are up 6.3 percent, while multi-family permits are down 1.6 percent and multi-family starts are up 8.8 percent. Even so, the disparity between multi-family permits and multi-family starts that we referred to in our weekly *Economic Preview* remains larger than normal, and it seems more likely that over coming months permits will fall further as opposed to the pace of multi-family starts ramping up further. One reason we think so is that the backlog of multi-family units under construction remains notably large, rising to 605,700 units in August. This marks the 26th consecutive month above the 600,000 unit mark. As we have been noting for some time now, one has to go back to the mid-1970s to see a backlog this large for this long. As our second chart below illustrates, this backlog is spread out across the four broad Census regions, and this stubbornly large backlog is why we expect multi-family starts to begin to trend lower over coming months.

As for the single family segment of the market, the pattern of steady but slow growth in permits, starts, and completions shown in our first chart below is not likely to change over coming months. Also notably stable is the trend rate of total – new and existing – home sales, which the not seasonally adjusted data show has held at an annual pace of 6.102 million units for the past 19 months. None of the constraints that have been holding down single family construction figure to ease soon, though there are signs builders are shifting the mix of homes built towards more homes in the lower price ranges, which is where they see untapped demand despite mortgage interest rates having risen.

Hurricane Florence will impact the housing data over the near term. Beyond that, we look for total starts to flatten out, which will mask further growth in single family starts and falling multi-family starts.

