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February Residential Construction: Miss On The Headline, Underlying Trends Remain Intact

- > Total housing starts fell to an annualized rate of 1.162 million units; total housing permits fell to an annualized rate of 1.296 million units
- > Single family starts fell to 805,000 units while single family permits were unchanged at 821,000 units (annualized rates)
- > Multi-family starts rose to 357,000 units and multi-family permits fell to 475,000 units (annualized rates)

Total housing starts fell to an annualized rate of 1.162 million units, well below our below-consensus forecast of 1.222 million units, while total housing permits fell to an annualized rate of 1.296 million units, shy of our above-consensus forecast of 1.327 million units. The “big miss” on housing starts has prompted yet another lengthy recitation of the litany of housing market woes, but it seems like only a month ago many analysts were spinning a tale of the resilience of the housing market. Okay, that was only a month ago, after the January data showed stronger than expected housing starts. Which is precisely why we don’t spend much time reacting to the headline (i.e., seasonally adjusted and annualized) numbers on any given report in any given month, opting instead to spend our time on the trends in the raw data. And, as if by magic coincidence, those trends don’t look much different upon the release of the February data as they did upon the release of the January data. Admittedly, that doesn’t make for the kind of riveting discussions one hears on financial talk TV, but, when all is said and done, the raw data are all that matters.

On a not seasonally adjusted basis, there were a total of 81,300 housing units started in February, shy of our forecast of 83,500 units. The 25,600 multi-family starts matched our forecast, so our miss was in the single family segment, where the 55,700 units fell a bit short of our forecast. As we noted in our weekly *Economic Preview*, harsh winter weather posed a downside risk to our forecast, and this likely accounted for notably low single family starts – 2,400 units – in the Northeast region, below the recent run rate of permits and the lowest monthly total of single family starts in the region since February 2015. Parts of the West region were hit by oddly harsh winter weather, and the 12,200 single family starts were easily below the recent run rate months. Single family starts in the Midwest and South matched our forecast.

As of February, the running 12-month total of not seasonally adjusted housing starts stands at 1.235 million units, well off of what so far stands as the cyclical peak of 1.266 million units seen this past

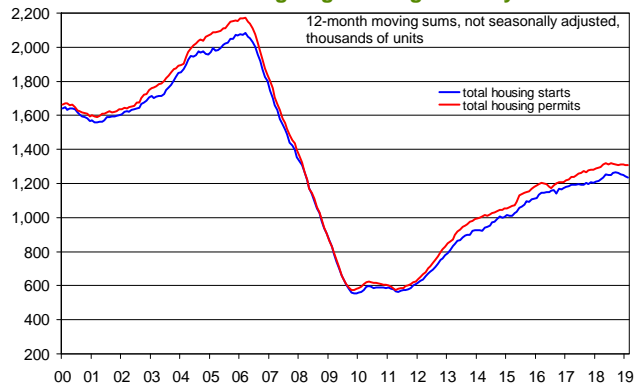
September. The decline in the interim reflects declines in both single and multi-family starts. The downward drift in multi-family starts is something we have been anticipating given the significant number of units under construction, and the erosion in the trend rate of single family starts largely reflects the weakness in Q4 2018 when a jump in mortgage interest rates took a significant toll on affordability. Our premise is that the sizeable decline in mortgage interest rates since their mid-November peak would lead to an orderly rebound in single family construction and sales this spring, and it is far too soon to draw any conclusions either way, though there are plenty rushing to do just that based on a single monthly observation.

On a not seasonally adjusted basis, there were 90,200 total housing permits issued in February, below our forecast of 94,700 permits with both single family and multi-family permits falling a bit short of our forecast. Over the past 12 months, the unadjusted data show a total of 1.307 million housing permits have been issued and, as with housing starts, a marked erosion in single family permit issuance during Q4 2018 has dragged the running 12-month total down. As we’ve been noting over recent months, multi-family permits remain elevated but the ratio of multi-family starts to permits has remained notably low for some time now. We attribute this to what, despite a jump in completions in February, remains the largest backlog of multi-family units under construction since the mid-1970s. In contrast, the number of single family units under construction has increased steadily for some time now but remains far short of what could be considered “normal” levels.

There are plenty of signs that, contrary to the “instant analysis” of the February data, lower mortgage interest rates are indeed having a beneficial effect on the housing market. Our forecast anticipates continued growth in single family construction, but the pace of growth will remain modest and progress won’t come in a straight line – really, when is that ever the case with the economic data. The February data give us no reason to change our call.



Soft Q4 Still Weighing On Single Family Starts



Progress, But Still A Long Way To Go

