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## March Residential Construction: Weather Wreaks Havoc On Q1 Single Family Construction

- › Total housing starts fell to an annualized rate of 1.139 million units; total housing permits fell to an annualized rate of 1.269 million units
- › Single family starts fell to 785,000 units and single family permits fell to 808,000 units (annualized rates)
- › Multi-family starts were unchanged at 354,000 units and multi-family permits fell to 461,000 units (annualized rates)

Total housing starts fell to an annualized rate of 1.139 million units in March, way below our way below-consensus forecast of 1.198 million units, while total housing permits fell to an annualized rate of 1.269 million units. If there is a bright spot here, it is that the report on March residential construction is issued on a day on which the financial markets are closed, which in turn means financial talk TV is taking the day off, hence a refreshing absence of experts screaming about the demise of the housing market. Sure, they'll be back Monday, but by then there will be something else to scream about. As for us, we've done what we always do with the residential construction data, which is to go straight to the not seasonally adjusted data. The unadjusted data are in line with our premise that weather – cold and wet – acted as a drag on residential construction in March, which was a key factor behind our below-consensus forecast.

On a not seasonally adjusted basis, there were 93,300 total housing starts in March, a bit shy of our forecast of 95,600 starts. But, at 65,500 units, single family starts actually came in ahead of our forecast, which anticipated 64,300 single family starts. Our miss, then came in the multi-family segment, which saw 27,800 units started. But, in both the single family and multi-family segments, starts in the Midwest and Northeast regions were notably weak, with the South and West regions faring better than our forecast anticipated. This is also the case with the permits data. On a not seasonally adjusted basis, there were 103,900 permits issued in March, less than the 113,400 permits our forecast anticipated, with both single family and multi-family permits falling short of our forecast and the Midwest and Northeast regions lagging. It helps to recall the multi-family data are reported on a number of units basis, so if weather delays the start of a multi-family structure, the miss on a number of units basis can be sizeable, which helps account for the inherent volatility in the multi-family data. While permit issuance tends to be less sensitive to weather than is the case with housing starts, that single family permit issuance was so weak in the Midwest and Northeast regions – we're comparing not seasonally adjusted data for

the month of March over multiple years – suggests weather was in play.

This is actually a fitting bookend to Q1, during which weather wreaked havoc on single family construction. What many tend to overlook, however, is that this can work both ways. For instance, unusually mild weather during much of January led to single family starts (again, not seasonally adjusted) being much stronger than is typically the case for the month. Single family starts rose by 21.9 percent in January, which is not only the largest January increase over the 2000-19 period but is also the largest increase in single family starts in any month since April 2015. Some of this activity was clearly pulled forward from February, but this wasn't just a case of builders gone wild – part of it was builders playing catch up. We've for some time been pointing to the share of new home sales accounted for by units on which construction had not yet started, and builders took advantage of the opportunity afforded by atypically mild January weather to start work on pre-sold units. While that would have pulled some activity forward from February, what was harsh winter weather across much of the U.S. also weighed on single family starts in February, hence the sharp decline in single family starts (we illustrate all of this with our second chart below). Over the 2000-19 period, single family starts have fallen in February only four times, and this February's 14.4 percent decline is the largest of the four. While it would have been reasonable to expect single family starts to spring back in March, this is where weather effects come into play – while single family starts did increase, the 19.3 percent increase from February is smaller than the normal March increase, which in turn means the seasonally adjusted starts figure looks worse than is actually the case.

Sure, it's much easier to just react to the headline numbers and call it a day, but if you want to understand the housing market, the raw data are all that matters. There is ample evidence that single family construction and sales are responding to lower mortgage interest rates, even if you have to dig into the raw data to see that evidence. We look for further increases in single family starts over coming months.

