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December Residential Construction: 2019 Ends Not With A Whimper But A Bang . . .

- › Total housing starts rose to an annualized rate of 1.608 million units; total housing permits fell to an annualized rate of 1.416 million units
- › Single family starts rose to 1,055,000 units and single family permits fell to 916,000 units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 553,000 units and multi-family permits fell to 500,000 units (seasonally adjusted annualized rates)

With all apologies to T.S. Eliot, residential construction ended 2019 not with a whimper but a bang. Total housing starts jumped to an annual rate of 1.608 million units, the highest monthly rate since December 2006, with single family starts rising to 1.055 million units and multi-family starts rising to 553,000 units (annualized rates). December saw the fastest monthly rate of single family starts since July 2007 and the fastest monthly rate of multi-family starts since December 1986. To be sure, December's frenzied pace of starts was aided by unseasonably warm weather, which simply goes to show that it's always cold in the winter, except when it's not. The not seasonally adjusted data show 108,500 total housing starts in December, trouncing our forecast of 93,300 starts. Starts in the Midwest and Northeast regions were stronger than is typical for the month of December, and this strength was amplified by the friendly seasonal adjustment factors seen in any given December. This is not to take anything away from the stellar headline, i.e., seasonally adjusted and annualized, starts numbers – that the raw data are so strong is a reflection of the underlying strength of residential construction at year-end 2019. The caveat, however, is that the strength seen in December may come at the expense of starts in subsequent months but, even should this prove to be the case, that will simply reflect month-to-month noise that should not deflect attention from an improving trend, particularly in single family construction.

To our point, housing permits slipped to an annualized rate of 1.416 million units in December, well short of our above-consensus forecast of 1.483 million units. But, on a not seasonally adjusted basis, there were a total of 107,300 housing units permitted in December, just below our forecast of 108,000 units. That our forecast of unadjusted permits was so close to the mark while our forecast of seasonally adjusted annualized permits was so far off simply reflects the seasonal adjustment factors being much less generous than our forecast assumed would be the case, which is totally meaningless in the grand scheme of things. What is more relevant is that while atypically warm weather will pull starts forward, as was the case in December, it will not lead to a

spike in housing permits, so in that sense the unadjusted permits data show the trend rate of residential construction activity proceeding pretty much in line with our expectations.

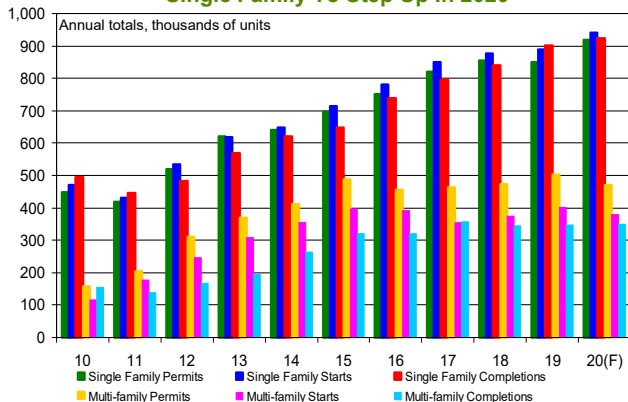
For 2019 as a whole, there were 1,289,800 total housing starts (the 2019 data are still preliminary), a 3.2 percent increase from 2018. Single family housing starts were up by 1.4 percent in 2019, with multi-family starts up by 7.3 percent. Total starts in the South region were up by 8.6 percent in 2019 and starts in the Northeast region were up by 2.9 percent, but total starts fell by 0.8 percent in the Midwest region and by 4.7 percent in the West region. There were 1,351,800 total housing permits issued in 2019, a 1.7 percent increase from 2018, with single family permits down by 0.6 percent and multi-family permits up by 6.0 percent. That single family permits were little changed for the year as a whole masks two distinctly different halves, with single family permit issuance notably weak over 1H 2019 before strengthening considerably over 2H 2019. Total permit issuance slipped by 0.9 percent in the Midwest region in 2019, but was up by 0.8 percent in the West region, by 2.4 percent in the South region, and by 5.0 percent in the Northeast.

The preliminary data show that single family completions were up by 7.5 percent in 2019, with 903,000 finished single family units, while multi-family completions were up by just 0.90 percent. This extends a puzzling but persistent pattern in the data, i.e., what has been a notably slow pace of multi-family completions. This, along with a still-robust pace of multi-family starts, yields the largest and most persistent backlog of multi-family units under construction since the mid-1970s. As 2019 came to a close, there were 654,300 multi-family units under construction. Our forecast anticipates a faster pace of multi-family completions in 2020, but this will still leave a sizable backlog of under-construction units.

Single family construction and new home sales ended 2019 on the upswing. Still solid demand side conditions and favorable mortgage rates leave further upside room for single family activity in 2020.



Single Family To Step Up In 2020



Single Family Housing Starts

