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March Residential Construction: One Last Chance To Blame It On The Weather. No, Really.

- › Total housing starts fell to an annualized rate of 1.216 million units; total housing permits fell to an annualized rate of 1.353 million units
- › Single family starts fell to 856,000 units and single family permits fell to 884,000 units (seasonally adjusted annualized rates)
- › Multi-family starts fell to 360,000 units and multi-family permits rose to 469,000 units (seasonally adjusted annualized rates)

In this week's *Economic Preview*, we tried to manage down expectations for the March data on residential construction. Sure, in light of how the economy has been bludgeoned by the coronavirus and the efforts to contain it, that may seem an easy, not to mention obvious, sell. As we noted, however, our low expectations for March residential construction had more to do with the weather than with the coronavirus. Recall that January and February saw atypically warm weather which, aside from dinging the self-esteem of our colleague known as "Mr. It's Always Cold In The Winter," had the effect of pulling construction activity forward. As such, there was bound to be payback, and we expected that payback to come due in March. That in a typical year March is a very strong month for residential construction activity meant that any payback in the raw data would be amplified in the seasonally adjusted data, and that is exactly what we see in today's report. This is not to say that the coronavirus had no effects on March construction activity; it did, but those effects came late in the month and it is the April data in which we will see the bigger impact from the virus.

Total housing starts fell to an annualized rate of 1.216 million units in March, short of our below-consensus forecast of 1.262 million units. The best way to illustrate our point about weather effects is to look at the raw, or, not seasonally adjusted data. On a not seasonally adjusted basis, there were a total of 100,100 housing starts in March, a bit below our forecast of 103,000 starts. Unadjusted starts were down 10.1 percent from February, with single family starts down by 1.7 percent. Over the prior 20 years, the average March increase in unadjusted single family starts was 23.7 percent, but the decline this March followed a much stronger than typical February. It isn't that the total number of starts over the first quarter of 2020 is different than it otherwise would have been, it is simply a matter of timing, with more of those Q1 starts this year coming in January and February than is normally the case.

If that is the case, it may seem like we're needlessly quibbling over details, but we'd beg to differ. As we routinely point out, that the

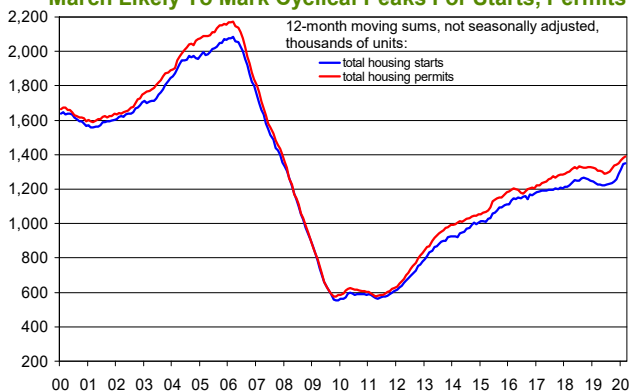
"headline" numbers are reported on a seasonally adjusted annualized basis makes them prone to sharp swings from one month to the next, compelling analysts and headline writers to come up with something to fit the headline numbers without offering much in the way of useful insight. Our point is that the raw data tell the real story, with the running 12-month total of unadjusted starts/permits the best gauge of the underlying trends. So, while many are reflexively pointing to the sharp decline in seasonally adjusted, annualized single family starts in March as evidence of the coronavirus dragging the housing market down, the raw data tell us that single family starts were still trending higher through March. Again, the effects of the virus will be more visible in the April data, to the point that we expect March will prove to be the cyclical peak for both housing permits and housing starts as measured by the running 12-month totals of unadjusted permits and starts.

There were a total of 116,000 housing units permitted in March, topping our forecast of 103,700 total permits, with both single family and multi-family permits besting our forecast. Though there are pockets of the nation in which construction activity has been shut down, not being considered an "essential" industry, construction is still allowed in most of the U.S. But, between the carnage in the labor market, sharply lower consumer confidence, and tighter mortgage credit standards, the demand side of the housing market is clearly being rocked by the coronavirus and the efforts to contain it. As such, there is some question as to: 1) how many units permitted in March will actually be started; and 2) how permitting will hold up over the next few months.

Our guess is that both permits and starts will be markedly lower in the April data, though the declines may not be as severe as those seen in other top tier data series. To be sure, the record decline in homebuilder confidence in the NAHB's April survey suggests we could be wrong on this last point. Time will tell, but, at least for now, those inclined to blame it on the weather have been offered one last chance in the form of the March report on residential construction.



March Likely To Mark Cyclical Peaks For Starts, Permits



Multi-Family Pipeline Remains Crowded

