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April Residential Construction: Has Residential Construction Hit The Bottom?

- › Total housing starts fell to an annualized rate of 891,000 units; total housing permits fell to an annualized rate of 1.074 million units
- › Single family starts fell to 650,000 units and single family permits fell to 669,000 units (seasonally adjusted annualized rates)
- › Multi-family starts fell to 241,000 units and multi-family permits fell to 405,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annualized rate of 891,000 units in April, with total housing permits falling to an annualized rate of 1.074 million units. April's rate of housing starts is the lowest monthly rate since February 2015, and the decline from March's rate is the largest monthly decline in the life of the data, which go back to 1959, reflecting the effects of the COVID-19 virus and the efforts to stem its spread. Though construction activity was allowed to continue in most areas of the U.S. in April amidst shutdowns in a wide swath of economic activity, there were some large areas of the Northeast and West regions in which construction was shut down, and this had an impact on the April data. Though the decline in housing permits was less harsh, the decline from March's rate is nonetheless the largest monthly decline since July 2008. It bears noting that the decline in single family permits was much more severe than the decline in multi-family permits, which marks quite a reversal after single family activity got off to such a robust start in 2020. There are reasons to think that April will mark the low point for residential construction, but it remains to be seen whether, or when, single family construction will recapture the momentum on display prior to the COVID-19 virus.

On a not seasonally adjusted basis, there were 81,100 total housing starts in April, short of our forecast of 88,400 starts. There were 60,400 single family units started, below our forecast of 63,400 units; though we anticipated weakness in the Northeast and West regions, single family starts in these regions were even lower than we expected while single family starts in the Midwest and South regions were in line with our forecast. There were 20,700 multi-family units starts in April, shy of our forecast of 24,800 units. On a not seasonally adjusted basis, there were a total of 96,900 housing units permitted in April, easily ahead of our forecast of 89,400 units. Both single family and, to an even greater degree, multi-family permits were higher than our forecast anticipated.

As would be expected given the restrictions on construction activity across parts of the U.S., the number of housing units completed in April

was off from March and well off from April 2019. On a not seasonally adjusted basis, there were a total of 67,700 single family units completed in April, compared to 72,000 in March and 72,400 in April 2019. Unadjusted multi-family completions totaled 24,000 units in April, down from 29,100 units in March and 31,000 units in April 2019. Total completions fell in each of the four broad Census regions.

The declines in completions come amidst declines in permits and starts, which has different implications in the single family and multi-family segments of the market. Prior to the effects of the COVID-19 virus and the efforts to contain its spread, single family builders were pressed to keep pace with demand; had they been able to build more homes, they could have sold more homes, thanks in part to favorable mortgage interest rates. It is also worth noting that after having slumped badly between mid-March and mid-April, applications for purchase mortgage loans have rallied strongly, posting the largest four-week increase in over twelve years. The obvious caveat here is that this increase comes off of a very low base, so we'd caution against getting too carried away, as we've heard some, to be as polite as we can be here, ridiculous interpretations of this movement. It does, however, suggest a floor under demand for single family home purchases, as those prospective buyers who remain confident in their job and income prospects are taking advantage of still-favorable mortgage interest rates.

The term "balance" apparently takes on a new meaning in the multi-family segment of the market. Fewer starts and fewer completions in April leave 683,000 multi-family units under construction in the midst of the largest and most persistent backlog of multi-family units under construction since the mid-1970s. That job losses to this point have been more highly concentrated amongst lower wage industry groups means the drag on multi-family demand could be heavier than that on single family demand, adding to our concerns about the supply side of the multi-family segment of the housing market. We have no such concerns in the single family segment.

