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July Residential Construction: Supply Still The Issue, For Different Reasons

- Total housing starts rose to an annualized rate of 1.496 million units; total housing permits rose to an annualized rate of 1.495 million units
- Single family starts rose to 940,000 units and single family permits rose to 983,000 units (seasonally adjusted annualized rates)
- Multi-family starts rose to 556,000 units and multi-family permits rose to 512,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annualized rate of 1.496 million units in July, blowing past our above-consensus forecast of 1.281 million units, while June's starts rate was revised up to 1.220 million units from the initial estimate of 1.186 million units. Total housing permits rose to an annualized rate of 1.495 million units, easily ahead of our above-consensus forecast of 1.363 million units. In each case, the main source of our forecast miss is the always volatile multi-family segment which, as if making up for lost time over the past few months, saw activity spike significantly in July. Even if July's pace of multi-family permits and starts does reflect catch-up and won't be sustained, it comes against a backdrop of an already swollen pipeline of under construction units, making it somewhat curious. It is quite the opposite story in the single family segment of the market, which has for some time now been chronically undersupplied, leaving plenty of further upside room.

On a not seasonally adjusted basis, there were 139,400 total housing starts in July, easily ahead of our forecast of 118,800 starts. There were 89,300 single family starts, besting our forecast of 85,900 starts and marking the highest monthly total since July 2007. There were 50,200 multi-family units started in July, which is the highest monthly total since October 1986. Activity in the South region was particularly robust in July; the 48,000 single family starts were the most in any month since April 2018, while the 27,200 multi-family starts were the most in any month since October 1985. To say the spike in multi-family starts in the South region came as a surprise would be an understatement. There is nothing in the permit data to suggest such a jump, nor had the backlog of authorized but not started multi-family units become appreciably larger over the past few months. About the only thing we can say with any degree of confidence is that the spurt in multi-family starts seen in the South region in July won't be sustained. Probably. For the U.S. as a whole, there have been a total of 892,400 single family starts over the past 12 months; while this does not get us back to the total of 913,500 as of March, it likely won't take soon to surpass that total, which marked an almost 12-year high.

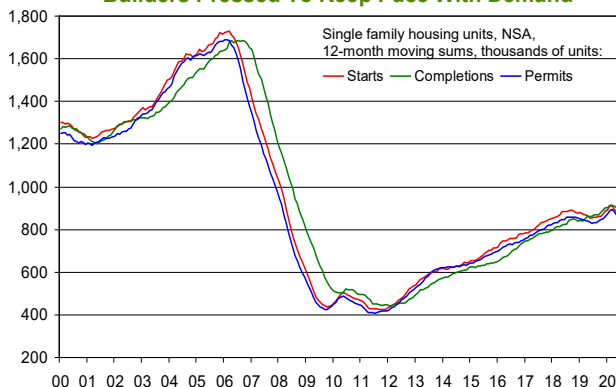
On a not seasonally adjusted basis, there were 136,400 total housing units permitted in July, easily topping our forecast of 119,100 units, with both single family and multi-family permits higher than our forecast anticipated. As with starts, the South region accounts for most of the beat; there were 51,700 single family permits issued in the South region in July, the most in any month since May 2007. For the U.S. as a whole, there have been 888,600 single family permits issued over the past 12 months; this is still shy of the total as of March (895,900) but that ground will likely be recaptured within the next few months.

Notably low mortgage interest rates remain supportive of demand for single family home purchases, and the weekly data on applications for purchase mortgage loans suggest demand continues to hold up despite a significant degree of slack in the labor market. Over the past few years, we have more than once noted that builders could sell more new homes if only they could build more new homes. Shortages of labor and buildable lots along with more costly and cumbersome entitlement processes have been constraints on the supply of single family homes. Still, to an increasing degree, builders have been turning to exurban areas, where land is more readily available and where there are fewer restrictions on development. The trend toward the exurbs had been in place prior to the pandemic, but in the wake of the pandemic that trend has accelerated significantly. Still, builders remain pressed to keep up with demand, and the backlog of authorized but not yet started single family units has grown considerably in recent months.

It remains to be seen how the multi-family segment of the market will fare in the push to the exurbs. Multi-family construction has been increasingly concentrated in urban cores over recent years which, along with the biggest under-construction backlog since the early 1970s, makes the kind of spikes seen in permits and starts in July all the more puzzling, particularly with rent growth already having come under pressure. It will take time to sort things out, but the supply side of the multi-family segment of the market remains concerning.



Builders Pressed To Keep Pace With Demand



Multi-Family Pipeline Getting Even More Crowded

