ECONOMIC UPDATE
REGIONS
September 17, 2020

August Residential Construction: Headline Miss Masks Strong Single Family Print

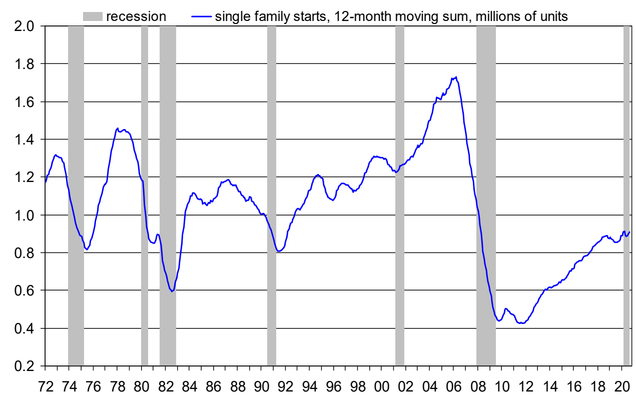
- Total housing starts fell to an annualized rate of 1.416 million units; total housing permits fell to an annualized rate of 1.470 million units
- Single family starts rose to 1.021 million units and single family permits rose to 1.036 million units (seasonally adjusted annualized rates)
- Multi-family starts fell to 395,000 units and multi-family permits fell to 434,000 units (seasonally adjusted annualized rates)

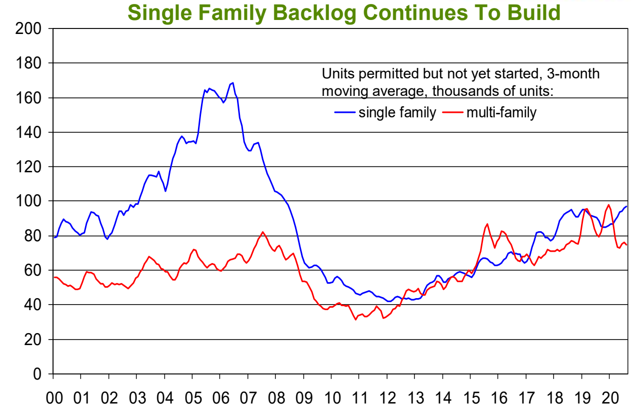
Total housing starts fell to an annualized rate of 1.416 million units in August, well below what we (1.504 million) and the consensus (1.484 million) expected. That's a big miss on our part, there's no way around that, but our miss on the headline starts numbers reflects multi-family starts coming in well below our forecast. At an annualized rate of 1.021 million units, single family starts came in close to our forecast of 1.018 million units. The same pattern holds for housing permits; total housing permits fell to an annualized rate of 1.470 million units in August, short of our forecast of 1.527 million units, but our miss reflects multi-family permits falling well short of our forecast. At an annualized rate of 1.036 million units, single family permits were close to our forecast of 1.022 million units. It is the single family segment that is the more reliable indicator of housing market activity, and single family construction has a much larger economic impact than does multi-family construction, and with low mortgage interest rates, further increases in single family construction are to be expected. While we have long been on record with our view that multi-family construction is due for a downshift, the August data do not necessarily signal such a shift, as the multi-family data are inherently volatile, so it will take more months to put the August data in proper context.

On a not seasonally adjusted basis, there were 127,300 total housing starts in August, a bit short of our forecast of 131,300 total starts, with a shortfall in multi-family starts accounting for our miss here. There were 93,200 single family starts in August, the highest monthly total since July 2007. Single family starts were notably strong in the Midwest region, with 15,500 starts, and the West region, where the 24,400 single family starts is the highest monthly total since July 2007. With the August data, the running 12-month total of not seasonally adjusted single family starts stands at 910,400 units, on par with where that total stood prior to the pandemic and a total that will rise further in the months ahead. Perhaps not immediately, though, as the fires in the West and the flooding in the South due to Hurricane Sally will weigh on September starts before subsequent months bring a reversal.

On a not seasonally adjusted basis, there were 135,200 total housing permits issued in August, with the same patterns noted above, i.e., single family permits in line with our forecast and multi-family permits falling short of our forecast. With the 89,600 single family permits issued in August, the running 12-month total of not seasonally adjusted single family permits rose to 897,200 units, the highest such total since February 2008, the difference being that this total is now rising rather than falling sharply as was the case back in 2008.

There were 80,300 single family units completed in August (not seasonally adjusted), in line with completions in June and July. One question is whether, or to what extent, builders can step up the pace of single family completions in the months ahead to keep up with growth in demand. There are already signs that builders are falling further behind on this front, such as the rising number of singe family units permitted but not yet started. As seen in our second chart below, the number of such single family units has pushed up toward the 100,000 mark which, aside from the credit-fueled frenzy prior to the 2007-09 recession, is a big number by historical standards. While builders have for some time been contending with shortages of skilled construction labor, it also helps to recall that there simply aren't as many builders as was the case in the last cycle; while the larger national or super-regional builders made it through the downturn, many smaller regional builders and smaller independents did not, so in that sense there is less capacity in the industry. It could be, however, that we see a more stable single family cycle this time around, as a growing backlog of unfilled orders will smooth out any decline in construction should demand tail off. Obviously, the story is different in the multi-family segment. Though the running 12-month totals of not seasonally adjusted multi-family permits and starts have begun to tail off, they nonetheless remain quite elevated, not only in relation to historical trends but particularly in relation to what remains a mammoth backlog of under construction multi-family units. As such, we remain concerned about the supply side of the multi-family segment of the housing market.





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