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November Residential Construction: No Change In Our Take On The Housing Market

- › Total housing starts rose to an annualized rate of 1.547 million units; total housing permits rose to an annualized rate of 1.639 million units
- › Single family starts rose to 1.186 million units and single family permits rose to 1.143 million units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 361,000 units and multi-family permits rose to 496,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annualized rate of 1.547 million units, falling short of our forecast of 1.604 million units, while total housing permits rose to an annualized rate of 1.639 million units, a bit below our forecast of 1.651 million units. Our forecasts, both of which were well above the consensus estimates, were predicated on the not seasonally adjusted data showing smaller pullbacks in activity than is typical for the month of November coupled with what for the month of November tend to be very generous seasonal adjustment factors. While we were correct on both points, the decline in unadjusted single family housing starts was nonetheless larger than our forecast anticipated, yielding a lower rate of single family starts on a seasonally adjusted annualized basis. We can live with this miss, as nothing in the data changes our assessment of the housing market, i.e., robust demand for single family construction while multi-family construction continues to drift lower at a more relaxed pace than we think is warranted.

On a not seasonally adjusted basis, there were 117,500 total housing starts in November, a bit below our forecast of 119,900 starts. While the 29,700 multi-family starts matched our forecast, the 87,900 single family starts are less than the 90,200 starts our forecast anticipated. The 12.9 percent decline in single family starts is smaller than the average decline for the month of November, so in that sense it is no cause for concern. The pullback in single family starts in November was the most pronounced in the South region, which accounts for over one-half of all single family housing starts. As of November, the running 12-month total of not seasonally adjusted single family starts stands at 970,600 units, which is the highest such total since February 2008. On a year-to-date basis through November, total housing starts are up 7.0 percent, with single family starts up 10.1 percent and multi-family starts flat.

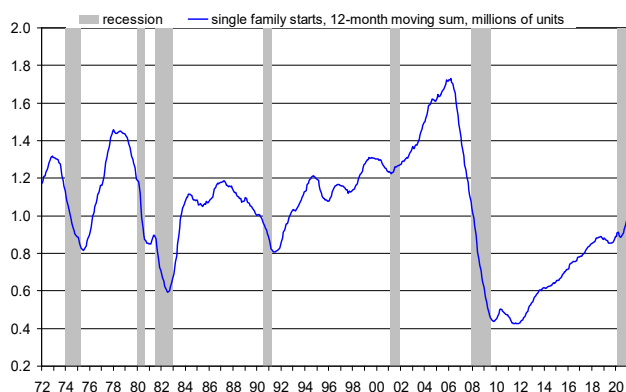
On a not seasonally adjusted basis, there were 120,200 housing units permitted in November, a bit below our forecast of 122,400 units. There were 80,000 single family units permitted in November, a 16.1 percent decline from October, but again this is a smaller decline than is typical

for the month of November. There were 40,200 multi-family units permitted, up 6.9 percent from October, at odds with what is typically a sizable decline in multi-family permits in the month of November. As with single family starts, the pullback in single family permits in November was more pronounced in the South region. On a year-to-date basis through November, total housing permits are up 2.0 percent, with single family permits up 10.9 percent and multi-family permits down 12.9 percent. We expect this divergence to continue in 2021, with further growth in single family construction and a further pullback in multi-family construction.

Completions of both single family and multi-family units slowed in November; while the decline in single family completions was not out of line with typical seasonal patterns, there was a notably large decline in multi-family completions, which is even more pronounced in the seasonally adjusted data. The drop-off in completions contributed to an increase in the backlog of multi-family units under construction, which rose to 668,000 units in November, the 19th consecutive month in which this metric has topped 600,000 units. With permit issuance drifting lower – the running 12-month total of not seasonally adjusted multi-family starts fell to 462,600 units in November – multi-family starts will continue to ease. But, even though the decline in November overstates the case, the pace of multi-family completions remains somewhat slow, meaning the backlog of under construction units will persist for some time. In the single family segment, it isn't so much the backlog of under construction units that catches our eye, but rather the growing backlog of single family units that have been permitted but not yet started, a backlog that continues to rise. Builders are literally straining to keep pace with demand, another sign of which is that spec inventories of new homes for sale have been shrinking for almost two years. While we do not think we are there yet, should demand for new single family homes begin to fade, this backlog of unfilled orders will help sustain starts, making for a smoother transition to a slower pace of construction, unlike the sudden stop seen in the prior cycle.



Single Family Housing Starts



Single Family Backlog Continues To Build

