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December Residential Construction: A Firm Foundation For Single Family In 2021

- › Total housing starts rose to an annualized rate of 1.669 million units; total housing permits rose to an annualized rate of 1.709 million units
- › Single family starts rose to 1.338 million units and single family permits rose to 1.226 million units (seasonally adjusted annualized rates)
- › Multi-family starts fell to 331,000 units and multi-family permits fell to 483,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annualized rate of 1.669 million units in December, topping our seriously above-consensus forecast of 1.641 million units, while total housing permits rose to an annualized rate of 1.709 million units, also better than our forecast of 1.653 million units. Our forecasts for both starts and permits were well above the consensus forecasts (starts at 1.560 million units and permits at 1.608 million units), and our premise was that single family activity would be stronger than is typical for the month of December, which the raw data show was the case, and when combined with what for the month of December tend to be generous seasonal adjustment factors this would yield lofty headline numbers. But, even allowing for the boost from seasonal adjustment, single family activity was even stronger in December than we anticipated, which sets a solid foundation for 2021.

On a not seasonally adjusted basis, there were 113,300 total housing starts in December, just ahead of our forecast of 111,900 units. As we noted in our weekly *Economic Preview*, we expected December to bring some payback for the surprisingly large decline in single family starts in the South region in November, while favorable weather across much of the U.S. for most of December would allow for a higher than normal rate of starts. Both proved to be the case, and while starts in the South region lined up with our forecast, starts in the Midwest and Northeast regions were a touch higher than our forecast anticipated. In stark contrast to the strength in single family starts, multi-family starts were notably weak in December.

On a not seasonally adjusted basis, there were 134,100 housing units permitted in December, well above our forecast of 121,100 units, with both single family and multi-family permits topping our forecasts. Our miss on multi-family permits was entirely accounted for by the West region, which saw 16,500 multi-family units permitted, the highest monthly total since July 1987 which, in technical terms, was a really long time ago. Single family permit issuance was stronger than is typical for the month of December in each of the four broad Census

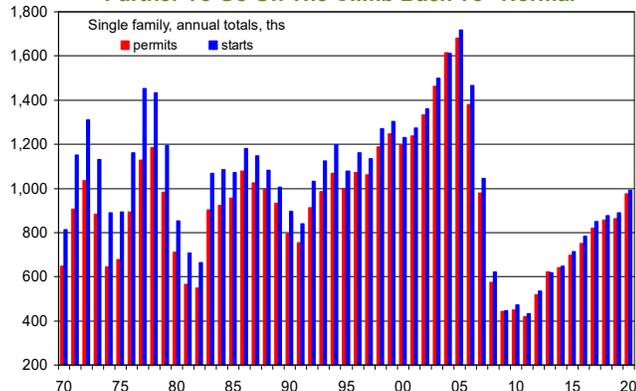
regions, which supports our contention that there is further room to the upside for single family construction in 2021.

For 2020 as a whole, there were 1,380,200 total housing starts, a 7.0 percent increase from 2019, with 991,100 single family starts and 389,100 multi-family starts (these totals are from the not seasonally adjusted data). Single family starts were up by 11.7 percent in 2020, with multi-family starts down by 3.3 percent. The 1,380,200 total housing starts were the most in any year since 2006, while single family starts were the highest in any year since 2007.

There were 1,435,200 total housing units permitted in 2020, up 3.5 percent from 2019, with 973,500 single family permits issued and 461,700 multi-family permits issued. Single family permits were up by 12.9 percent in 2020, while multi-family permits were down by 11.9 percent. As with housing starts, 2020 saw the most total permits in any year since 2006 and the most single family permits in any year since 2007. There were 1.289 million housing units completed in 2020, with increases in both single family and multi-family completions. Still, despite the increase in completions, there were more multi-family units under construction at the end of 2020 than there were at the end of 2019, and the sizable backlog will remain a story through 2021.

We anticipate further growth in single family starts in 2021, in line with the strength in single family permits and a growing backlog of units which have been permitted but not yet started. Still, we expect the rate of growth to slow from the pace set in 2020. Builders continue to report shortages of buildable lots, significantly higher materials prices, and ongoing labor shortages. In many parts of the country, builders are slow-walking sales in the face of input and labor constraints. For some perspective, we'd put a "normal" year for single family starts at around 1.25 million units, and we do not expect that mark to be hit in 2021. With an already sizable backlog of under construction units and demand being constrained until the labor market is more fully healed, we expect further declines in multi-family permits and starts in 2021.

Further To Go On The Climb Back To "Normal"



Multi-Family Activity Set To Slow Further In 2021

