

This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

January Residential Construction: Single Family Starts Fall, But Should Bounce Back

- › Total housing starts fell to an annualized rate of 1.580 million units; total housing permits rose to an annualized rate of 1.881 million units
- › Single family starts fell to 1.162 million units and single family permits rose to 1.269 million units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 418,000 units and multi-family permits rose to 612,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annualized rate of 1.580 million units in January, well short of our above-consensus forecast of 1.703 million units, while total housing permits jumped to an annualized rate of 1.881 million units, better than our above-consensus forecast of 1.722 million units. Our miss on total housing starts is entirely accounted for by single family starts dropping sharply; as we anticipated, multi-family starts bounced back after having been notably weak in December. The jump in total housing permits was fueled by multi-family permits rising to the highest annualized rate since June 2015, lending credence to our oft-made assertion that there is often no rhyme or reason to the multi-family segment. That the decline in single family starts was more harsh than the decline in permits suggests weather issues played a role in pushing starts lower, and that single family completions fell sharply while the backlog of single family units permitted but not yet started grew further in January are consistent with that premise. Still, as affordability is an increasing concern in the single family segment, we'd caution against totally discounting January's decline in single family starts.

On a not seasonally adjusted basis, there were 109,500 total housing units started in January, short of our forecast of 118,300 units. As noted above, our miss here is due to single family starts coming in below our expectations, with a particularly sharp decline in the Midwest region. Even so, with 77,900 single family starts in January, the running 12-month total of not seasonally adjusted single family starts rose to 1,000,700 units, topping 1.0 million, even if only just slightly, for the first time since January 2008 when, if you recall, single family starts were falling rapidly as the housing market was unraveling. Though bouncing back after falling in December, the 31,600 multi-family starts in January are merely in line with the rate that had prevailed, and still leave the running 12-month total of not seasonally adjusted multi-family starts, at 463,500 units as of January, trending lower.

On a not seasonally adjusted basis, there were 128,300 housing units permitted in January, slightly above our forecast of 127,300 units. That

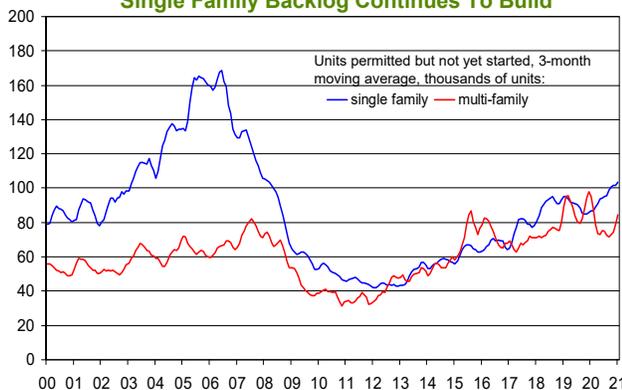
the seasonally adjusted annualized rate of housing permits was so far above our forecast is more a reflection of generous seasonal adjustment factors than our forecast of unadjusted permits being wildly off the mark. Single family permits fell to 83,900 units in January from 88,500 units in December, and as with starts the decline in single family permits was more pronounced in the Midwest region. With 44,400 units permitted in January, multi-family permits have topped the 40,000-unit mark in each of the past three months, which seems an oddity strong burst given the dynamics of the multi-family segment of the market.

With 20,400 completions in January, the lowest monthly total since last February, there have been 368,100 multi-family units completed over the past twelve months. While multi-family completions have edged higher, that nonetheless leaves a considerable backlog of multi-family units under construction. As noted above, multi-family starts have been trending lower, which leaves the increase in multi-family permits over the past three months as the outlier in the multi-family data, particularly given the softening in market conditions over the course of the pandemic. Still, as the chart below indicates, even with the burst over the past three months, multi-family permits remain easily below the recent peak, and we think this will remain the case.

Single family builders are facing an entirely different dynamic. While the backlog of single family units under construction has risen over the past several months, many of these units have already been sold, either pre-construction or after construction was underway. Spec inventories of single family homes had been trending lower for over two years before edging higher in December, as builders are having increasing difficulty keeping pace with demand. Another indication of this is the growing backlog of units permitted but not yet started. Our chart below shows the three-month moving average, but the raw number in January, 109,200 units, is the highest since September 2007. Even if affordability constraints begin to chip away at demand, builders will still be busy clearing sizable backlogs of orders.



Single Family Backlog Continues To Build



Multi-Family Math Still Not Adding Up

