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## February Residential Construction: A Pause, Not The Beginning Of The End

- Total housing starts fell to an annualized rate of 1.421 million units; total housing permits fell to an annualized rate of 1.682 million units
- Single family starts fell to 1.040 million units and single family permits fell to 1.143 million units (seasonally adjusted annualized rates)
- Multi-family starts fell to 381,000 units and multi-family permits fell to 539,000 units (seasonally adjusted annualized rates)

Low but not quite low enough would be a good way to summarize our forecast of February housing starts. Total housing starts fell to an annual rate of 1.421 million units in February, a touch below our forecast of 1.431 million units. Our forecast was the lowest in the surveys in which we participate, with the consensus forecast calling for a starts rate of 1.560 million units. Total housing permits fell to an annual rate of 1.682 million units, slightly above our forecast of 1.663 million units but below the consensus forecast of 1.750 million units. That our forecast of February construction activity was so far below consensus after long having been well above consensus didn't reflect a sudden shift in our view of the housing market, but simply reflected what we expected to be significant impacts from the unusually harsh winter weather that pummeled much of the nation during February. Our view is that coming months will bring payback for the slower pace of activity in February, with further upside room for single family construction. We think that worth noting, as some are already pointing to February's declines in single family starts and permits as evidence that rising mortgage interest rates are taking a toll, which we do not think to be the case.

On a not seasonally adjusted basis, there were 100,700 total housing starts in February, just below our forecast of 101,100 starts. The 5,300 single family starts in the Midwest region are that region's lowest monthly total in three years, while the 3,800 single family starts in the Northeast region are well below the recent run rate. Weather effects are quite visible in the data for the South region, where single family starts fell to 40,600 units. As we noted in our weekly *Economic Preview*, the seasonal adjustment factors for the month of February take into account potential weather effects, but the factor for the South region is far less accommodative than those for the other regions, and in the Census groupings the South region includes Texas and Oklahoma, while other parts of the broad region were also hit hard by winter weather. The one region in which weather didn't have much of an effect in February is the West region, where single family starts rose to 22,600 units. With the weather having held down construction in February, the running 12-

month total of not single family adjusted single family starts dipped to 999,400 units after having inched above the 1.0 million units mark in January, but the March data will push the total back above that mark. With 28,500 starts in February, the running 12-month total of unadjusted multi-family starts stands at 367,200 units, the lowest such total since May 2019, and we expect that total to drift even lower.

On a not seasonally adjusted basis, there were 117,200 housing units permitted in February, a bit lower than our forecast of 118,300 units. Though permit issuance is typically not as sensitive to weather effects as are construction starts, we thought there would be some impacts in the February permit data, particularly in the South region. There were 46,700 single family permits issued in the South in February, well below the run rate over the prior several months, and as the South accounts for over fifty percent of total permit issuance, this pulled the national total lower despite increases in the Midwest and West regions. Another reason for our below-consensus housing permit forecast is that we expected some pullback in multi-family permits after they had been oddly strong over the prior few months. Unadjusted multi-family permits fell to 36,300 units in February but continue to run well ahead of multi-family starts, as has been the case for quite some time.

While multi-family completions inched higher in February, the backlog of multi-family units under construction nonetheless increased, with 663,600 units in construction pipeline. This backlog, larger than at any time since the mid-1970s, is one reason we expected the downturn in multi-family starts that has been in pace for the past several months, and why we think it has further to run. In the single family segment of the market, the issue has been, and remains, too little supply. Builders are pressing to keep pace with demand, and many are actively holding down sales. While higher mortgage rates combined with what has been robust price appreciation pose a threat to affordability, thus far that combination is having little impact on demand. This is one reason we expect further growth in single family starts in the months ahead.

