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## March Residential Construction: Payback, And Then Some . . .

- › Total housing starts rose to an annualized rate of 1.739 million units; total housing permits rose to an annualized rate of 1.766 million units
- › Single family starts rose to 1.238 million units and single family permits rose to 1.199 million units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 501,000 units and multi-family permits fell to 567,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annualized rate of 1.739 million units in March, handily beating the consensus forecast of 1.613 million units and somewhat rudely mocking our forecast of 1.529 million units. Total housing permits rose to an annualized rate of 1.766 million units, ahead of what we and the consensus expected. Construction activity was thrown off course in February by unusually harsh winter weather, most notably in the Midwest and South regions. While it was clear that the March data would bring payback, it was a question of how much. Our well below-consensus forecast was premised on single family builders, already pressing to keep pace with demand, having limited capacity to play catch-up for time lost in February, so we expected payback to come over the course of a few months. That turned out to be wrong, and in a big way, with not seasonally adjusted single family starts jumping to 103,700 units, the highest monthly total since June 2007. So, in other words, construction activity got to where we thought it would go, it just got there much faster than we anticipated. Moreover, March was not a one-off burst, as a jump in single family permits and an even larger backlog of unfilled orders mean builders will be quite busy for some time to come despite concerns over rising input costs and affordability.

On a not seasonally adjusted basis, there were 144,400 total housing starts in March, easily topping our forecast of 126,300 starts and the highest monthly total since September 2006. As noted above, single family starts hit an almost 14-year high, and multi-family starts also increased sharply. After dropping to 5,200 in February, single family starts in the Midwest region jumped to 15,700 units in March; in the South region, single family starts fell to 43,500 units in February then rebounded sharply to 57,400 units in March. In each case, activity in February was significantly curtailed by weather effects and there is an element of payback in the March data. Single family starts also rose in the Northeast and West regions. As of March, the running 12-month total of not seasonally adjusted single family starts, which we think is the best gauge of underlying trends, stood at 1,032,500 units, the highest such total since December 2007. Unadjusted multi-family starts

rose in the Midwest, Northeast, and South in March but fell in the West.

On a not seasonally adjusted basis, there were 158,300 housing units permitted in March, well above our forecast of 140,800 units, with both single family and multi-family permits up sharply in each of the four broad Census regions. The permit data go to our point about there being more to the March data than payback for time lost in February. The 110,800 single family permits issued in March is the highest monthly total since August 2006, with each region posting its highest monthly total since 2007 (Midwest, Northeast, West) or 2006 (South). As of March, the running 12-month total of not seasonally adjusted single family permits stood at 1,029,500 units, the highest such total since October 2007. The increases in multi-family permits were not as pronounced, but nonetheless leave multi-family permits running well ahead of multi-family starts, as has been the case for quite some time.

Completions of both single family and multi-family units rose in March, sharply so in the case of multi-family. Still, with the jump in multi-family starts, there was little change in the backlog of multi-family units under construction, with 670,300 units under construction, a larger backlog than at any time since the mid-1970s. The increase in single family completions in March was not out of line with the typical March increase. While starts rose substantially, the backlog of single family units permitted but not yet started rose further and, at 129,600 units, is larger than at any time since May 2007. Keep in mind that not all single family units are built for sale, and concentrating on for-sale production gives a better sense of how pressed builders are to keep pace with demand. Recall that single family sales can be booked before ground has been broken, and as of Q1 the trend rate of sales was running ahead of both starts and completions. This is one reason builders are actively limiting sales in many communities across the U.S. The broader point is that even should demand begin to slow due to diminishing affordability, we see further upside room for single family construction, meaning that builders will have plenty to keep them busy for some time to come.

