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April Residential Construction: A Strong Number, Despite The Headline "Miss"

- > Total housing starts fell to an annualized rate of 1.569 million units; total housing permits rose to an annualized rate of 1.760 million units
- > Single family starts fell to 1.087 million units and single family permits fell to 1.149 million units (seasonally adjusted annualized rates)
- > Multi-family starts rose to 482,000 units and multi-family permits rose to 611,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annualized rate of 1.569 million units in April, a bit closer to our forecast of 1.523 million units than to the consensus forecast of 1.704 million units. Total housing permits were little changed, with an annualized rate of 1.760 million units in April compared to March's rate of 1.755 million units. Permit issuance was in line with the consensus forecast but easily ahead of our forecast of 1.644 million units and, as is usually the case, our miss is attributable to the multi-family segment, where permit issuance was much stronger than we anticipated. In our weekly *Economic Preview*, we cautioned against reading too much into the "headline" (i.e., seasonally adjusted and annualized) starts number, as the seasonal adjustment factors for the month of April tend to be quite unforgiving. April is typically a very strong month for residential construction, but failure to live up to a "typical" April in the unadjusted data will make the seasonally adjusted numbers look much weaker than is the case. That is how this year's April data played out. So, while the well below-consensus headline number seems to be leading many to discover the supply side issues we've been discussing for months, the unadjusted data are right in line with how we've seen the market for some time. The issue in the housing market, as with much of the broader economy, isn't the demand side of the market, rather, it is the ability of producers, or, in this case builders, to meet that demand. That is an issue for which there is no quick fix.

On a not seasonally adjusted basis, there were 140,900 total housing starts in April, a bit ahead of our forecast of 137,700 units. To our earlier point, however, April's total reflects a slight decline from March, whereas a "typical" April sees an almost double-digit percentage increase. In part, this April's decline simply reflects how strong starts were in March, when builders, particularly in the South, scrambled to catch up from February's weather-related stoppages. Indeed, other than March, you'd have to go back to September 2006 to find a monthly starts total higher than April's. There were 99,800 single family starts in April, slightly ahead of our forecast of 98,800, and the 24,700 single family starts in the West are that region's highest monthly total since

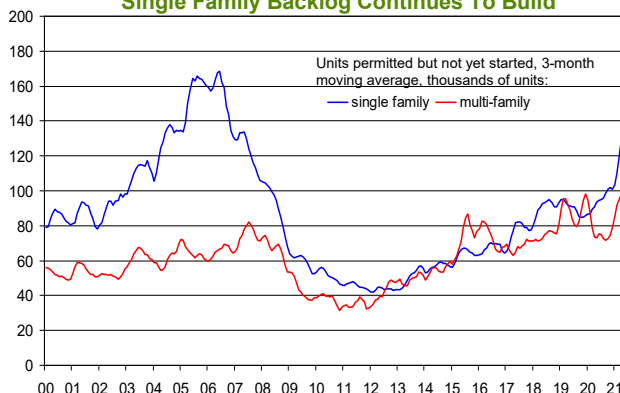
July 2007. Over the past twelve months, there have been a total of 1,068,100 single family starts, the highest such total since November 2007. This is where we think the issue gets confused. Yes, shortages of labor and materials, and rising costs for both, are weighing on single family construction. That does not, however, mean activity is set to take a tumble, or, as some have argued in the wake of the soft headline number for April, is already in the midst of a tumble. Instead, it means that, although at multi-year highs, single family construction would be even stronger were builders not facing supply side constraints.

We think this is best seen in our first chart below, which shows the number of housing units for which permits have been issued but on which construction has not yet started. As of April, there were 139,800 single family units which had been permitted but not yet started, the highest total since August 2006 (we show three-month moving averages to smooth out the data). The big difference between now and then is that the current backlog will be worked off to a much greater degree than was the case in the prior cycle, when increasingly large numbers of units that were permitted were destined to never be built.

While it is true that, as seen in our first chart, the number of permitted but not yet started multi-family units is also rising, we think the story is different than in the single family segment of the market, as seen in our second chart. Multi-family permits were oddly strong in April, though maybe "oddly" is no longer the proper term given how long we've been noting this. Yet, the ratio of multi-family starts to permits and the ratio of multi-family completions to starts have both been notably low over much of this cycle. As of April, there were 672,300 multi-family units under construction, the largest and most persistent backlog since the mid-1970s. As with single family, there is a supply/demand imbalance in the multi-family segment of the market. Those imbalances, however, tilt to opposite sides, with more single family demand than builders can satisfy, whereas it is hard to see where the demand to fill all the multi-family units now in the pipeline will come from.



Single Family Backlog Continues To Build



Multi-Family Math Still Not Adding Up

