

*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.*

## May Residential Construction: Builders Struggling To Keep Pace

- › Total housing starts rose to an annualized rate of 1.572 million units; total housing permits fell to an annualized rate of 1.681 million units
- › Single family starts rose to 1.098 million units and single family permits fell to 1.130 million units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 474,000 units and multi-family permits fell to 551,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annualized rate of 1.572 million units in May, matching our forecast but below the 1.630 million unit rate called for in the consensus forecast. Total building permits fell to an annual rate of 1.681 million units, close to our forecast of 1.668 million units but well below the consensus forecast of 1.730 million units. The initial estimate of April housing starts was revised meaningfully lower, with downward revisions to both single family and multi-family starts. The drop in housing permits is more pronounced than it appears, which is apparent in the not seasonally adjusted data. As we noted in our weekly *Economic Preview*, many builders have either limited or halted build-to-order sales and are concentrating on working off what have been growing backlogs of unfilled orders, so it follows that permit issuance would begin to ease. At the same time, increasingly binding constraints on materials supplies and heightened uncertainty around materials pricing are impacting single family starts. These factors played into our below-consensus forecasts for May permits and starts and will continue to weigh on single family construction in the months ahead. As we've noted for some time now, 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 143,100 total housing starts in May, slightly above our forecast of 142,000 starts. Single family starts came in at 100,600 units, up from April but down from March when the 102,800 single family starts marked the highest monthly total since June 2007. Given the growing backlogs of unfilled orders, single family starts can remain elevated even after the pace of permit issuance slows, and where they go from there depends on the extent to which demand holds up and supply constraints ease. Though to some extent demand was pulled forward into 2020 by exceptionally low mortgage interest rates, it is unlikely that there will be a sharp and sudden drop-off in demand, though affordability remains a concern even without a material increase in mortgage interest rates given the

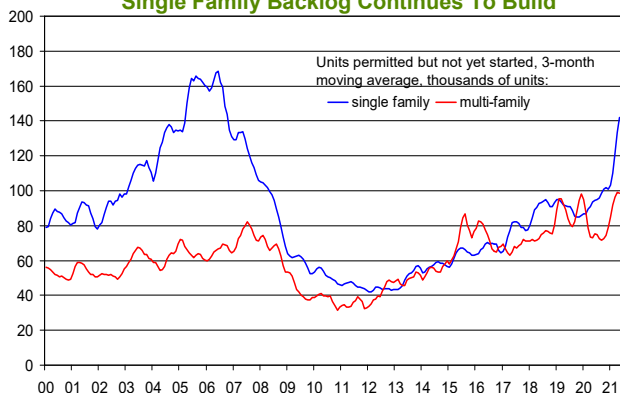
extent to which house prices have increased over the past several months. Over the past twelve months, there have been 1.098 million single family starts, the highest such total since October 2007.

On a not seasonally adjusted basis, there were 142,000 total housing permits issued in May, lagging our forecast of 154,500 permits with both single family and multi-family permits falling short of our forecast. We don't make much of the decline in multi-family starts off of a notably elevated April total, but we will once again note that the ratio of multi-family starts to multi-family permits remains notably low and the pace of multi-family completions remains oddly slow. As of May, there were 677,000 multi-family units under construction in what remains the largest and most persistent backlog of multi-family units since the mid-1970s. While we did expect single family permit issuance to slow in May, the extent to which it did so comes as a surprise, with single family permit issuance falling in each of the four broad Census regions.

Still, the first chart below goes to our point about the growing backlogs many builders are contending with. The chart shows the number of housing units for which permits have been issued but on which construction has not yet started. As of May, there were 145,300 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. Working down these backlogs will take some time, even more with growing shortages of materials. Moreover, given uncertainty around materials pricing, many builders are moving more and more to spec construction, not pricing units until construction is well underway as a means of shifting pricing risk on to buyers, which figures to weigh on starts. We remain constructive on the demand side of the market, but it will be some time before builders are able to catch up.



### Single Family Backlog Continues To Build



### Single Family Housing Starts

