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July Residential Construction: Still More Of A Supply-Side Story

- › Total housing starts fell to an annualized rate of 1.534 million units; total housing permits rose to an annualized rate of 1.635 million units
- › Single family starts fell to 1.111 million units and single family permits fell to 1.048 million units (seasonally adjusted annualized rates)
- › Multi-family starts fell to 423,000 units and multi-family permits rose to 587,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annualized rate of 1.534 million units in July, short of expectations, with total housing permits rising to an annualized rate of 1.635 million units. The initial estimate of June housing starts was revised marginally higher, now printing at an annual rate of 1.650 million units. On a not seasonally adjusted basis, both total housing permits and total housing starts declined in July, as our forecast anticipated, but in each case the decline was a bit larger than we expected. The details of the data on single family permits and starts are in line with the patterns we've outlined over the past few months, with builders holding the line on sales while attempting to work off backlogs of unfilled orders. While the July data indicate some progress on this front, backlogs nonetheless remain elevated, and while builders have begun to lift, even if only gently, self-imposed caps on sales, ongoing constraints on materials supplies are acting as a brake on the pace at which backlogs are being cleared. As such, it is likely to be several months before these caps on sales are completely lifted.

On a not seasonally adjusted basis, there were 141,000 total housing starts in July, a bit short of our forecast of 146,600 starts. The 104,200 single family starts were below our forecast of 107,000 starts, with a sharper than expected decline in the Northeast accounting for most of our miss. That said, July marks the third straight month, and fourth month of the last five, that single family starts topped the 100,000-unit mark. Over the past twelve months, there have been 1.134 million single family starts, the highest such total since September 2007.

The not seasonally adjusted data show a total of 139,600 total housing units permitted in July, short of our forecast of 147,700 units. As we noted in our weekly *Economic Preview*, we anticipated a decline in single family permits in July, in keeping with the premise that builders were more focused on working down backlogs of unfilled orders. As it turns, out, however, the decline in single family permits was much more pronounced than our forecast anticipated; the 91,900 single family units permitted fell well short of the 102,600 units our forecast anticipated.

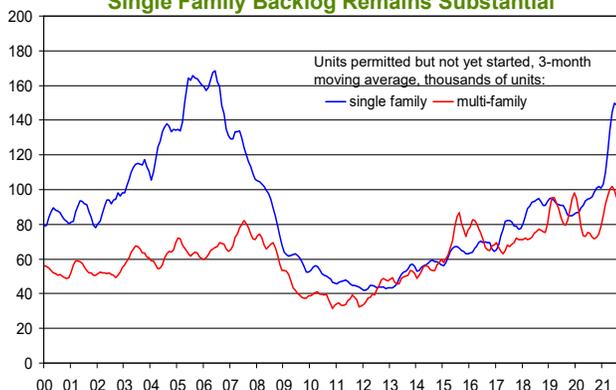
What stands out here is the decline in the South region, which saw 53,800 single family permits issued in July compared to 61,200 in June.

While builders made some headway in working down backlogs in July, they nonetheless have much further to go before backlogs are more manageable. There were 145,300 single family units permitted but not yet started as of July, down from 151,300 such units in June. As our chart below shows, backlogs remain elevated at a level last seen in the frenzied days of 2006 (our chart shows the three-month moving average to smooth out the data). It will come as no surprise that the South region accounts for the largest share of this backlog, with 91,900 single family units permitted but not yet started as of July. So, in that sense, the large decline in single family permits issued in the South makes sense. For the U.S. as a whole, July marks the third straight month in which single family starts topped single family permits (not seasonally adjusted), while at the same time the number of single family units under construction has been steadily rising, hitting a 14-year high in July. In contrast, the pace of construction remains notably slow, with single family completions having largely been range-bound over the past year.

While the growing single family backlog is a recent development, the multi-family supply pipeline has been badly bloated for quite some time. As of July, there were 686,000 multi-family units under construction, while the ratio of multi-family starts to multi-family permits remains notably low and the pace of multi-family completions remains slow. Though less pronounced in the Midwest, each of the four broad Census regions is contending with an outsized backlog of under construction multi-family units, as seen in our chart below. While we do not question the strength of multi-family demand, the more relevant question is whether demand will be sufficient to absorb the added supply when completions ultimately begin to pick up. Again, this is in stark contrast to the single family segment of the market, where the question remains when builders will finally catch up with demand. It is likely to be some time before they get to that point.



Single Family Backlog Remains Substantial



Nowhere To Hide From Multi-Family Backlog

