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October Residential Construction: Supply-Side Constraints Continue To, Well, Build

- › Total housing starts fell to an annualized rate of 1.520 million units; total housing permits rose to an annualized rate of 1.650 million units
- › Single family starts fell to 1.039 million units and single family permits rose to 1.069 million units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 481,000 units and multi-family permits rose to 581,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annualized rate of 1.520 million units in October, short of what we (1.577 million) and the consensus (1.579 million) expected. Total housing permits rose to an annualized rate of 1.650 million units, between what we (1.691 million) and the consensus (1.630 million) expected. September housing starts were revised to a rate of 1.530 million units from the initial estimate of 1.555 million units. While multi-family permits and starts were right in line with our forecast, single family permits and starts fell short of our expectations, accounting for our forecast miss. What we were correct on was expecting the not seasonally adjusted data to show single family starts running ahead of single family permits, with October marking the sixth consecutive month in which this was the case. We also expected the data to show the number of single family units permitted but not yet started continues to hover at levels last seen in 2006, which also proved to be the case but, combined with a marked increase in the number of single family units under construction, this shows single family backlogs are building on both ends of the construction process. It will take some time before these backlogs are cleared.

On a not seasonally adjusted basis, there were 131,000 total housing starts in October, below our forecast of 136,600 starts. Our miss comes courtesy of single family starts, which came in at 88,500 units rather than the 94,500 units we expected, with the South region accounting for much of the shortfall. Single family starts dropped sharply in the South region in September, much of which we attributed to the effects of Hurricane Ida, and we anticipated somewhat of a rebound in October. That did not prove to be the case, and with the permit data also showing no such October bounce, this suggests the South region may be settling into a slower trend rate of growth in single family construction. To the extent that is the case, keep in mind that the South region includes both Florida and Texas and it could be that, while builders are no longer expanding self-imposed sales caps put in place over the summer months, neither are they relaxing those caps at a hurried pace. We'll again note that (unadjusted) single family starts have for the past several

months run ahead of single family permits, which goes to our point that builders remain more focused on clearing existing order backlogs. The rate at which they are able to do so, however, remains capped by materials and labor constraints, with both costing builders more, even allowing for some relief on lumber prices.

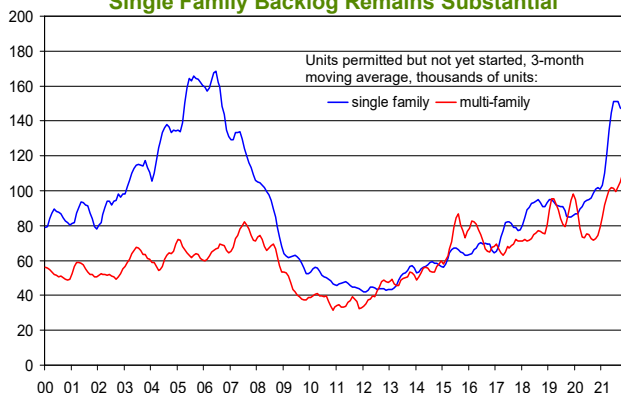
On a not seasonally adjusted basis, a total of 136,100 housing permits were issued in October, short of our forecast of 143,100, and as with starts our miss is accounted for in the single family segment. There were 85,200 single family permits issued, whereas our forecast anticipated 93,100 permits. As noted above, single family permit issuance in the South region fell short of our expectations and showed no bounce back from September's decline.

While (unadjusted) single family completions rose modestly in October, the pace of completions has slowed markedly over the past several months. As such, as of October there were 726,000 single family units under construction, the highest number in any month since May 2007. While that may conjure up bad memories for some, as does the current rapid rate of house price appreciation, keep in mind one key difference between now and then. At present the market remains chronically undersupplied, whereas in the earlier cycle demand was dropping out from underneath builders at an alarmingly rapid rate. Difficulty in procuring materials, construction and finishing, and labor supply constraints are holding up the construction process, but underlying demand remains firm. As for the multi-family segment, the pace of completions has been somewhat listless for some time now, to the point that there were 725,000 multi-family units under construction as of October, the highest number in any month since August 1974.

Like much of the broader economy, the housing market is characterized by a yawning gap between supply and demand. While the slowdown in single family construction is frustrating and is acting as a drag on real GDP growth, it would be much more concerning if waning demand was dragging construction down. That is clearly not the case at present.



Single Family Backlog Remains Substantial



Single Family Completions Taking Longer, Costing More

