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November Residential Construction: Largest Under Construction Backlog Since 1973

- › Total housing starts rose to an annualized rate of 1.679 million units; total housing permits rose to an annualized rate of 1.712 million units
- › Single family starts rose to 1.173 million units and single family permits rose to 1.103 million units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 506,000 units and multi-family permits rose to 609,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annualized rate of 1.679 million units in November, topping both our forecast (1.636 million) and the consensus forecast (1.566 million). Total housing permits rose to an annualized rate of 1.712 million units, also topping both our forecast (1.683 million) and the consensus forecast (1.661 million). One factor behind our above-consensus forecasts for both permits and starts was our expectation that the headline numbers would be flattered by generous seasonal adjustment, effectively making the data look better than was actually the case, which proved to be correct. Perhaps the bigger story in the November data is the further expansion of already sizable construction backlogs, the difference being that this is an old story in the multi-family segment of the market and a much newer story in the single family segment. Either way, backlogs in the single family segment have been growing through two channels, units which have been permitted but not yet started, and units which have been started but not completed. There were indications from builders that materials constraints worsened in November, and the data bear that out. While demand for new home purchases remains solid, builders are falling further behind, and that is being reflected not only in larger backlogs but also in new home pricing, and conditions in the single family segment of the market are unlikely to change any time soon.

On a not seasonally adjusted basis, there were 129,400 total housing starts in November, a bit higher than our forecast of 125,600 starts. At 42,100 units, multi-family starts matched our forecast, but the 87,300 single family starts were more than our forecast anticipated. As we anticipated, the not seasonally adjusted data show single family starts outnumbered single family permits for a seventh consecutive month, an indication of builders having been more focused on working down backlogs of unfilled orders while many were intentionally limiting new sales activity. Still, with materials constraints worsening, the rate at which builders have been able to work down these backlogs remains significantly impaired, and progress made in the form of increased starts is becoming increasingly negated by slower rates of completions. To

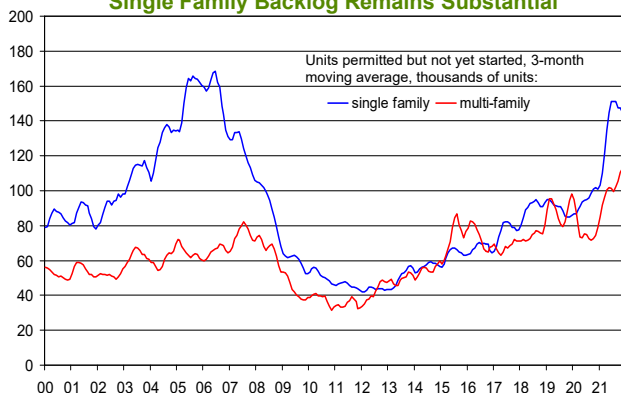
our earlier point about favorable seasonal adjustment, the not seasonally adjusted data show single family starts fell in November, as is common. But, the decline this November was much smaller than is typical for the month, in large measure because the level of activity had already fallen so much over the past several months, meaning that seasonal adjustment basically over-compensated. So, while the seasonally adjusted data show the highest rate of single family starts since March, the unadjusted data show a fifth consecutive monthly decline, leaving single family starts 21.8 percent below June's peak.

On a not seasonally adjusted basis, a total of 131,400 housing permits were issued in November, more than our forecast of 125,400 permits. There were 80,100 single family permits issued, in line with our forecast, but the 51,300 multi-family permits issued were more than our forecast anticipated. As with starts, the decline in housing permits was smaller than is typical for the month of November, meaning the seasonally adjusted data look better than would otherwise have been the case. The unadjusted data show single family permits were 27.7 percent below April's peak.

Single family completions fell to 74,700 units in November, the lowest monthly total since February and down year-on-year. At the same time, the number of single family units under construction rose to 762,000 units in November, the most in any month since December 2006, the difference being that back then the under-construction backlog was shrinking from significantly higher levels, while at present that backlog is getting bigger and bigger with each passing month. This has already acted as a drag on single family permits and starts, and that drag will likely intensify in the months ahead. As of November, there were 736,700 multi-family units under construction, the most in any month since August 1974. Combining single family and multi-family units leaves 1.499 million housing units under construction as of November, the most since November 1973. It's hard to imagine this backlog being cleared any time soon which, particularly in the single family segment, means the market will remain meaningfully undersupplied.



Single Family Backlog Remains Substantial



Single Family Completions Taking Longer, Costing More

