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December Residential Construction: Under Construction Backlogs Get Even Larger

- › Total housing starts rose to an annualized rate of 1.702 million units; total housing permits rose to an annualized rate of 1.873 million units
- › Single family starts fell to 1.172 million units and single family permits rose to 1.128 million units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 530,000 units and multi-family permits rose to 745,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annualized rate of 1.702 million units in December, between the consensus forecast of 1.650 million units and our forecast of 1.784 million units. Total building permits rose to an annualized rate of 1.873 million units, easily besting both the consensus forecast of 1.703 million units and our forecast of 1.781 million units, which was the highest of any forecast. December's increases in permits and starts were driven by the multi-family segment of the market, with the highest number of not seasonally adjusted multi-family permits in any month since September 1985, though much of that is accounted for by a surge in multi-family permits in the Philadelphia PA metro area triggered by expiring tax incentives. While single family permits and starts fell short of our forecasts, there was an increase in single family completions in December which, while an encouraging sign, does little to clear the significant backlog of single family units either waiting to be started or waiting to be finished. We expect that backlog to remain substantial through much, if not all, of 2022. Indeed, with signs that higher mortgage interest rates have drawn more prospective buyers off of the sidelines, the supply/demand imbalance in the single family segment of the market will become even more pronounced.

On a not seasonally adjusted basis, there were 120,300 total housing starts in December, below our forecast of 126,700 starts. The 81,000 single family starts were fewer than we anticipated, with over-the-month declines in the Northeast, South, and West regions. For full-year 2021, there were a total of 1,122,800 single family starts, up 13.4 percent from 2020 and the highest annual total since 2006. That said, as of December, unadjusted single family starts were 27.4 percent below the 2021 high seen in June. Worsening constraints on materials supplies and growing order backlogs led to declines in both single family permits and starts over the back half of 2021, as seen in our chart below.

The not seasonally adjusted data show 152,000 housing units were permitted in December, easily ahead of our forecast of 137,700 units, with our miss mostly accounted for by the jump in multi-family permits.

In the Philadelphia metro area, multi-family permits had to be filed by year-end 2021 to take advantage of expiring tax incentives, which is reflected in the 20,000 multi-family permits (not seasonally adjusted) issued in the Northeast region, though unadjusted multi-family permits did increase in the three other regions. At 81,300 units, single family permits fell a bit short of our forecast of 84,200 units. For all of 2021, there were a total of 1,108,000 single family permits issued, up 13.1 percent from 2020 and the highest annual total since 2006.

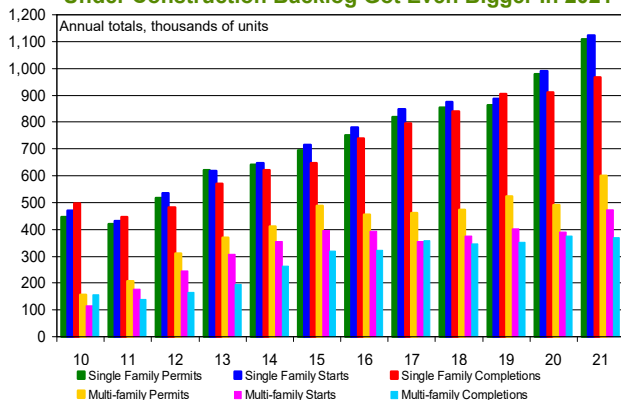
The not seasonally adjusted data show 95,900 single family units were completed in December, the most in any month since December 2007. This put 2021's total of single family completions at 966,800 units, up 6.1 percent from 2020 and the most in any year since 2007. There were a total of 370,800 multi-family units completed in 2021, down from 375,500 units in 2020, and considerably below the 472,500 multi-family units started in 2021.

With completions lagging starts, the backlog of housing units under construction grew even larger in 2021. As of December, there were a total of 1,491,800 housing units under construction, slightly below November's total thanks to the increase in single family completions but still hovering at a level last seen in 1973. Even with the increase in completions, for each single family unit completed in December there were 9.5 single family units under construction, the highest ratio in the life of the data. Moreover, as of December there 140,900 single family units which had been permitted but not yet started, and while this is a bit below the highs seen in the summer of 2021, it is nonetheless higher than the norms over the prior several years.

By all accounts, supply constraints on construction materials intensified as 2021 wore on, and builders have expressed that they see little relief in sight. With higher mortgage rates triggering "fence sitters" to jump into the market, construction backlogs will get even larger. And, even when new demand does begin to cool, builders will remain busy for quite some time to come.



Under Construction Backlog Got Even Bigger In 2021



Single Family Completions Taking Longer, Costing More

