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March Residential Construction: Starting Them Is One Thing, Finishing Them Is Another

- › Total housing starts rose to an annualized rate of 1.793 million units; total housing permits rose to an annualized rate of 1.873 million units
- › Single family starts fell to 1.200 million units and single family permits fell to 1.147 million units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 593,000 units and multi-family permits rose to 726,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annualized rate of 1.793 million units in March, with total housing permits rising to an annualized rate of 1.873 million units. Both starts and permits were above consensus estimates, and way above our low-end forecasts – we had total starts of 1.631 million units and total permits of 1.593 million units, or, as Harry Doyle might have said, “JUST a bit outside.” As we explained in our weekly *Economic Preview*, while we expected the not seasonally adjusted data to show increases in both housing permits and housing starts, we expected these increases to be smaller than is typical for the month of March, leading to seasonally adjusted numbers that would look weaker than was actually the case. As it turns out, the unadjusted data show both permits and starts rose by more than our forecast anticipated, hence our (big) misses in our forecasts of the headline numbers. Part of these misses stem from curiously large numbers of multi-family starts and permits in the Northeast region. Still, as the data continue to show, pulling permits and starting units is one thing, actually finishing them is quite another thing, and already substantial backlogs of unfilled orders got even bigger in March. While at some point these backlogs may weigh in permits and starts, thus far that does not appear to be the case.

On a not seasonally adjusted basis, there were 147,400 total housing starts in March, topping our forecast of 133,600 starts. Immediately jumping out of the raw data are the reported 18,700 multi-family starts in the Northeast region, the highest monthly total on record. Recall that the December 2021 data showed permits issued for 19,500 multi-family units in the Northeast, a surge largely tied to expiring tax incentives in the Philadelphia metro area. While we figured those units would be started gradually over the course of several months, it seems as though that all got pulled into March but, either way, we’re a bit skeptical of the reported starts number for the Northeast. At the same time, single family starts came in stronger than we expected, with 99,100 units started in March compared to our forecast of 90,100 units. With no signs of relief from supply chain issues and builders continuing to limit sales, we hadn’t anticipated such a big increase in single family starts in

March, particularly in the South region, where the 57,200 single family starts marks the highest monthly total since August. Even with the increase in March, single family starts remain more than eleven percent below where starts were running last spring/summer.

The not seasonally adjusted data show 169,400 housing units permitted in March, easily beating our forecast of 141,100 units. There were 62,300 multi-family units permitted in March, including an outsized total in the Northeast region but also the highest monthly total in the South region since August. While the jump in single family starts may have been taken as a sign builders were concentrating on paring down backlogs of unfilled orders, that doesn’t jibe with the spike in single family permits. March saw 107,100 single family units permitted, up 23 percent from February but nonetheless down 3.3 percent year-on-year.

Curious multi-family numbers for the Northeast region aside, March’s increases in permits and starts are harder to reconcile with the data on construction backlogs. As of March, there were 157,100 single family units that had been permitted but not yet started, the most in any month since June 2006. The backlog of multi-family units permitted but not yet started also continues to grow, hitting 132,900 units, the most in any month since March 1986.

Just as starts are being delayed on more and more units, backlogs of under construction units also continue to increase. As of March, there were 789,000 single family units under construction, the most in any month since November 2006, and perhaps even more striking is that in March 2021 there were “only” 619,000 single family units under construction. While single family completions increased marginally in March, they were still down year-on-year. On the multi-family side, there were 812,300 units under construction as of March, the most in any month since May 1974, and a marginal increase in multi-family completions in March still left completions down big year-on-year. At some point something has to give, and when completions do pick up, house prices and apartment rents could soften considerably.

