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## June Residential Construction: Single Family Moderates, Multi-Family Picks Up

- Total housing starts fell to an annualized rate of 1.559 million units; total housing permits fell to an annualized rate of 1.685 million units
- Single family starts fell to 982,000 units and single family permits fell to 967,000 units (seasonally adjusted annualized rates)
- Multi-family starts rose to 577,000 units and multi-family permits rose to 718,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annual rate of 1.559 million units in June, with total housing permits falling to an annualized rate of 1.685 million units. Permits and starts came in right around the consensus forecasts but were much better than we expected. Both permits and starts got a boost from the multi-family segment, and while single family permits and starts pulled back in June, they did so to a lesser extent than we had anticipated would be the case. That said, there is further room to the downside for single family construction but one mitigant will be the magnitude of backlogs facing builders in both the single family and multi-family segments. This is seen both in the number of units that have been permitted but not yet started and in the number of units under construction awaiting completion. Builders remain hamstrung by supply chain constraints that have pushed out completion times, and the pace of completions slowed further in June. As such, while current demand in the single family segment of the market continues to wane in the face of higher mortgage interest rates, builders will nonetheless remain busy for quite some time working down existing backlogs.

On a not seasonally adjusted basis, there were 142,800 housing units started in June, down just 0.1 percent from May as a 4.7 percent increase in multi-family starts offset a 2.5 percent decline in single family starts. Single family starts were up in the Midwest and South regions and down in the Northeast and West regions. Over the past two months, there have been a total of 30,700 single family starts in the Midwest region, considerably above that region's normal run rate, and single family starts have been far outpacing single family permits over recent months, though there is no obvious issue in the permit data that could account for the disparity. More broadly, starts in the South region, which accounts for over one-half of all single family starts, held up better than we anticipated in June. This could just go to our point about sizable backlogs of units that have been permitted but not yet started. With current demand having tailed off of late, builders have been able to address these backlogs, and we've noted that we expect single family starts to fall by less than single family permits as the effects of higher

mortgage rates work their way through the market. Over the past twelve months, the not seasonally adjusted data show a total of 1,127,900 single family starts, down from the recent peak of 1,150,800 units as of April, and this total will drift lower in the months ahead. With so many on recession watch these days, our first chart below illustrates the lengthy lag time typically seen between a peak in single family starts (the 12-month running total) and the start of recession, but not every dip in single family starts is followed by recession. Then again, given how constrained builders have been over the past decade-plus, whenever the next recession comes it may not be preceded by as severe a decline in single family construction as has been the case in the past.

The not seasonally adjusted data show a total of 155,800 housing units permitted in June, which is an increase of 4.6 percent from May. While single family permits fell, the 4.5 percent decline was milder than we anticipated, but saying we're surprised by the 20.7 percent increase in multi-family permits doesn't do our reaction justice. To be sure, the multi-family data are inherently volatile, but aside from the 73,200 multi-family permits issued last December, a total fueled by expiring tax incentives in the Northeast region, June's multi-family permit total is the highest of any month since April 1986. It remains to be seen, however, how many of these permits translate into actual starts, and how long it will take for them to do so.

To that point, as of June there were 141,000 multi-family units which had been permitted but not yet started, the most in any month since December 1985 while, at 152,900 units, the number of single family units in this category continues to hover at levels last seen in 2006. At the same time, were 1,680,000 housing units under construction in June, the most on record in data that go back to 1970, with over 800,000 such units in both the single family and multi-family segments. As noted above, supply chain constraints remain a drag on the pace of completions, and it is reasonable to ask whether the demand will still be there when completions begin to come at a faster rate. That does not, however, look like a question that will be answered any time soon.

