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August Residential Construction: Rise In Starts A Break From A Downward Trend

- › Total housing starts **rose** to an annualized rate of 1.575 million units; total housing permits **fell** to an annualized rate of 1.517 million units
- › Single family starts **rose** to 935,000 units and single family permits **fell** to 899,000 units (seasonally adjusted annualized rates)
- › Multi-family starts **rose** to 640,000 units and multi-family permits **fell** to 618,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annualized rate of 1.575 million units in August, handily beating expectations, ours and the consensus, while total housing permits fell to an annual rate of 1.517 million units, landing between what we (1.453 million) and the consensus (1.604 million) expected. That the August data surprised us to the upside is a genuine beat, as the not seasonally adjusted data on both permits and starts trounced our forecasts, as opposed to seasonal adjustment noise. Moreover, the beats in the unadjusted data were not simply the product of the always volatile multi-family segment, as single family permits and starts each came in well ahead of our expectations. That does seem at odds with the sharp declines in home sales since mortgage rates began climbing higher earlier this year. The upside surprise in total starts seems at odds with a bulging backlog of housing units under construction which, oh by the way, hit another record high in August. It helps to recall that the economic data never move in straight lines, and, sure, if we're being honest, we've needed to be reminded of this of late. So, the question is whether the surprisingly robust data on August housing starts are a sign of the resilience of the housing market or simply an isolated break from what figures to be a downward trend with much further to run. The latter seems a much more plausible explanation, particularly with mortgage rates back over six percent.

On a not seasonally adjusted basis, there were 140,500 housing units started in August, making a cruel mockery of our forecast of 117,300 starts. While part of our miss is accounted for by the South logging 31,800 multi-family starts, the most in any month since October 1983, we took advantage of more opportunities to be wrong about the August data. For instance, there were 83,100 single family starts in August, easily above our forecast of 72,200 units. While this marks a 0.5 percent decline from July, that is much smaller than the typical August decline, so the headline single family starts number did get a bit of a boost from seasonal adjustment. While single family starts fell in the Northeast region, they rose in the other three broad Census regions. That said, August's total of not seasonally adjusted single family starts is 24.2

percent below the intra-year peak reached in March, and the running 12-month total of unadjusted single family starts slipped to 1,096,300 units as of August, the lowest such total since April 2021. To our earlier point, we look for that total to fall further in the months ahead.

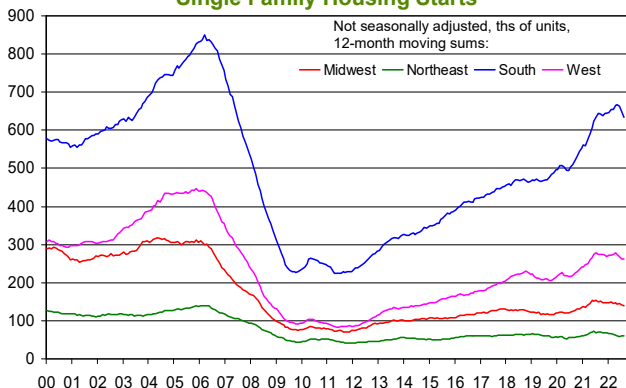
The not seasonally adjusted data show a total of 136,400 housing units were permitted in August, topping our forecast of 126,300 units, with beats from both single family and multi-family permits. At 80,900 units, single family permits were up 7.0 percent from July, much stronger than the typical August. Still, even with August's gain, unadjusted single family permits are 24.7 percent below the intra-year peak hit in March.

While one could argue that August's increase in single family starts in part reflected builders working down backlogs of units which had been permitted but not yet started, there isn't as handy of an explanation of the jump in single family permits, particularly in light of rapidly retreating sales and sagging builder sentiment. And, while the number of single family units permitted but not yet started did fall slightly in August, that count continues to hover at levels last seen in 2006. While single family completions rose modestly in August, multi-family completions fell sharply, dragging total completions lower. With the increase in starts during the month, the drop in total completions pushed the total number of housing units under construction up to 1,720,900 units, the latest in what is becoming a string of new record highs. While the number of single family units under construction fell modestly, at 833,900 units it nonetheless remains notably elevated at levels last seen in 2006. At 887,000, August's count of multi-family units under construction is the highest in any month since February 1974.

There are still substantial backlogs of units either under construction or waiting to be started, and that is understandable in the context of the market having been chronically undersupplied for the last decade-plus. What we would expect, however, is a more rapid decline in housing permits than that seen thus far. And, to the extent builders are pulling back on spec starts, single family starts should also fall more than seen to date. As such, the robust August data seem very much an outlier.



Single Family Housing Starts



Bloated Pipeline Will Keep Builders Occupied . . .

