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September Residential Construction: Yet Another New Record Construction Backlog

- › Total housing starts fell to an annualized rate of 1.439 million units; total housing permits rose to an annualized rate of 1.564 million units
- › Single family starts fell to 892,000 units and single family permits fell to 872,000 units (seasonally adjusted annualized rates)
- › Multi-family starts fell to 547,000 units and multi-family permits rose to 692,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annualized rate of 1.439 million units in September, in line with our below-consensus forecast of 1.436 million units, with total housing permits rising to an annualized rate of 1.564 million units, a touch higher than our above-consensus forecast of 1.554 million units. Recall that the August data surprised us to the upside, or, more accurately, made a cruel mockery of our forecasts. As we noted in this week's *Economic Preview*, the two biggest factors in that upside beat were a smaller than expected decline in single family starts and the most multi-family starts in the South region since October 1983. Our forecast of the September data anticipated payback on both of these fronts, which proved to be the case, as the starts data played out as our forecast anticipated. While our forecast of September permit issuance was not that wide of the mark, the mix did surprise us, with single family permits coming in below and multi-family permits coming in above our forecast. Indeed, at 70,900 units, the number of single family permits issued in September (not seasonally adjusted) is the lowest in any month since May 2020. This of course reflects the effects of higher mortgage interest rates, and with mortgage rates now poised to leap over the 7.0 percent mark, there is more pain in store for the single family segment of the housing market in the months ahead.

On a not seasonally adjusted basis, there were 124,400 total housing starts in September, matching our forecast. There were 75,400 single family starts, down 9.8 percent from August and the lowest monthly total since February 2021. Single family starts have fallen 31.3 percent from the intra-year peak of 109,700 units hit in April, and one factor that has kept that decline from being even larger is that builders are still sitting on notably large backlogs of unfilled orders. While a growing number of orders are being cancelled, backlogs still remain significant, which is one reason we've expected single family permits to tumble further than single family starts over the near term. Indeed, September marks the sixth straight month in which single family starts topped single family permits (not seasonally adjusted), a streak we expect to be extended in the months ahead. As for the South region, not seasonally

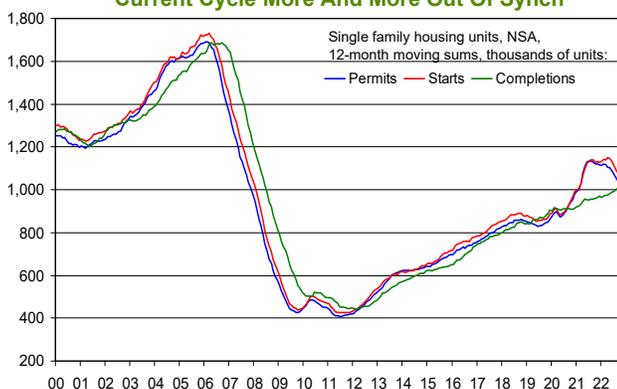
adjusted starts fell from 75,300 units in August to 62,500 units in September, with sharply lower multi-family starts accounting for most of that decline.

The not seasonally adjusted data show a total of 129,600 total housing permits issued in September, a touch below our forecast of 130,100 units. As noted above, single family permits fell further than we had anticipated, while multi-family permits remain curiously elevated, with September marking the seventh straight month with multi-family permit issuance topping 58,000 units, a run last seen in the mid-1980s. As of September, single family permit issuance was 34.1 percent below the intra-year peak hit in March.

In what has become a regular monthly thing, the number of housing units under construction hit a new record high in September, at 1,734,600 units (not seasonally adjusted). At the same time, the number of units which have been permitted but not yet started continues to hover at multi-year highs, with 290,100 such units as of September, almost evenly split amongst single family and multi-family units. While the elevated backlog of under construction multi-family units has been with us for years, the backlog in the single family segment is a more recent development, with that number topping 800,000 units in each of the past six months. Recall that a year ago builders were rushing to start units but were not releasing them for sale until construction was well underway, which was a way of transferring price risk on to the buyers. While that strategy worked fine with low mortgage rates stoking robust demand, builders are now seeing the other side of that now that mortgage rates have spiked. Even aggressive incentives that will further pinch margins may not be enough to make a meaningful dent in builders' inventories with mortgage rates set to rise further. Single and multi-family completions dipped in September, adding to the backlogs; as of September, there were 9.2 single family units under construction for each unit completed and 29.1 multi-family units under construction for each unit completed. Neither of these backlogs will clear any time soon but, when they do, there will be implications for prices/rents.



Current Cycle More And More Out Of Synch



What's The Rush? Completions Continue To Lag

