ECONOMIC UPDATE
REGIONS
November 17, 2022

October Residential Construction: Starts Fade, But Under Construction Backlog Grows

- Total housing starts fell to an annualized rate of 1.425 million units; total housing permits fell to an annualized rate of 1.526 million units
- Single family starts fell to 855,000 units and single family permits fell to 839,000 units (seasonally adjusted annualized rates)
- Multi-family starts fell to 577,000 units and multi-family permits fell to 687,000 units (seasonally adjusted annualized rates)

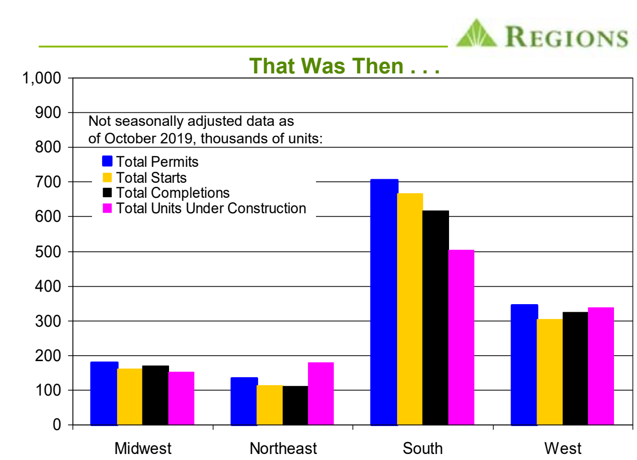
Total housing starts fell to an annualized rate of 1.425 million units in October, topping our below-consensus forecast of 1.367 million units, while total housing permits fell to an annualized rate of 1.526 million units, in line with our above-consensus forecast of 1.529 million units. At the same time, the initial estimate of September housing starts was revised higher, with both single family and multi-family starts marked up. Our miss on our forecast of October housing starts reflects multi-family starts coming in ahead of our expectations, as single family starts matched our forecast, and while our forecast of total housing permits was basically on the mark, the composition differed from our expectations, with more multi-family and fewer single family permits than our forecast anticipated. And, as if on cue, October brought yet another new record high in the number of housing units under construction, with multi-family units accounting for October's increase. All in all, the October data don't really alter the view of the housing market, as new single family activity wilts under the weight of higher mortgage interest rates amid a seemingly intractable backlog of units awaiting completion.

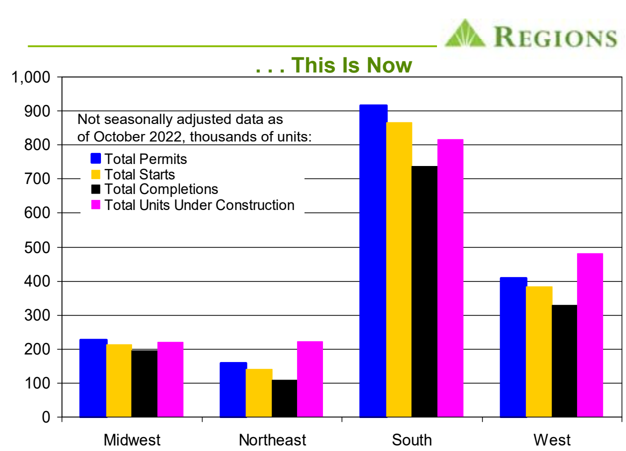
On a not seasonally adjusted basis, there were 120,600 total housing starts in October, ahead of our forecast of 116,600 units. As noted above, while the 71,300 single family starts matched our forecast, the 49,300 multi-family units topped our forecast. Multi-family starts in the South region rose sharply, coming in at 25,000 units in October, more than offsetting declines in each of the three remaining Census regions. Single family starts fell in each of the four Census regions in October and, at 71,300 units, single family starts sit 35.0 percent below the intra-year peak of 109,700 units hit in April. One factor that has kept that decline from being even larger is that builders are still sitting on notably large backlogs of unfilled orders, despite a rising number of cancellations. This is one reason we've expected single family permits to tumble further than single family starts over the near term, and October marks the seventh straight month in which single family starts topped single family permits, a streak we expect to be extended in the months ahead.

The not seasonally adjusted data show a total of 122,300 total housing permits issued in October, with both single family and multi-family permits down from September. While we had expected a bump in single family permits in the South region, reflecting rebuilding efforts in the wake of Hurricane Ian, that did not materialize, and single family permits fell in each of the four Census regions. As of October, single family permit issuance was 38.8 percent below the intra-year peak hit in March, and that gap will grow in the months ahead.

The latest new record of housing units under construction is 1.739 million units (not seasonally adjusted). Single family completions fell in October, but a larger decline in single family starts yielded a decline in the number of single family units under construction. In contrast, the number of multi-family units under construction rose and, at 926,800 units, now stands at the highest level since December 1973. At the same time, the number of units which have been permitted but not yet started continues to hover at multi-year highs, with 290,500 such units as of October, with a slight decline in single family units and a slight increase in multi-family units in October.

We've literally lost track of how long we've been discussing the growing backlog of under construction housing units. One thing that has changed is that when we first started pointing this out, the backlog mainly reflecting a growing backlog of multi-family units under construction, but since the pandemic there has been a dramatic increase in single family units under construction. We thought the companion charts below would be an interesting way to illustrate how the construction dynamics have shifted over the past few years. The first chart is a snapshot, by region, of conditions in October 2019, the second chart shows the same breakdown as of October 2022. Note the current relation between completions and units under construction compared to October 2019 (we use the same scale in both charts to highlight the shift). Though less pronounced in the Midwest region, the construction backlog is broadly based and encompasses both single family and multi-family units. When (if?) this backlog starts to clear, there will no doubt be implications for rents and house prices.





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