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## April Residential Construction: Gradual Increases On Tap For Single Family Activity

- › Total housing starts rose to an annualized rate of 1.401 million units; total housing permits fell to an annualized rate of 1.416 million units
- › Single family starts rose to 846,000 units and single family permits rose to 855,000 units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 555,000 units and multi-family permits fell to 531,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annualized rate of 1.401 million units in April, not far from our forecast of 1.406 million units, while total housing permits fell to an annualized rate of 1.416 million units, a long way from our forecast of 1.544 million units. The April report blends in the Census Bureau's annual revisions of the recent historical data, with prior estimates of permits going back to January 2017 and prior estimates of units started, completed, and under construction going back to January 2018 undergoing revision. The revisions do not meaningfully change perceptions of housing market conditions over the recent past, with modest downward revisions to single and multi-family starts and modest upward revisions to single and multi-family permits for the period in question. We did note in our *Economic Preview* that we saw the risks to our permit forecast as being weighted to the downside, in part because expecting a further increase in unadjusted single family permits after a substantial run-up in February and March may have been too ambitious on our part, which turned out to be the case. In any event, the past three months have seen the pace of single family permit issuance and single family starts pick up, consistent with builders reporting higher order volumes. At the same time, multi-family activity seems to be settling back which, even if this proves to be the case, still leaves a massive backlog of under construction units in the pipeline.

On a not seasonally adjusted basis, there were 127,100 housing units started in April, close to our forecast of 127,700 units. To our point above, unadjusted single family starts, at 78,800 units, were a bit higher than our forecast anticipated while the 48,300 multi-family starts fell short of our forecast. To our surprise, single family starts in the South region dipped in April, while single family starts jumped in the West region, with the 19,700 units started marking the highest monthly total since last August. Over the past twelve months, the unadjusted data show a total of 895,100 single family starts, the lowest such total since June 2020. Keep in mind that, despite having risen smartly over the past few months, single family starts are still down in a big way on an over-the-year basis, meaning the running twelve-month total will continue to decline for the next few months.

On a not seasonally adjusted basis, there were 117,400 housing units permitted in April, well below our forecast of 134,500 units. As noted above, single family permits came in far short of our forecast, and the same was true with multi-family permits. As for April's decline, keep in mind that single family permits rose by 10.6 percent in February and by 35.3 percent in March, so the 5.7 percent decline in April still leaves single family permits firmly above where they had been over the prior several months. Builders reported strong order growth in March, in part because extraordinarily lean inventories of existing homes for sale were steering prospective buyers to the market for new homes. That dynamic won't change any time soon, so despite the dip in April, single family permits should push higher in the months ahead. Over the past twelve months, there have been a total of 861,300 single family permits issued; as with starts, sizable over-the-year declines will pull the running twelve-month total of single permits down for a few more months.

The unadjusted data show single family and multi-family completions fell in April which, as completions fell below starts in each case, led to increases in the number of units under construction. That said, the backlog of single family units under construction has fallen by 17.8 percent since peaking in mid-2022. Over that same span, the number of multi-family units under construction has risen by 14.2 percent. As such, to the extent that multi-family permits and starts are drifting lower, it will take much more pronounced declines to make a meaningful dent in the backlog of under construction units. To our earlier point about the growth in orders and the spike in permits in February and March, the number of single family units which have been permitted but not yet started has risen in each of the past three months and as of April is at its highest point since last October. Even with demand having been weakened by higher mortgage interest rates, many builders had yet to work down what prior to the rise in mortgage rates had been sizable backlogs of unfilled orders. Those backlogs are once again on the rise suggesting that, while not embracing them, buyers have at least come to terms with higher mortgage rates. If so, this sets the stage for gradual increases in single family permits, starts, and sales.

