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## May Residential Construction: Starts Surge, Backlogs Get Larger

- › Total housing starts rose to an annualized rate of 1.631 million units; total housing permits rose to an annualized rate of 1.491 million units
- › Single family starts rose to 997,000 units and single family permits rose to 897,000 units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 634,000 units and multi-family permits rose to 594,000 units (seasonally adjusted annualized rates)

To say that we did not see this one coming would not even come close to capturing the degree to which the May residential construction data caught us off guard. Easily surpassing the highest forecasts, total housing starts jumped to an annualized rate of 1.631 million units in May while total housing permits rose to an annualized rate of 1.491 million units. Typically, when we are surprised by the data on housing permits and starts, we immediately look to the always volatile multi-family segment, for which forecasting the monthly data often is no more than an exercise in futility. And, sure, the May multi-family data did surprise us to the upside but not to an unusual degree. The much bigger surprise came in the data on single family permits and starts, both of which came in much higher than any of us expected. Another general rule we have is to highly discount the seasonally adjusted annualized data, as sketchy seasonal adjustment can, and often does, distort the view of the residential construction data. That was not the case with the May data, as the unadjusted data came in much stronger than we expected, with single family permits and starts rising sharply. At the same time, however, backlogs of units permitted but not yet started and of units under construction also grew in May. One caveat here is that there was a sharp downward revision to the initial estimate of April housing starts, from a 1.401 million units rate to a 1.340 million units rate, but that is more a function of a revision to the seasonal adjustment factor than to the unadjusted data, meaning that revision actually changes very little in terms of underlying market conditions. The May data are in keeping with a point we've been making ever since mortgage interest rates began rising rapidly last year, which is that while higher mortgage rates would put a significant dent in sales, there was still substantial pent-up demand for home purchases that would keep builders busier than would be implied by the level of mortgage rates.

On a not seasonally adjusted basis, there were 151,200 housing units started in May, up 25.3 percent from April. There were 91,900 single family units started, up 17.5 percent from April and the highest monthly total since June 2022. Single family starts rose in three of the four broad Census regions, the exception being the West region but keep in mind

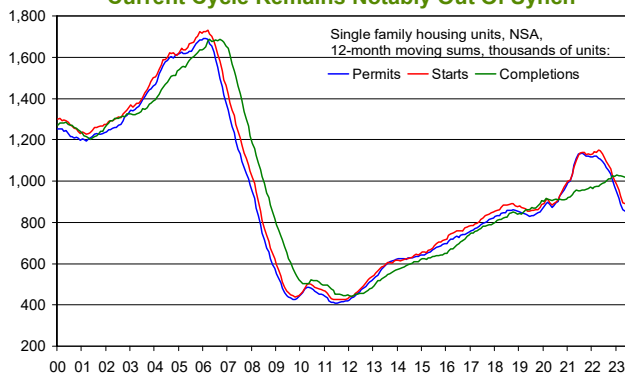
that the West saw a surge in single family starts in April, such that the decline in May still leaves the level of starts easily above what had been the monthly run rate in that region. The 15,900 single family starts in the Midwest in May marks that region's highest monthly total since May 2021, while single family starts in the South pushed back over the 50,000 unit mark for the first time since last June. Even with sizable increases in the past two months, single family starts are still down year-on-year, with the trend rate of single family starts still falling.

On a not seasonally adjusted basis, there were 139,200 housing units permitted in May, up 18.4 percent from April with increases in both single family and multi-family permits. The 88,400 single family units permitted is the highest monthly total in a year, with each of the four broad Census regions posting an increase. As with starts, however, single family permits are still down year-on-year, and the trend rate of single family permit issuance continues to decline.

Some are already pointing to single family starts topping single family permits in May as a sign that May's jump in starts is a one-off event that will soon be unwound. There are two holes, big holes, in that argument. First, builders have for some time been sitting on a sizable backlog of units which have been permitted but not yet started, so working down that backlog would have allowed starts to run ahead of permits. Moreover, that backlog got larger in May and though down from the peak seen in 2022 it remains well above pre-pandemic norms. Also, an ongoing and less significant factor is that single family permits are routinely under-reported, in no small measure due to townhouse units being misclassified as multi-family units as opposed to the single family units they actually are. Still, while it isn't the monthly permit-to-starts math that is a concern, the capacity of builders is, as builders continue to face constraints on materials and labor supply. While single family completions rose in May, the jump in starts means that there was little net progress in clearing the backlog of under construction single family units, while the multi-family backlog is pushing against the one-million units mark. Until more progress is made in clearing these backlogs, the housing market will remain notably undersupplied.



### Current Cycle Remains Notably Out Of Synch



### Progress On Single Family Front, But Not Multi-Family

