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July Residential Construction: Slump In Single Family Permits An Ominous Sign?

- › Total housing starts rose to an annualized rate of 1.452 million units; total housing permits rose to an annualized rate of 1.442 million units
- › Single family starts rose to 983,000 units and single family permits rose to 930,000 units (seasonally adjusted annualized rates)
- › Multi-family starts fell to 469,000 units and multi-family permits fell to 512,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annual rate of 1.452 million units in July while total housing permits inched up to an annual rate of 1.442 million units. July's starts rate comes off a sharp downward revision to the initial estimate of June starts, now put at an annual rate of 1.398 million units rather than 1.434 million units as originally reported, with downward revisions to both single family and multi-family starts. The July data show a continuation of the downward trend in multi-family permits and starts that has formed over recent months. While that is not at all surprising, what we have been surprised by is how long it took for this to take place given what has for the past few years been a large and growing backlog of multi-family units under construction. Though single family starts rose meaningfully in July, single family permits barely budged and remain well below starts. That single family permits have for some time run below single family starts simply reflects builders working down order backlogs, but the outsized decline in (unadjusted) permits in July could reflect the impact of the latest jump in mortgage interest rates. Our sense, however, is that this latest jump in mortgage interest rates, again pushing them over seven percent, may have more staying power than prior jumps, which could short circuit any rebound in single family construction and sales despite inventories of existing homes for sale remaining notably lean.

On a not seasonally adjusted basis, there were 130,900 total housing starts in July. While this is not too far from our forecast of 130,000 starts, the composition of July starts differed from our forecast. The 91,500 single family starts were more than we anticipated while, at 39,400 units, multi-family starts fell short of our forecast. It is notable that single family starts fell in the South region while rising in the three remaining Census regions. After topping the 50,000 unit mark in both May and June, single family starts in the South fell to 48,900 units in July. In contrast, the 23,700 single family starts in the West marked that region's highest monthly total since April 2022.

On a not seasonally adjusted basis, there were 118,700 housing units permitted in July, fewer than the 126,000 units our forecast anticipated. Our miss was on the single family side, where the 77,800 permits issued

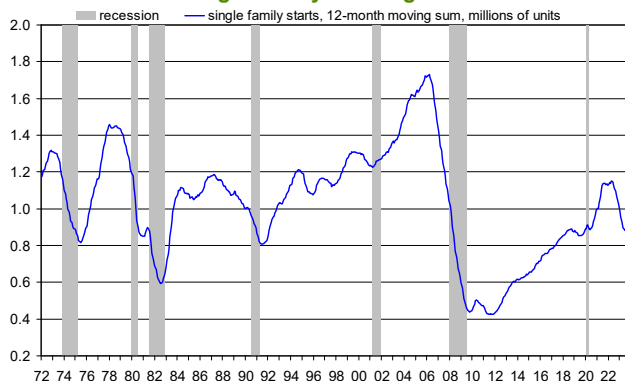
are far below issuance in May and June, while the 40,900 multi-family units permitted fell in line with our forecast. Single family permits were down in each of the four broad Census regions, and the 14.5 percent decline from June is much larger than the typical July decline, suggesting the ill effects of the most recent jump in mortgage interest rates. That said, unadjusted single family permits are up 1.3 percent year-on-year, noteworthy in that this is the first over-the-year increase in single family permit issuance since February 2022.

Total housing completions fell sharply in July, with declines in both single family and multi-family completions, with the latter substantially lower. These declines, however, could reflect the effects of the extreme heat that gripped much of the U.S. during July, and given the lumpy nature of multi-family activity the much larger decline in multi-family completions would make sense. While less apparent in the data on housing starts, this could also account for multi-family starts coming in well below our expectations. All of which makes the July data on construction backlogs more difficult to interpret. That multi-family completions fell off more sharply than did multi-family starts led to an increase in the number of multi-family units under construction, topping the one-million units mark, but weather issues notwithstanding, this is the second time in the past three months the multi-family backlog has been over one million units. There was also a modest increase in the number of single family units under construction in July, but the difference is that the single family backlog has narrowed considerably over the past several months, in contrast to the continued growth in the multi-family backlog. Though multi-family permits and starts are now trending lower, the pace of completions has not yet risen to a degree sufficient to make a dent in the backlog of under construction units.

That this July's decline in single family permits was so much larger than the typical July decline suggests higher mortgage interest rates are working against what had been a budding rebound in single family activity. If we are correct in thinking that the latest increase in mortgage rates has some staying power, then even our modest expectations for new single family construction and sales may prove too ambitious.



Single Family Housing Starts



Not Much Progress In Clearing Multi-Family Backlog

