



*This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.*

### August Residential Construction: Higher Mortgage Rates Not To Blame For Drop In Starts

- Total housing starts fell to an annualized rate of 1.283 million units; total housing permits rose to an annualized rate of 1.543 million units
- Single family starts fell to 941,000 units and single family permits rose to 949,000 units (seasonally adjusted annualized rates)
- Multi-family starts fell to 342,000 units and multi-family permits rose to 594,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annual rate of 1.283 million units, way below our forecast of 1.393 million units and even further away from the consensus forecast of 1.439 million units, and total housing permits jumped to an annual rate of 1.543 million units, far above what we and the consensus expected. The convenient, and seemingly obvious, story behind the decline in housing starts is higher mortgage interest rates taking a toll on single family construction, which seems plausible enough. The actual answer, however, is that, outside of the steep decline at the start of the pandemic, multi-family starts plummeted to the lowest annual rate since January 2019, thus dragging total starts down. The sharp decline in August could be more than the inherent volatility in the multi-family data that we've come to know but definitely not love, and it is also possible that the effects, anticipated and actual, of Hurricane Idalia contributed to the sharp decline in multi-family starts in the South region. It is also possible that what for some time has been a notably large backlog of multi-family units under construction has begun to weigh more heavily on new multi-family activity. That said, multi-family permits jumped in August after having trended lower over prior months. All of this will sort itself out in the months ahead, but for now the bigger story is that single family activity has held up better than many expected would be the case given the extent to which mortgage interest rates have risen. The obvious question, however, is how much longer this will last.

On a not seasonally adjusted basis, there were 114,200 total housing starts in August, well below our forecast of 123,700 starts. The 84,100 single family starts were just a bit below our forecast, while the 30,100 multi-family starts were far below our forecast, again with the South region accounting for the bulk of our miss. There were 13,700 multi-family units started in the South region in August, that Region's first month with fewer than 20,000 multi-family starts since January. There is nothing in the permit data over the past few months that presaged the steep decline in multi-family starts in the South region, so our inclination at this point is to see that decline as a one-off occurrence, particularly given that multi-family permits in the South continue to

come in at high levels. It is also worth noting that prior to the sharp decline in August, multi-family starts had been trending lower, though at a decidedly uneven pace, over the prior several months, which to us is fitting with the sizable under-construction backlog.

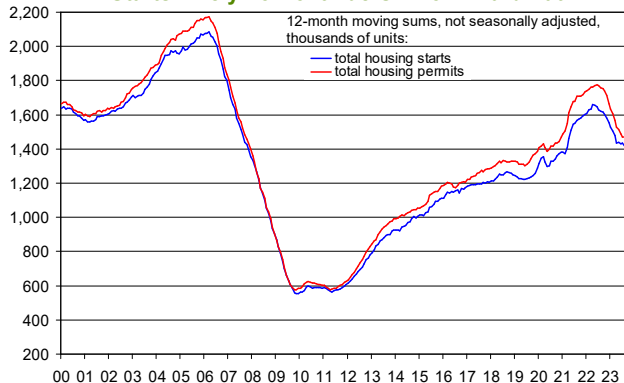
On a not seasonally adjusted basis, there were 142,000 housing units permitted in August, easily ahead of our forecast as both single family and multi-family permits topped our expectations. Multi-family permits kicked up to 53,600 units, the highest monthly total since December, and the South region saw a jump in multi-family permits, which seems in keeping with our thought that the sharp decline in starts was a one-off happening. After having fallen sharply in July, single family permits rebounded, in keeping with our expectation that August would see single family permits somewhere between the July and May/June levels.

As multi-family starts fell sharply, multi-family completions jumped in August after a notably large decline in July, with increases in each of the four broad Census regions. At the same time, August saw fewer single family completions than in July. With multi-family starts falling and multi-family completions rising, the backlog of multi-family units under construction fell in August, though, in the grand scheme of things, that decline is a mere drop in the bucket, particularly given upward revisions to prior estimates over the past few months. To that point, the revised data show that August was the fourth straight month in which there were over one million multi-family units under construction. Though the number of under-construction single family units is well off of its peak, that number has hardly changed over recent months, in part because builders remain hampered by materials constraints. August also saw increases in the number of single family and multi-family units that have been permitted but not yet started.

While there is still some degree of pent-up demand for home purchases that is being increasingly fulfilled by new homes, there is a limit to that pool of demand, particularly should mortgage interest rates remain as elevated as they now are. As such, even our modest expectations for new single family construction and sales may prove too ambitious.



#### Starts Likely To Continue On Downward Path



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

