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## October Residential Construction: Single Family Segment Proving Resilient

- › Total housing starts rose to an annualized rate of 1.372 million units; total housing permits rose to an annualized rate of 1.487 million units
- › Single family starts rose to 970,000 units and single family permits rose to 968,000 units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 402,000 units and multi-family permits rose to 519,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annual rate of 1.372 million units in October, a few starter homes away from our forecast of 1.368 million units, while total housing permits rose to an annual rate of 1.487 million units, comfortably out of view of our forecast of 1.386 million units. The unadjusted data show both single family and multi-family permit issuance came in ahead of our forecasts, which we interpret as single family activity remaining more resilient than we had expected and the pace of activity in the multi-family segment continuing to wind down at a very uneven pace, that uneven pace not a surprise in the always volatile but never dull multi-family segment. The resilience in single family activity is a bit surprising in the context of the run-up in mortgage interest rates seen during October and what has been some considerably less than upbeat commentary from builders. That said, with some relief on the interest rate front over recent weeks, still-considerable pent-up demand for home purchases, and ongoing supply constraints in the market for existing homes, single family activity is likely to outperform typical seasonal patterns over coming months.

On a not seasonally adjusted basis, there were 115,400 total housing starts in October, pretty much aligning with our forecast of 115,300 starts. Both single family and multi-family starts were little changed from September, which is in keeping with typical seasonal patterns. What is more telling, however, is that on an over-the-year basis, single family starts were up 12.4 percent as of October while multi-family starts were down 30.9 percent, the third straight month in which multi-family starts were down at least thirty percent year-on-year. It should be noted that combined September and October starts in the Northeast region totaled just 4,200 units, which is well below normal and which to some extent reflects the effects of unusually heavy rainfall in the region. Note that on a per-unit basis you'll see a much bigger impact in the multi-family segment than in the single family segment, and multi-family activity accounts for a higher share of residential construction activity in the Northeast than in the other regions.

On a not seasonally adjusted basis, there were 124,000 housing permits issued in October, easily outpacing our forecast of 115,900 permits. As

noted above, both single family and multi-family permit issuance came in ahead of our expectations, with increases much larger than the typical October increases. Unadjusted single family permits rose in each of the four broad Census regions in October, and single family permit issuance is easily up year-on-year in each region. In contrast, though October issuance surprised us to the upside, multi-family permits were down 23.0 percent year-on-year. October was the eighth straight month in which multi-family permits were down year-on-year, with an average decline of 24.1 percent over this span. Though perhaps not to the same degree, we expect this string of over-the-year declines to persist.

One reason we think so is that the backlog of multi-family units under construction remains substantial. The backlog of multi-family units under construction pushed back over the one million units mark in October, the fifth time in the past six months the backlog has topped this mark. Though multi-family permit issuance has eased and the pace of multi-family completions has picked up, the decline in multi-family starts has thus far been fairly mild. We continue to expect the decline in multi-family starts to gather pace in the months ahead. We're also keeping an eye on the backlog of multi-family units that have been permitted but not yet started which, while a bit thinner than had been the case, still remains notably large.

As seen in the charts below, single family permits and starts seem to have bottomed out despite higher mortgage interest rates. Builders continue to benefit from remaining pent-up demand for home purchases and extraordinarily lean inventories of existing homes for sale. Many builders have been able to use rate buydowns to facilitate sales, though we've wondered how much longer that would be feasible with mortgage rates pushing eight percent. That's why the recent relief in mortgage rates is so meaningful, even if it leaves rates much higher than has been the case over recent years. Builders have also been utilizing concessions on price to further help alleviate affordability constraints. Through it all, for most builders margins remain healthy, but it is permissible to wonder how deep the pool of pent-up demand remains. For now, though, we see further upside for single family construction and sales.

