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January Residential Construction: Weather-Related Disruptions Will Even Out

- Total housing starts fell to an annualized rate of 1.331 million units; total housing permits fell to an annualized rate of 1.470 million units
- Single family starts fell to 1.004 million units and single family permits rose to 1.015 million units (seasonally adjusted annualized rates)
- Multi-family starts fell to 327,000 units and multi-family permits fell to 455,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annual rate of 1.331 million units in January, just a wee bit closer to our forecast of 1.334 million units than to the consensus forecast of 1.460 million units. Total housing permits fell to an annual rate of 1.470 million units, short of what we and the consensus expected. In this week's *Economic Preview*, we noted that our well below consensus forecast of housing starts reflected the effects of unusually harsh winter weather that gripped much of the nation in January, thus hampering construction activity. In response to many analysts assuming seasonal adjustment would negate any such weather effects, we made the following two points. First, seasonal adjustment is designed to account for typical seasonal patterns, but January's harsh winter weather was anything but typical, as anyone in the South region who spent a few days iced into their home can attest to. Second, the January seasonal factors for housing starts are much less forgiving than many assume; in a typical year, housing starts (unadjusted) tend to be flat in January, as builders typically ramp down activity sharply in November and December, ahead of the worst winter weather. As such, to the extent weather held down housing starts in January, seasonal adjustment was not going to be the saving grace. We also noted, however, that none of this would actually matter, as it would not change where we see housing starts being three months down the road, it was simply a matter of how bumpy or smooth the path there would be. That there were weather-related distortions in January makes for a bumpier path, but any shortfalls in January will be made up for in the months ahead. At least for single family starts, as on top of whatever weather-related effects there may have been in January, multi-family permits and starts are on downward paths that have further to run.

On a not seasonally adjusted basis, there were 93,700 total housing starts in January, a bit below our forecast of 95,800 starts, with our miss entirely accounted for by unadjusted multi-family starts falling short of our forecast. At 68,700 units, single family starts were down five percent from December, accounting for modest upward revisions to prior estimates for November and December. There were 25,000 multi-family units started in January, the lowest monthly total since April

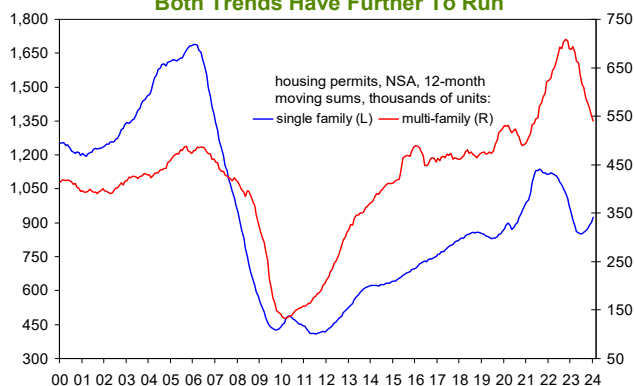
2020. We expect the prevailing trends in both the single family space and the multi-family space to persist for some time to come, but the path higher for single family starts could be bumpier than the downward path for multi-family starts. Though mortgage rates are likely to drift lower over the course of 2024, they are unlikely to do so in a straight line, as recent weeks have illustrated. As such, what we think will remain an upward trend in single family starts could be just as uneven.

On a not seasonally adjusted basis, there were 112,700 housing units permitted in January, which is actually above our forecast of 110,800 units. That unadjusted permits came in ahead of our forecast while seasonally adjusted annualized permits fell short of our forecast simply reflects the January seasonal factors being even less generous than we had anticipated, which is of absolutely no relevance. What is interesting is that there was an even bigger bump in single family permits than our forecast anticipated, with 75,400 single family permits issued, up 16.2 percent from December. We expected that the combination of lower mortgage interest rates, increased buyer traffic, and improving builder sentiment would lead to increased single family permit issuance, but the actual increase surprised us to the upside. In contrast, there were 37,300 multi-family units permitted in January which, like multi-family starts, is the lowest monthly total since April 2020

Perhaps the most visible impact of January's harsh winter weather was the pronounced decline in completions. The unadjusted data show just 96,300 housing units were completed in January, down from 148,000 units in December. The 58,900 single family units completed in January is the lowest monthly total since February 2019. While multi-family completions also fell in January, that decline was less pronounced than the decline in multi-family starts, such that the number of multi-family units under construction fell in January. That may not, however, be of all that much consolation since the under-construction backlog remains near the one-million units mark. We think this will be the multi-family story in 2024, i.e., a faster pace of multi-family completions still leaving a sizable under construction backlog that will weigh on starts.



Both Trends Have Further To Run



Single Family Unlikely To Rise In A Straight Line

