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February Residential Construction: Further Upside Room For Single Family Starts

- › Total housing starts rose to an annualized rate of 1.521 million units; total housing permits rose to an annualized rate of 1.518 million units
- › Single family starts rose to 1.129 million units and single family permits rose to 1.031 million units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 392,000 units and multi-family permits rise to 487,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annual rate of 1.521 million units in February, much closer to our forecast of 1.526 million units than to the consensus forecast of 1.440 million units. Total housing permits rose to an annual rate of 1.518 million units, just shy of our above-consensus forecast of 1.522 million units. January starts, originally reported at an annual rate of 1.331 million units, were revised up to an annual rate of 1.374 million units with upward revisions to both single family and multi-family starts. As we noted in this week's *Economic Preview*, our February starts forecast incorporated some element of payback after unusually harsh winter weather weighed on starts in January. At the same time, however, we noted that even absent any such payback February would likely see a sizable increase in single family starts as buyer demand holding up under the weight of elevated mortgage interest rates and persistently lean inventories of existing homes for sale had buoyed builder sentiment and had them bracing for a stronger than normal spring season. To that point, the annual rate of 1.129 million single family starts in February is the highest monthly rate since April 2022. To be sure, single family starts would be even stronger were mortgage rates not as elevated as they are, but that builders continue to see steady traffic and buyer interest is a sign of the extent of remaining pent-up demand for home purchases. That demand built up over several years and, given a still supply-constrained market, is unlikely to fade soon. As to the multi-family segment, "supply-constrained" isn't exactly the term that springs to mind and, as such, the downward trends in place for both multi-family permits and starts have further to run.

The not seasonally adjusted data show total starts of 108,100 units in February, a bit shy of our forecast of 109,800 units. At 79,200 units, single family starts came in ahead of our forecast while the 28,900 multi-family units started lagged our forecast. Single family starts rose in each of the four broad Census regions, and the 52,300 single family starts in the South mark that region's highest monthly total since last May. Though the initial estimate of multi-family starts in January was revised a bit higher, that revised figure still reflects the lowest monthly total for multi-family starts in three years, and the February data did not

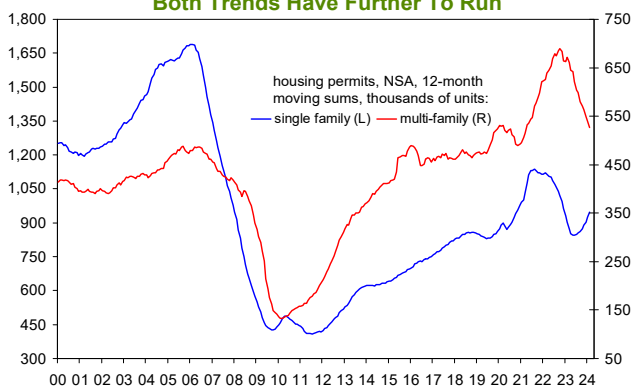
bring as much of a bounce as we anticipated. Over the past twelve months, there have been a total of 979,200 single family units started, with the running twelve-month total rising steadily since hitting bottom last June. The past twelve months have seen a total of 441,100 multi-family units started, the lowest such total since September 2021 and down sharply from the peak – 554,700 units – seen in November 2022.

On a not seasonally adjusted basis, there were 118,300 housing units permitted in February, a bit ahead of our forecast of 116,200 units. At 79,300 units, single family permits matched our forecast. The 39,000 multi-family permits were a bit more than we expected, owing largely to a spike in multi-family permits issued in the Northeast which, at 10,200 units, is the highest monthly total since March 2022. Single family permit issuance dipped slightly in the Northeast but rose in each of the three remaining Census regions, with the South posting its highest monthly count since last August. As with starts, the trends are instructive, showing multi-family permit issuance trending lower while single family permits remain on a firm upward trend.

As expected, completions bounced back sharply in February after having been significantly hampered by January's unusually harsh winter weather. Recall that January saw the fewest single family completions in any month since February 2019, and while the February data show 81,000 single family completions the average of the past two months still remains below the run rate that prevailed over much of the prior year. While labor supply remains a challenge, builders also continue to face challenges on supplies of materials/finishings, which is weighing down the rate of single family completions. This is seen in the halting pace at which the backlog of single family units under construction is being cleared. Multi-family completions also bounced back in February, and the average of the past two months remains above the rate seen over the prior twelve months. This is in keeping with what has been a modest, and uneven, upward trend in multi-family completions. That upward trend, however, still leaves a sizable backlog of multi-family units under construction, which as of February stood at 980,900 units.



Both Trends Have Further To Run



Considerable Upside Room For Single Family Starts

