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## April Residential Construction: A Solid Report, Even If No One Will Tell You That

- › Total housing starts rose to an annualized rate of 1.360 million units; total housing permits fell to an annualized rate of 1.440 million units
- › Single family starts fell to 1.031 million units and single family permits fell to 976,000 units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 329,000 units and multi-family permits fell to 464,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annual rate of 1.360 million units in April, not far from our forecast of 1.369 million units but lagging the consensus forecast of 1.435 million units by a wide margin. Total housing permits slipped to an annual rate of 1.440 million units, ahead of our forecast of 1.384 million units but lagging the consensus forecast of 1.487 million units. Note that the April release incorporates the Census Bureau's annual revisions to the residential construction data, touching the seasonally adjusted annualized estimates over the past few years. On the whole, the revisions do little to alter the view of the housing market, though we will note that originally March housing starts were reported at an annual rate of 1.321 million units while the revised data put that rate at 1.287 million units. We mention that because that downward revision along with an April headline number that fell far short of most forecasts have, as you might expect, unleashed a round of stories about elevated mortgage interest rates choking off housing market activity. As our regular readers know, however, we pay virtually no attention to the seasonally adjusted annualized data on housing permits, starts, sales, and completions and instead use the not seasonally adjusted data as the basis of our housing market analysis. The report on April residential construction is yet another illustration of why we do so. The not seasonally adjusted data show total housing starts rising to 124,000 units, just shy of our forecast of 124,500 units but up 14.3 percent from March, with total housing permits of 132,600 units, handily beating our forecast of 126,100 units and up 6.7 percent from March. Moreover, both single family permits and starts came in ahead of our forecasts, while the details on completions show further progress being made in paring down the backlog of multi-family units under construction. So, while those reacting to the headline numbers may feel justified in spinning the April data into a downbeat tale of the housing market, we see this report as being quite strong, even a bit surprisingly so given that mortgage rates remained elevated in April.

There were 95,200 single family housing units started in April (again, not seasonally adjusted), topping our forecast of 89,400 units, up 8.3 percent from March and the highest monthly total since June 2022,

which alone should lead you to question the negative take being offered on the April data by many analysts. Each of the four broad Census regions saw increases in single family starts. While multi-family starts rose to 28,800 units, that nonetheless fell short of our forecast as the bounce in multi-family starts we anticipated in the Northeast region once again failed to materialize – recall that multi-family permits in the region spiked in February, but that has yet to translate into higher starts.

The unadjusted data show 93,500 single family units were permitted in April, topping our forecast of 88,200 units and up 9.7 percent from March. Were the housing market wobbling as badly as many are suggesting, you wouldn't have seen that jump in single family permits, with the April total the most in any month since May 2022. As with starts, each of the four Census regions saw an increase in single family permits in April, with a particularly large increase in the South region. The 39,100 multi-family units permitted in April match March's total, but this reflects an increase in the South region negating declines in the three remaining regions.

Some are pointing to the downward trends in multi-family permits and starts as a factor that will help sustain higher inflation via upward pressure on rents, which misses the obvious point that there is a lengthy lag between changing market rents and those changes being picked up in the measures of inflation. A more fundamental, and more relevant, reason to dismiss this argument is that it ignores the still-sizable backlog of multi-family units under construction. The pace of multi-family completions has picked up, and as more units come online, mostly in larger metro areas, this can easily weigh on both asking and effective rents. We think this process has further to play out even though demand for multi-family units remains healthy. In the single family segment, both permits and starts continue to trend higher despite elevated mortgage rates, and while the pace may slow, we expect further gains in the months ahead. Completions remain challenged by labor and supply constraints, though the latter seem to be easing. Should mortgage rates begin to drift lower, we would not be surprised to see the pace at which single family permits and starts are rising pick up.

