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June Residential Construction: Headline Beats, But Permit Details Not Ideal . . .

- Total housing starts rose to an annualized rate of 1.353 million units; total housing permits rose to an annualized rate of 1.446 million units
- Single family starts fell to 980,000 units and single family permits fell to 934,000 units (seasonally adjusted annualized rates)
- Multi-family starts rose to 373,000 units and multi-family permits rose to 512,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annual rate of 1.353 million units in June, better than we (1.265 million units) and the consensus (1.300 million units) expected, while total housing permits rose to an annual rate of 1.446 million units, again ahead of what we and the consensus forecast anticipated. The details of the not seasonally adjusted data, however, are very much a mixed bag. Unadjusted starts came in ahead of what our forecast anticipated, with both single family and multi-family starts topping our forecasts. Unadjusted permits, however, fell a bit short of our forecast, and what is more notable is the composition of unadjusted permits; single family permits fell far short of our forecast while multi-family permits easily topped our forecast. The drop in single family permits likely reflects sagging builder confidence as three straight months of mortgage interest rates hovering at or slightly above seven percent took a toll on traffic and sales at a time when spec inventories are, for many builders, uncomfortably high. While that may seem hard to square with the increase in single family starts, recall that builders are still working off considerable order backlogs. That may have supported the increase in starts in June, but if permits remain on the soft side, starts will ultimately follow. All that said, the most difficult element of the June data to account for is the spike in multi-family permits, a clear break from the prevailing trend. Whether that was just the inherent volatility in multi-family segment or the start of another sustained upturn in multi-family activity remains to be seen, though right now the former seems more likely to us than the latter.

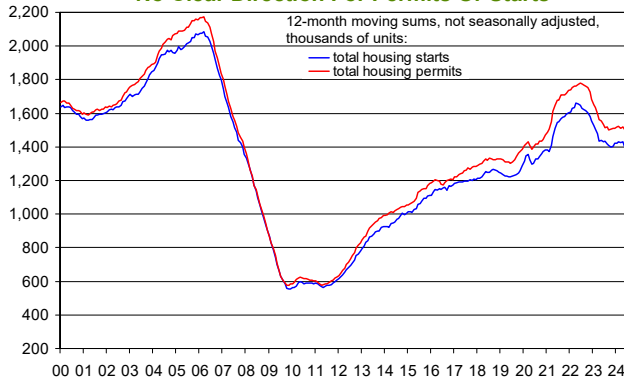
On a not seasonally adjusted basis, there were 126,100 housing units started in June, easily beating our forecast of 116,600 starts with both single family and multi-family starts higher than we anticipated. What is interesting is that the beat on multi-family starts wasn't due to the "usual suspects," i.e., the South and West regions, which account for the bulk of activity, but rather was due to multi-family starts in the Midwest and Northeast regions easily topping our forecasts. As we noted in this week's *Economic Preview*, we did expect a bounce in multi-family starts in June, simply because even though multi-family starts have for some time been trending lower, we thought multi-family starts in both

April and May were weaker than that downward trend warranted. That said, the bounce in June was more robust than we had anticipated. There were 92,300 single family starts in June, though in this case it was the South and West regions in which starts came in well higher than we anticipated. On a year-to-date basis through June, there have been 521,800 single family housing starts in 2024 which, with the exceptions of 2021 and 2022 when notably low mortgage rates were fueling activity, is the highest such total since 2007. One reason we find this interesting is that the mortgage interest rate environment thus far in 2024 has been far less favorable than in any year over this entire span. At the same time, however, we've argued that pent-up demand for home purchases and still lean, albeit rising, inventories of existing homes for sale would support more single family construction than would be implied by only looking at mortgage interest rates.

The June permit data may seem to threaten the momentum in single family starts. We did note in our *Economic Preview* that the growing backlog of single family units already permitted but not yet started posed some downside risk to our forecast of unadjusted single family permits, and that may have been a factor as that backlog narrowed a bit in June. With mortgage rates having eased, we won't be surprised to see a rebound in single family permits in the July data. As noted above, the jump in multi-family permits in June is harder to make sense of; the 41,700 multi-family permits issued in June is the highest monthly total since December, and the increase in unadjusted data was amplified by favorable seasonal adjustment, hence the adjusted and annualized rate topping the 500,000-unit mark. While we do not think the jump in June is the start of a sustained increase in multi-family permits, we will note multi-family completions rose sharply in June, to the highest monthly total seen since January 1987, which in turn pushed the under-construction backlog below 900,000 units for the first time since August 2022. We continue to think, however, that a still-sizeable backlog of multi-family units under construction will act as a brake on permits and starts, but the June data are at the least a reminder that things can change quickly in the multi-family space.



No Clear Direction For Permits Or Starts



Will Momentum In Starts Begin To Fade?

