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### August Residential Construction: Spec Inventories Still A Factor In Single Family Space

- › Total housing starts rose to an annualized rate of 1.356 million units; total housing permits rose to an annualized rate of 1.475 million units
- › Single family starts rose to 992,000 units and single family permits rose to 967,000 units (seasonally adjusted annualized rates)
- › Multi-family starts fell to 364,000 units and multi-family permits rose to 508,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annual rate of 1.356 million units in August, topping both our forecast (1.332 million) and the consensus forecast (1.318 million) and sharply higher than July's rate of 1.237 million units. Total housing permits rose to an annual rate of 1.475 million units, slightly under our forecast of 1.476 million units but well ahead of the consensus forecast of 1.410 million units. In this week's *Economic Preview* we pointed to what we saw as the two main factors behind July's dramatic plunge in single family housing starts – the impact of Hurricane Beryl on activity in the South region and the sharp increase in spec inventories of single family units for sale. We expected the August data to show a strong rebound in single family starts in the South region, which proved to be the case. We also thought that elevated spec inventories would limit the degree to which falling mortgage interest rates would prompt single family starts, which may or may not have been the case – the not seasonally adjusted data show single family starts topping our forecast but what we have no way of knowing is whether that increase would have been even larger were it not for elevated spec inventories. That is a question we may be trying to answer in the months ahead, as further declines in mortgage interest rates will draw out more single family construction, but the extent to which that is the case will in part depend on how rapidly builders are able to pare down still-high spec inventories.

On a not seasonally adjusted basis, there were 119,700 housing units started in August, topping our forecast of 117,700 starts. At 88,500 units, single family starts came in higher than our forecast while the 31,200 multi-family units started slightly lagged our forecast. As we noted last month, we saw Hurricane Beryl as the primary cause of the 26.2 percent decline in not seasonally adjusted single family starts in the South region in July and, as such, expected a rebound in August, which proved to be the case as single family starts in that region – 47,400 units – matched our forecast. Unadjusted starts in the three remaining regions, however, topped our forecast. To our point about the impact of elevated spec inventories, however, the 88,500 single family starts in August are still below monthly average seen over the March through

June period. That mortgage interest rates were more or less stuck right at seven percent from April through June took an increasingly sharp toll on demand for home purchases, thus contributing to the rise in spec inventories of new single family homes for sale. With mortgage rates now approaching the six percent mark, builders should see spec inventories decline further, but our sense is that builders will need to see this before meaningfully ramping up starts, as opposed to ramping up starts on the expectations of further declines in spec inventories. As we noted in this week's *Economic Preview*, not seasonally adjusted multi-family starts have been eerily stable over the past several months, and that remained the case in August. Over the past twelve months, the unadjusted data show total multi-family starts of 368,600 units, the lowest such count since May 2019.

While we expect the trend rate of multi-family starts to slip further over coming months, the August permit data suggest any such further decline may be more tempered than we expect. The not seasonally adjusted data show 46,300 multi-family units were permitted in August, topping our forecast and the most in any month since last October. There were 86,100 single family units permitted, below our forecast but going to our point about the impact elevated spec inventories may be having on new single family activity. In total, there were 132,400 housing units permitted in August, ahead of our forecast of 129,100 units.

The backlog of single family units permitted but not yet started edged higher in August which, if we're correct, will weigh on single family permit issuance over coming months. Single family completions slipped in August while multi-family completions jumped to 70,500 units, the most in any month since June 1974. With completions far outdistancing starts, the backlog of multi-family units under construction fell to 860,100 units in August, the lowest total since May 2022, and while this still leaves a sizable backlog, that it is being meaningfully pared down could mean it is less of an impediment to multi-family starts than has been the case. This could help account for the jump in multi-family permits in August. The single family backlog has been little changed over recent months but will likely come down quicker going forward.

