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September Residential Construction: Noisy Data Ahead, But Underlying Trends Will Hold

- Total housing starts fell to an annualized rate of 1.354 million units; total housing permits fell to an annualized rate of 1.428 million units
- Single family starts rose to 1.027 million units and single family permits rose to 970,000 units (seasonally adjusted annualized rates)
- Multi-family starts fell to 327,000 units and multi-family permits fell to 458,000 units (seasonally adjusted annualized rates)

Splitting the difference between the consensus forecast (1.350 million) and our forecast (1.358 million), total housing starts fell to an annual rate of 1.354 million units in September, though there was a mild upward revision to the initial estimate for August. Total housing permits fell to an annual rate of 1.428 million units, below what we (1.489 million) and the consensus (1.470 million) anticipated. Though Census offered no formal comment, there is some evidence that Hurricane Helene impacted the September residential construction data, and the combined effects of Hurricanes Helene and Milton will no doubt impact the October data. As such, interpreting the data for the South region in the months ahead will be more difficult, though the data from the three remaining Census regions are unlikely to show any pronounced deviation from the patterns that have taken hold over recent months. Though mortgage interest rates fell meaningfully over August and September, that did little to ease affordability constraints, which weighed on demand for new single family homes at a time when builders were sitting on higher than desired spec inventories of new homes for sale. As such, lower mortgage rates added only a light touch to single family activity. At the same time, though the backlog of multi-family units under construction has fallen considerably, it nonetheless remains sizable which, along with market conditions that are still somewhat soft, continues to weigh on multi-family activity. We have little reason to think these trends will be upended in the months ahead amid what we expect will be considerably noisy data.

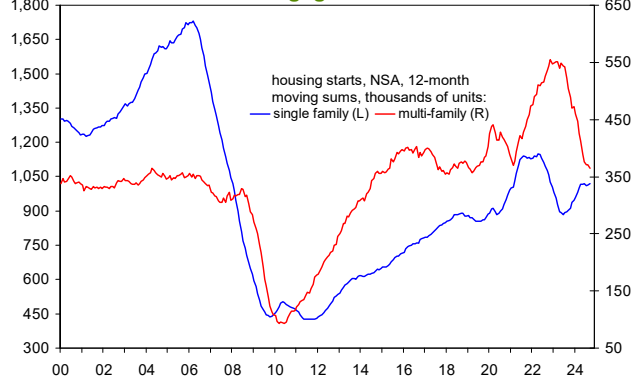
On a not seasonally adjusted basis, there were 116,300 housing units started in September, right in line with our forecast of 116,500 units, down 3.1 percent from August with declines in both single family and multi-family starts. Keep in mind, though, that September is typically a seasonally weak month for residential construction, so the decline in unadjusted starts comes as no surprise. One thing that does stand out is the 30.4 percent decline in multi-family starts in the South region, suggesting some impact from Hurricane Helene – while Helene hit late in the month, it was telegraphed well in advance, which could have led to some pullback in activity in the impacted areas. One can point to the

modest increase in single family starts in the South as suggesting little, if any, impact from Helene. Keep in mind, however, that the multi-family data are reported in the number of units, not the number of structures, so starts on a few large multi-family structures being delayed would have had a more pronounced impact on multi-family starts than would be seen with single family starts. Again, though, there is nothing in the starts data for the three remaining Census regions to suggest any meaningful change in underlying market conditions.

On a not seasonally adjusted basis, there were 113,700 housing units permitted in September, well short of our forecast of 122,200 units and down 13.8 percent from August, with double-digit declines in single family and multi-family permits. Again, the declines in permits in the South region were larger than those seen in the other Census regions, with fewer single family housing permits issued in the South than in any month since February 2023. Nationally, there were 77,300 single family permits issued in September, the lowest monthly count since January.

The South region also saw a sharp decline in the number of housing units completed, with declines in both single family and multi-family completions whereas total completions amongst the three remaining Census regions increased in September. With the drag from the South region, the number of multi-family completions for the U.S. as a whole fell sharply in September, but the 56,300 multi-family completions in September is right in line with where completions had been running prior to the pronounced spike seen in August. Either way, multi-family completions continue to run ahead of multi-family starts, leading to further declines in the backlog of multi-family units under construction which, at 838,300 units, is the smallest since March 2022. Single family completions dipped in September, with a slight dip in the combined total excluding the South region. On net over the past few months, single family completions have lagged single family starts and, as such, the backlog of single family units under construction has edged higher but is down considerably from the recent cycle high. Barring more meaningful, and lasting, relief on the mortgage rates front, single family activity will remain somewhat rangebound in the months ahead.

REGIONS
Lift From Lower Mortgage Rates Was Short-Lived



REGIONS
Permits Data Likely To Be Quite Noisy In Near Term

