ECONOMIC UPDATE

REGIONS

February 19, 2025

January Residential Construction: Single Family Segment Facing Challenging Conditions

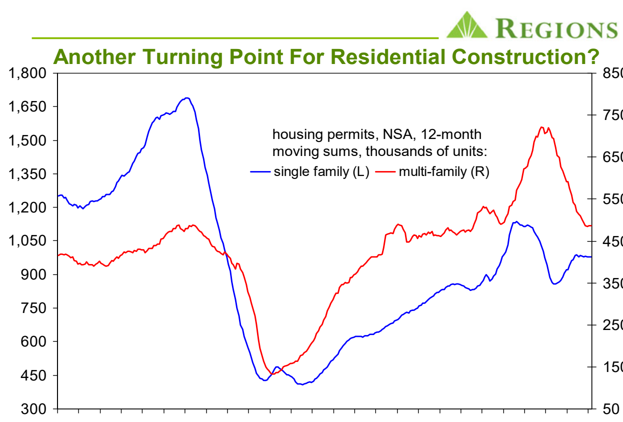
- Total housing starts fell to an annualized rate of 1.366 million units; total housing permits rose to an annualized rate of 1.483 million units
- Single family starts fell to 993,000 units and single family permits were flat at 996,000 units (seasonally adjusted annualized rates)
- Multi-family starts fell to 373,000 units and multi-family permits rose slightly to 487,000 units (seasonally adjusted annualized rates)

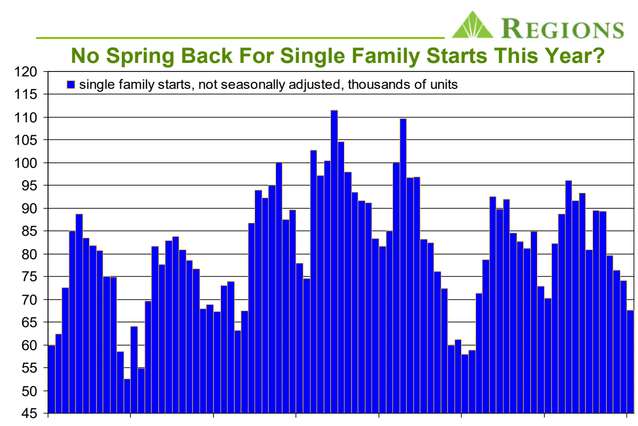
Total housing starts fell to an annual rate of 1.366 million units in January, falling between our forecast of 1.316 million units and the consensus forecast of 1.397 million units, while the initial estimate of December starts was revised modestly higher. Total housing permits were basically unchanged, with an annual rate of 1.483 million units compared to December's revised print of 1.482 million units; we anticipated total permit issuance of 1.409 million units compared to the consensus forecast of 1.460 million units. In our preview of the January data, we pointed to two main effects at work – atypically harsh winter weather across much of the U.S. during January, and, more importantly, the fading fortunes of the single family segment of the market, and we further noted that multi-family starts would likely settle back after having spiked in December. Though Census made no comments around potential weather effects, that total starts in the South region tumbled to their lowest level since May 2020 suggests at least some impact, particularly in light of the considerable amount of snow that fell across much of the region. That said, we think the bigger factor in the national count of single family starts dropping to the lowest level since early-2023 is inventories of spec homes for sale being far higher than many builders are comfortable with as increasingly binding affordability constraints have taken a toll on the demand for home purchases. While any weather effects in the January data will be made up for over coming months, the state of the single family segment is a far more intractable problem which could be compounded by looming policy changes.

On a not seasonally adjusted basis, there were a total of 95,500 housing units started in January, a bit ahead of our forecast of 93,300 units and the lowest monthly total since December 2022. The 67,600 single family starts in January were slightly more than our forecast of 65,500 starts, At 38,900 units, single family starts in the South region dipped to their lowest level since November 2022. The not seasonally adjusted data show 27,900 multi-family units were started in January, pretty much in line with our forecast of 27,800 units. Recall that multi-family starts tumbled in November then spiked in December, and we expected the January tally to fall in line with the run rate seen prior to those sharp swings. As we've noted, however, the travails of the single family segment of the market could work in favor of multi-family activity over coming months, particularly given progress made to date on clearing the backlog of multi-family units under construction.

The not seasonally adjusted data show a total of 112,500 housing units were permitted in January, easily besting our forecast of 105,100 units. We noted in our preview of the January data that we thought the severity of the winter weather that impacted much of the nation could have a bigger impact on permit issuance than is typically seen around weather events, which does not seem to have been the case. Still, while the 73,300 single family permits issued top the totals of the prior two months, January's count is still easily below the trend rate in place at the start of Q4 2024. At 40,200 units, January's count of multi-family permits is in line with the current run rate. One place we see what we believe are pronounced weather effects is in the sharp decline in completions of both single family and multi-family units in January. Still, with starts having fallen, even with the dip in completions the under-construction backlogs narrowed a bit in both the single family and multi-family segments in January.

The pronounced decline in homebuilder sentiment seen in the NAHB's February survey speaks volumes to the state of the single family segment of the market. Mortgage interest rates continue to hover around seven percent, thus exacerbating affordability constraints, and offering sales incentives, including mortgage rate buydowns, seems to be getting builders increasingly less bang for their bucks as the pool of prospective buyers continues to thin as mortgage rates and house prices remain elevated. Moreover, higher tariffs on construction materials and the potential impact of immigration reform on construction labor loom as factors that could push house prices even higher. Though builders seem to have counted on a more favorable regulatory climate being a boost for development, that zoning laws and entitlement costs are largely the domain of state and/or local governments should have dimmed hopes along this front. In short, we expect conditions in the single family segment to remain quite challenging for some time to come.





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