ECONOMIC UPDATE

REGIONS

March 18, 2025

February Residential Construction: Evening Out The Score After January's Dip

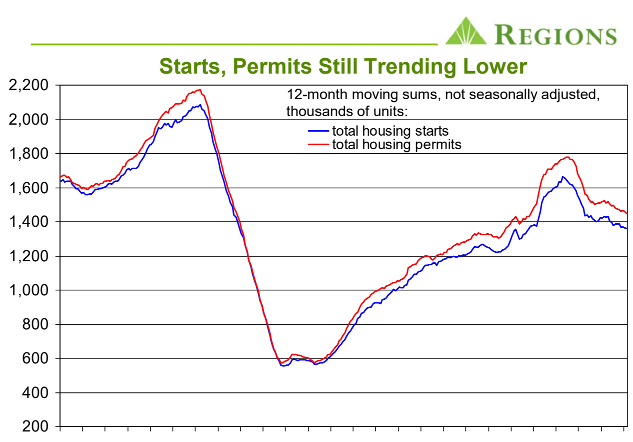
- Total housing starts rose to an annualized rate of 1.501 million units; total housing permits fell to an annualized rate of 1.456 million units
- Single family starts rose to 1.108 million units and single family permits fell to 992,000 units (seasonally adjusted annualized rates)
- Multi-family starts rose to 393,000 units and multi-family permits fell to 464,000 units (seasonally adjusted annualized rates)

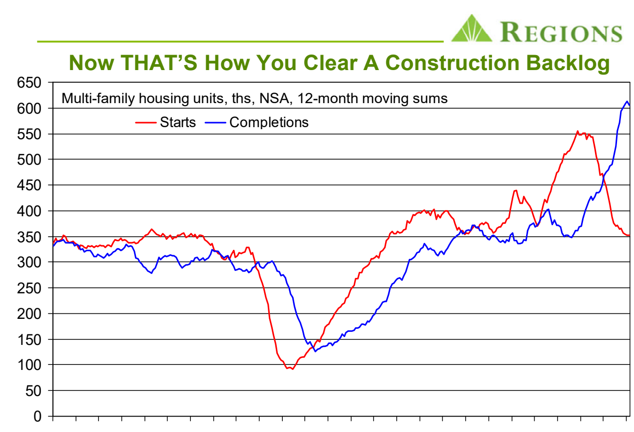
Total housing starts rose to an annual rate of 1.501 million units in February, easily trouncing even the highest forecast, while total housing permits fell to an annual rate of 1.456 million units, stopping short of our forecast. Recall that thanks to atypically harsh winter weather across much of the nation, residential construction activity slowed sharply in January, particularly in the South region. While we anticipated some payback in the February data, we thought that any such payback would be somewhat muted given sagging builder confidence stemming from elevated spec inventories and softening demand. We were wrong on that score, as single family starts bounced more strongly than we anticipated, particularly in the South region. Our premise that the jump in housing starts in February was more payback from weather-related disruptions in January than builders gearing up for the spring sales season would seem to be supported by the permits data, with single family permits basically flat, and by a further deterioration in builder sentiment in February. While the decline in mortgage interest rates over recent weeks has helped draw out what we believe is still a high degree of pent-up demand for home purchases, that doesn't mean builders are suddenly planning to ramp up starts. Spec inventories remain uncomfortably higher for many builders, whose main focus right now is paring those inventories down. If we're correct on this point, the March data will show a slower pace of starts, perhaps dramatically so given how harsh the March seasonal adjustment factors will be.

The not seasonally adjusted data show a total of 111,100 housing starts in February, somewhat rudely rushing past our forecast of 101,300 starts. Our miss was entirely accounted for by the 80,400 single family starts being well higher than our forecast and the most in any month since September. Single family starts in the South region jumped to 50,300 units, up 24.5 percent from January's somewhat depressed level and the most in any month since June. To our point about February's jump being more payback than anything else, the monthly average of single family starts in the South region over the past two months, i.e., January's weather-related dip and February's rebound, is below the monthly average over the final six months of 2024. The February data are not free of weather effects; though not as severe as that seen in January, there was another round of atypically harsh winter weather in February which had a bigger impact in the Midwest region than in other parts of the U.S. That is seen by weak starts and a sharp drop in the number of completions in the Midwest in February.

The not seasonally adjusted data show a total of 106,000 housing units were permitted in February, lagging our forecast of 110,800 units. Single family permits were basically flat from January but nonetheless came in a touch above our forecast. Not only did multi-family permits fall short of our forecast, but the 32,600 multi-family units permitted in February is the lowest monthly total since February 2020. That affordability constraints have closed the door on many prospective buyers, even with the recent declines in mortgage interest rates, would figure to push demand away from the single family segment and toward the multi-family segment. That has not, however, yet translated into any sort of pick-up in multi-family permits or starts. Lenders, bank and non-bank, remain somewhat restrained in the multi-family space and are perhaps still wary of oncoming supply.

While single family completions rebounded strongly from January's sizable decline, even allowing for normal seasonal patterns, multi-family completions fell sharply in February, with the lowest monthly total since Octover 2023. Most of that decline, however, came in the Midwest and Northeast regions, where much of February's atypically harsh winter weather was confined. That multi-family completions fell off so sharply combined with modestly higher starts meant that the backlog of multi-family units under constrution widened slightly in February. Still, as can be seen in our second chart below, there has been substantial progress in clearing what had been the largest multi-family construciton backlog since the early-1970s. To be sure, there is further to go, but it could be that at some point soon lenders and developers will be more willing to push new multi-family construction higher, particularly to the extent that lingering affordability constraints coupled with what for many single family builders remain uncomfortably high spec inventores of new homes for sale weigh on single family activity.





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