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March Residential Construction: Weak Starts, Surprising Pop In Permits

- Total housing starts fell to an annualized rate of 1.324 million units; total housing permits rose to an annualized rate of 1.482 million units
- Single family starts fell to 940,000 units and single family permits fell to 978,000 units (seasonally adjusted annualized rates)
- Multi-family starts fell to 384,000 units and multi-family permits rose to 504,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annual rate of 1.324 million units in March, taking shelter between our forecast of 1.263 million units and the consensus forecast of 1.420 million units. Total housing permits rose to an annual rate of 1.482 million units, easily ahead of our forecast (1.337 million units) but closer to the consensus forecast (1.450 million units). As we noted in this week's *Economic Preview*, in any given year March is the month in which we see the largest increases, on a not seasonally adjusted basis, in housing permits and starts. That our forecasts of the seasonally adjusted counts of permits and starts were so far below the consensus reflected what we expected would be atypically weak unadjusted data being compounded by harsh seasonal adjustment. Housing starts were indeed weak on a not seasonally adjusted basis, but unadjusted housing permits were stronger than our forecast anticipated, and in each case the March seasonal factors were a bit more forgiving than we expected, which propped up the "headline," i.e., seasonally adjusted, counts. The one element of the March data we find most surprising is the strength in single family housing permits, as we can point to both supply-side and demand-side factors that we would expect to temper single family permit issuance. We may still be correct on that point even if we were not when it came to the March data.

On a not seasonally adjusted basis, there were 110,700 housing units started in March, unchanged from February and a bit more than our forecast – 106,300 units – anticipated. As we noted in our preview of the March data, our forecast anticipated a decline in unadjusted single family housing starts, which would have been the first March decline in the life of the data, which go back to 1959. As it turns out, unadjusted single family starts did fall in March, but the decline to 79,600 units in March from 79,700 units in February barely constitutes a rounding error. Either way, the broader point is that, even if not to the extent our forecast anticipated, unadjusted single family starts were notably weak in March, as the "typical" March would see a better than twenty percent jump in unadjusted single family starts. We have for several months now been pointing to elevated spec inventories of new single family homes for sale as weighing on new single family starts, particularly

given the extent to which completed units have accounted for a steadily rising share of the for-sale inventory in an environment in which affordability constraints and sagging consumer confidence are weighing on demand. Builders have noted the 2025 spring selling season got off to a much slower start than expected and given that we are getting into the seasonally strongest time of the year for construction and sales of new single family homes, continued weakness in the unadjusted data will be treated most harshly by seasonal adjustment.

The not seasonally adjusted data show a total of 125,500 housing units were permitted in March, well ahead of our forecast of 117,200 units. There were 84,900 single family units permitted in March, well ahead of the 79,700 units our forecast anticipated, and while the 14.9 percent increase from February lags the typical March increase, it was still more than we anticipated. Single family permits rose in each of the four broad Census regions, with particularly strong gains in the Midwest and Northeast regions. Still, single family permits are down slightly year-on-year, and it will be interesting to track how single family permit issuance tracks against typical seasonal patterns in the months ahead.

As we anticipated, there was a bounce in completions in March after atypically harsh winter weather weighed on completions in both January and, to a lesser degree, February. With unadjusted housing starts proving somewhat weak, the increase in completions in March pushed down inventories of housing units under construction in both the single family and multi-family segments. On the multi-family front, that backlog is now smaller than at any point since December 2021. At the same time, however, that both single family and multi-family permits jumped in March while starts were weak pushed the count of units permitted but not yet started higher in both segments.

Challenging conditions for single family builders have gotten even more so of late. With the potential for sharply higher materials costs and aggressive incentives needed to lure buyers, margins are coming under pressure and inventories remain uncomfortably high. All of this will weigh on single family starts over coming months.

