

# ECONOMIC UPDATE



REGIONS

June 18, 2025

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## May Residential Construction: Starts Fall Sharply, But Not Why You Might Think . . .

- Total housing starts fell to an annualized rate of 1.256 million units; total housing permits fell to an annualized rate of 1.393 million units
- Single family starts rose to 924,000 units and single family permits fell to 898,000 units (seasonally adjusted annualized rates)
- Multi-family starts fell to 332,000 units and multi-family permits fell to 495,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annual rate of 1.256 million units, short of our below-consensus forecast of 1.334 million units and the lowest monthly rate since May 2020. Total housing permits fell to an annual rate of 1.393 million units, lighter than our below-consensus forecast of 1.411 million units. While one may be inclined to attribute the steep drop in housing starts to prevailing conditions in the single family segment of the market, that drop was actually a function of lower multi-family starts, as seasonally adjusted annualized single family starts ticked higher in May. To that point, our forecasts of single family starts, both not seasonally adjusted and seasonally adjusted, were on the mark, but both unadjusted and adjusted multi-family starts were well short of our forecast. On the permit side of the ledger, it was a drop in single family permits that pulled total permits lower, as multi-family permit issuance was little changed from April. Though out of line with our forecast, the sharp decline in single family permit issuance in May makes sense in light of current market conditions. Indeed, we noted in this week's *Economic Preview* that we have been somewhat baffled over the relative resilience of single family permit issuance, which for some time has outperformed our forecasts. Our point was that with elevated inventories of spec homes for sale and a sizable backlog of single family units permitted but not yet started, we'd expect to have seen a more pronounced drop-off in new permit issuance than had thus far been the case. To be sure, we're only talking about one month here, and permit issuance can be somewhat jumpy, so we'll take the May data as being in line with current market conditions. There is, of course, no guarantee we'll say the same about the June data, though it would be reasonable to expect further declines in single family permit issuance.

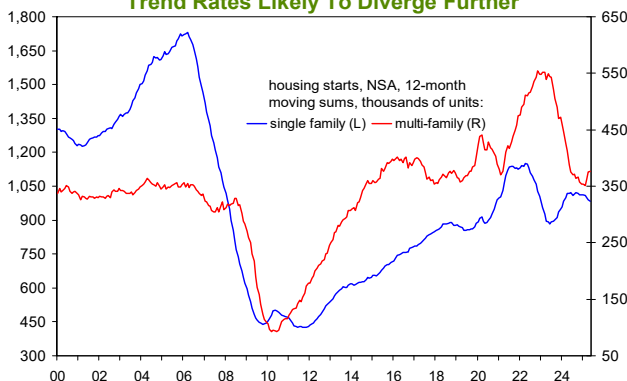
On a not seasonally adjusted basis, there were 115,200 housing units started in May, falling sort of our forecast of 121,800 units. As noted above, however, that miss is entirely due to multi-family starts coming in well below our forecast, with the 85,300 single family starts lining up with our forecast. That said, while we got the total number of single family starts right, we were off on the geographic mix, which we think is noteworthy in that the Midwest region saw single family starts of

15,600 units, the highest monthly total since May 2021, while the South region saw single family starts drop off to 46,400 units. The Midwest is less bound by affordability constraints than are the other three broad Census regions and less apt to be plagued by elevated spec inventories. As for multi-family starts, on a not seasonally adjusted basis, there were 29,900 units started in May, down twenty-three percent from April. It is, however, worth noting that the jump in multi-family starts in April owed largely to spikes in the Northeast and South regions, spikes that were reversed in May. As such, we'll not read too much into the sharp decline in total multi-family starts in May, particularly as multi-family permit issuance remained in line with the recent run rate.

On a not seasonally adjusted basis, there were 125,000 housing units permitted in May, short of our forecast of 131,200 units. As noted above, single family permit issuance, at 84,000 units, badly lagged our forecast. This leaves single family permits down 11.0 percent year-on-year, with May being the fifth straight month in which single family permits were down year-on-year. To our earlier point, single family permit issuance is holding up in the Midwest, the only region in which single family permits are up year-on-year. At 41,000 units in May, multi-family permit issuance continues to hover in a fairly narrow range, particularly for the inherently volatile multi-family segment, which again is a big reason we're not reading too much into the sharp decline in multi-family starts in May.

Completions picked up in May, in both the single family and multi-family segments, and in each segment completions continue to run ahead of starts. As a result, backlogs of under construction units fell in both the single family and multi-family segments in May. While there has been considerable progress in working off what had been the largest backlog of multi-family units under construction since the early-1970s, that backlog is still sizable which we think is, to some extent, acting as a brake on multi-family starts. Absent a more meaningful turnabout in conditions in the single family segment that we expect, further progress in paring down the backlog of units under construction will ultimately allow for a faster pace of multi-family starts.

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Trend Rates Likely To Diverge Further



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Single Family Permits Likely To Fall Further

