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July Residential Construction: Multi-Family Soars And Tumbles . . . At The Same Time

- Total housing starts fell to an annualized rate of 1.191 million units; total housing permits rose to an annualized rate of 1.336 million units
- Single family starts rose to 876,000 units and single family permits rose to 838,000 units (annualized rates)
- Multi-family starts tumbled to 315,000 units and multi-family permits soared to 498,000 units (annualized rates)

Total housing starts fell to an annualized rate of 1.191 million units in July, far below the 1.257 million units we and the consensus expected, while total housing permits rose to an annualized rate of 1.336 million units, topping our above-consensus forecast of 1.306 million units. In reality, however, the total starts number is not as lousy as it looks, and the total permits number is not as impressive as it looks. In each case, the headline number was driven by the always volatile multi-family segment, the difference in the July data being that while multi-family permits soared like Simone Biles during her incredible floor routine, multi-family starts tumbled like a drunken fat guy trying to mimic Ms. Biles' balance beam routine. Amidst the multi-family dramatics, the single family sector continued to right itself after taking a tumble of its own in late-2018, with the not seasonally adjusted data much stronger than is apparent in the "headline," i.e., seasonally adjusted and annualized, numbers and stronger than has been apparent in the Census Bureau's data on new single family home sales. In other words, while the multi-family segment continues to do whatever it is that the multi-family segment does, low mortgage rates are clearly benefitting the single family segment of the housing market.

On a not seasonally adjusted basis, there were 113,700 total housing starts in July, short of our forecast of 118,500 units. But, single family starts were stronger than normal for the month of July; the 84,800 units started topped our forecast of 82,300 units and is the highest monthly total since May 2018. In contrast, the 28,900 multi-family units started were well below our forecast of 36,200 units. There were 22,200 single family starts in the West region, which is the highest monthly total since July 2007. As we anticipated, single family starts were strong in the Midwest region, and it appears we are seeing some catching up after flooding in parts of the region held down construction activity over the prior several months. Single family starts have been strong in the South region over the past several months, and of the four broad Census regions, the South is the only one in which single family starts are up on a year-to-date basis through July (up 1.60 percent).

There were a total of 120,600 housing permits issued in July on a not seasonally adjusted basis, topping our forecast of 114,900 units. While the 79,000 single family permits were in line with our forecast of 78,800 units, our forecast of 36,100 multi-family permits was no match for the 41,600 permits actually issued. The split between multi-family starts and permits seen in the July data is nothing new, we have for some time been pointing out the unusually low ratio of multi-family starts to permits, and we do not expect this gap to narrow anytime soon.

According to one analyst we saw this morning, "the uncertain economic climate continues to erode multi-family construction," to which we replied, well, never mind, we can't actually print our reaction, at least not here. Aside from the fact that the uncertain economic climate didn't seem to bother single family construction in July, and aside from the fact that the multi-family data are inherently volatile, making it hard to forecast the monthly data on permits and starts with any reasonable degree of confidence, and aside from the fact that the drop in multi-family permits reported in the seasonally adjusted and annualized data is greatly exaggerated, if we had to pick a factor that was weighing on multi-family starts, we'd go with, let's see, perhaps possibly the largest backlog of multi-family units under construction since the mid-1970s? As we show in our chart below, that backlog is not getting any smaller. As of July, there 619,400 multi-family units under construction, and while starts fell in July, so too did completions. Moreover, the backlog of multi-family units under construction is getting larger in each of the four broad Census regions. As we have noted on more than one occasion, we think the multi-family segment is more than overdue for a much more pronounced slowdown than the 2.50 percent year-to-date decline in starts.

We routinely note that while the leaps and falls in the multi-family data can move the headline numbers, the single family segment is of far more economic significance. As such, we are far more encouraged by the July data than may seem warranted by the headline starts number.

