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September Residential Construction: Single Family Grinds Higher, Multi-Family Slips

- Total housing starts fell to an annualized rate of 1.256 million units; total housing permits fell to an annualized rate of 1.387 million units
- Single family starts rose to 918,000 units and single family permits rose to 882,000 units (seasonally adjusted annualized rates)
- Multi-family starts fell to 338,000 units and multi-family permits fell to 505,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annualized rate of 1.256 million units in September, well short of our above-consensus forecast of 1.352 million units. As forecast misses go, however, we're not at all bothered by this one. Not so much because we're used to it. Okay, we are, but that's not why. Instead, we're not at all bothered because our miss is due to the always volatile multi-family segment underperforming our forecast while activity in the single family segment fared pretty much as our forecast had anticipated. On a seasonally adjusted annualized basis, there were 918,000 single family starts in September after an annualized rate of 915,000 starts in August, which is the first time single family starts have topped the 900,000 units mark since August and September of 2007, when single family starts were beating a hasty retreat from unsustainably high levels. At the same time, multi-family starts fell from 471,000 units in August to 338,000 units in September (annualized rates), dragging the total starts number lower. In terms of the overall economic impact, each single family unit has a much larger impact, and we've noted that beginning with the Q3 data we expect residential fixed investment to begin contributing to top-line real GDP growth after having acted as a persistent drag on growth over the past two years. The September starts data are another affirmation that lower mortgage interest have provided a significant boost to the housing market.

On a not seasonally adjusted basis, there were a total of 112,900 units started in September, lagging our forecast of 118,600 units. There were 80,700 single family starts, in line with our forecast of 81,200 single family starts, but the 32,100 multi-family units started fell well short of our forecast of 37,600 units. As has been the case over the past several months, single family starts were notably strong on the South region in September; at 45,100 units, September was the strongest month for single family starts in the South since April 2018. On a year-to-date basis through September, single family starts in the South region are up 3.4 percent, the only region in which single family starts are not lower on a year-to-date basis (nationally, single family starts are down 1.8 percent year-to-date). Single family activity in the Midwest region has

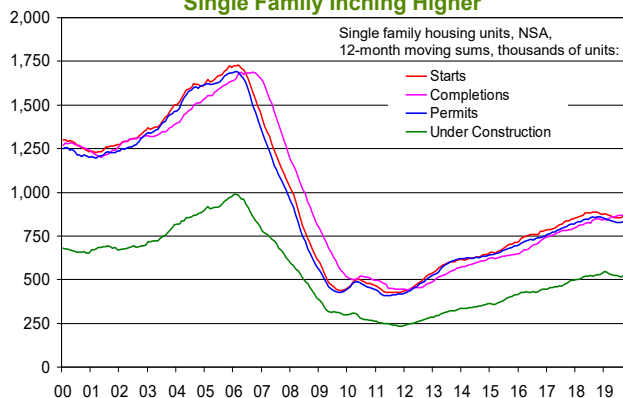
also been strong as the region continues to catch up after several months in which construction activity was held down by flooding. As of September, the running 12-month total of not seasonally adjusted single family housing starts stood at 863,000 units, with a total of 1.237 million total housing starts over that same span. Still, even with the boost provided by lower mortgage interest rates and much-improved builder sentiment, single family activity continues to rise at only a grudging pace, with single family construction held down by factors such as higher regulatory hurdles and, in many markets, a lack of buildable lots. These constraints on the rate of growth in single family activity will not ease any time soon. Also, labor supply constraints are more of a hinderance in the single family segment of the market, which is more labor intensive than is multi-family construction.

On a not seasonally adjusted basis, 114,300 new housing units were permitted in September. While this is close to our forecast of 115,400 units, the mix is much different than our forecast anticipated. The 70,600 single family permits is well off of our forecast of 75,600 permits, while the 43,700 multi-family units permitted easily topped our forecast of 39,800 units. One sign that the recent run of strength in single family construction in the South region may be flagging is that single family permit issuance in the region slipped below 40,000 units in September, the lowest monthly total since February.

The multi-family data remain a moving contradiction, in that the ratio of starts-to-permits has been notably low for some time, as has the ratio of completions-to-starts. The net result, as seen in our second chart below, is that the backlog of multi-family units under construction continues to build. As of September, the running 12-month total of not seasonally adjusted housing permits stood at 1.318 million units, with the 485,300 multi-family permits issued over this span the highest such total since March 2016. While multi-family completions have drifted lower over recent months, single family completions are rising, but, again, at only a modest pace. We expect this to remain the case over coming months.



Single Family Inching Higher



Multi-Family Backlog Builds Further

