ECONOMIC UPDATE

REGIONS

November 19, 2019

October Residential Construction: More Support For GDP Growth In Q4?

- Total housing starts rose to an annualized rate of 1.314 million units; total housing permits rose to an annualized rate of 1.461 million units
- Single family starts rose to 936,000 units and single family permits rose to 909,000 units (seasonally adjusted annualized rates)
- Multi-family starts rose to 378,000 units and multi-family permits rose to 552,000 units (seasonally adjusted annualized rates)

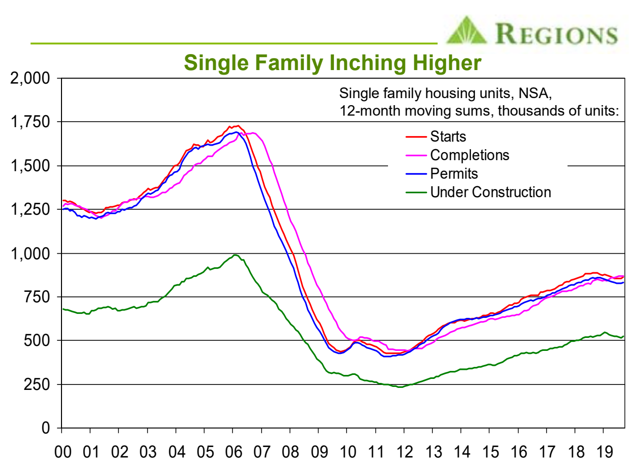
Total housing starts rose to an annualized rate of 1.314 million units in October, slightly ahead of the consensus forecast but below our forecast of 1.339 million units. Total housing permits jumped to an annualized rate of 1.461 million units, well ahead of our above-consensus forecast of 1.397 million units. Aside from the usual volatility that the multi-family sector is known, though not necessarily loved, for, the October data show further gains in the single family segment, which reflects the beneficial effects of low mortgage interest rates. After residential fixed investment contributed to top-line real GDP growth for the first time since Q4 2017 in Q3, the October data suggest Q4 got off to a solid start. To be sure, the magnitude of the contributions to top-line real GDP growth is fairly small, but, we'll take any addition over what had become a steady string of subtractions any day, or, any quarter, that is.

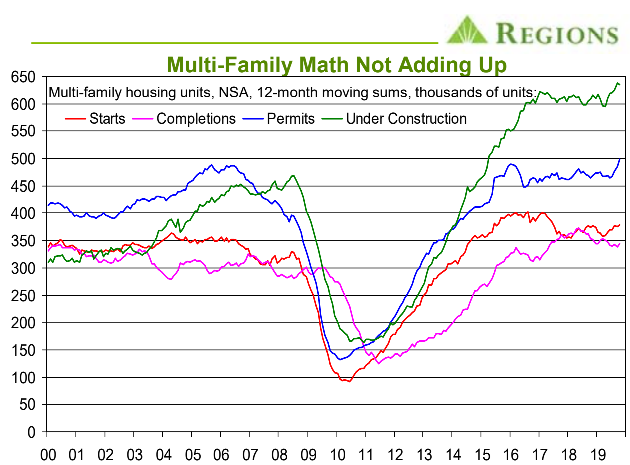
On a not seasonally adjusted basis, there were a total of 113,100 total units started in October, a bit shy of our forecast of 117,400 units. Our miss, however, was in the multi-family segment, with the 33,700 multi-family units started lagging our forecast of 37,500 units. Multi-family starts rose in the West but fell in each of the other three broad regions. There were 79,400 single family units started in October, in line with our forecast of 79,900 single family starts. Though single family starts were down from September, the decline this October was smaller than is typical for the month. More significantly, single family starts have clearly rebounded from the rout triggered by what we've termed the affordability shock of late-2018 that carried into early-2019, as higher mortgage interest rates combined with elevated prices led to a sharp drop-off in single family construction and sales. Barring a material increase in mortgage rates, we expect further gains in single family construction, albeit at a modest pace, over coming months.

On a not seasonally adjusted basis, 131,800 new housing units were permitted in October, mocking our forecast of 118,300 units. The 79,600 single family permits issued topped our forecast of 75,700 units, with permits topping our forecast in each of the four broad Census regions. That was also the case in the multi-family segment, only more so – there were 52,200 multi-family units permitted in October, well above our forecast of 42,600 units. This marks the highest monthly total for multi-family permits since June 2015.

Not to sound like poor sports or anything, but something about the multi-family numbers just seems off, which we touched on in this week's *Economic Preview*. We're not talking about the disparity between the rate of multi-family starts and the rate of multi-family completions, which we've been discussing for some time. There is also a notable, and growing, disparity between multi-family permits and multi-family starts. The starts-to-permits ratio has been notably low over the past several quarters which, in conjunction with what has been an elevated ratio of single family starts to single family permits, has led us to wonder if there is not a reporting issue in play here. Specifically, whether increased townhouse construction may be playing tricks with the data. In the residential construction data, townhouses are classified as attached single family units, but it could be that permits for townhouse units have been reported as multi-family permits. It is worth noting that the disparities in permits and starts in both multi-family and single family is more pronounced in the Northeast region, where higher densities and binding constraints on lots would favor townhouse units over detached single family units. Any such discrepancy should be corrected in the starts data but the permit data would not necessarily be corrected retroactively. The data on construction by intent and design are not deep enough for us to draw a definitive conclusion on this, but they do suggest this is a plausible explanation. Either way, our second chart below suggests something is off with the multi-family math.

In terms of overall economic impact, including the GDP data, single family construction has a much bigger impact. As such, the slow but steady gains in single family construction are encouraging. And, barring a material increase in mortgage interest rates, this slow but steady growth in single family activity should continue over coming months.





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