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November Residential Construction: Better Than Expected, But Single Family Disappoints

- Total housing starts rose to an annualized rate of 1.365 million units; total housing permits rose to an annualized rate of 1.482 million units
- Single family starts rose to 938,000 units and single family permits rose to 918,000 units (seasonally adjusted annualized rates)
- Multi-family starts rose to 427,000 units and multi-family permits rose to 564,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annualized rate of 1.365 million units in November, above the consensus forecast but short of our forecast of 1.402 million units. Total housing permits increased to 1.482 million units, topping our above-consensus forecast of 1.473 million units. Though the headline numbers on permits and starts were better than the consensus estimates, we nonetheless find them to be disappointing, in that the mix of activity was lighter on the single family side and heavier on the multi-family side than we had anticipated, contrary to various anecdotal reports that helped shape our forecast. Of more significance, however, is that the November data do nothing to disrupt the underlying trends in the single family segment, i.e., the gradual but steady upward trend in both single family permits and starts in place prior to the "affordability shock" of late-2018 has been re-established, and we think this has further to run over coming months. As such, residential investment will be a support for top-line real GDP growth in Q4, as was also the case in Q3, which broke a multi-year run in which residential investment was a persistent drag on top-line growth.

On a not seasonally adjusted basis, there were a total of 103,500 total units started in November, a bit short of our forecast of 106,200 units. At 68,300 units, single family starts fell short of the 72,800 units our forecast anticipated. Though this represents a 11.6 percent decline from October single family starts, this is smaller than the long-term average decline of 14.8 percent for the month, so in that sense single family starts were stronger than is normal for the month of November, just not to the extent our forecast anticipated. On a year-to-date basis through November, single family starts are down 0.4 percent, but with a simply "normal" December the annual total for 2019 will top that of 2018. There were 35,200 multi-family units started in November, better than the 32,800 units our forecast anticipated. On a year-to-date basis, multi-family starts were up 2.9 percent through November.

On a not seasonally adjusted basis, 108,100 new housing units were permitted in November, short of our forecast of 113,400 total permits.

At 63,500 units, single family permits fell well short of our forecast of 70,300 units and down sharply from the 79,800 single family permits issued in October – larger than the normal seasonal decline. Single family permit issuance fell in each of the four broad Census regions, with the most pronounced decline in the South region. On a year-to-date basis through November, single family permits were down 1.9 percent.

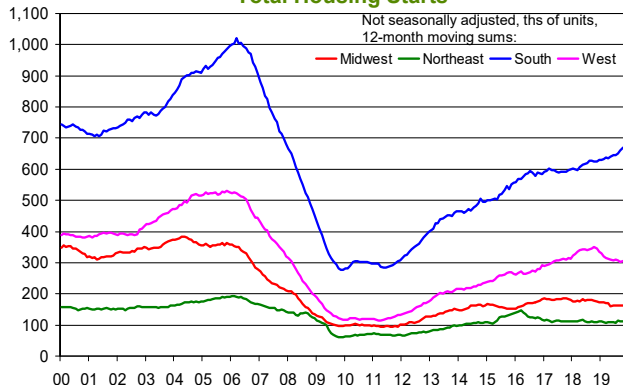
The not seasonally adjusted data show 44,600 multi-family units were permitted in November. While this is not too far above our forecast of 43,100 units, that the headline, or, seasonally adjusted and annualized, multi-family permit number, 564,000 units, is not even in the same time zone as our forecast reflects a much more generous seasonal adjustment factor than we anticipated. But, simply focusing on the not seasonally adjusted data shows something is off with the multi-family data. That the ratio of completions-to-starts has been abnormally low is nothing new, we've been raising this point for quite some time – and we've got quite the pile of angry e-mails telling us, rather rudely, that we don't understand the housing market to prove it. What is increasingly curious, at least to us, is that the ratio of multi-family starts to multi-family permits remains atypically low. At the same time, the ratio of starts-to-permits in the single family segment of the market has been notably elevated. This has led us to wonder if there is not a reporting issue in play here, i.e., whether increased townhouse construction may be resulting in multi-family permits being overstated and single family permits being understated. It is too soon to draw a definitive conclusion on this point, but it does at least seem plausible.

We think there is more life in the single family segment of the market than implied by the unadjusted November data. Still, it is sobering to see that whatever progress has been made in the single family segment in the post-recession years leaves us far short of a number that would be considered close to normal on a historical basis. The consolation prize, such as it is, is that single family construction is at least contributing to top-line real GDP growth. At this point, we'll take it.



REGIONS

Total Housing Starts



REGIONS

Single Family Housing Starts

