ECONOMIC UPDATE
REGIONS
March 18, 2020

February Residential Construction: Upward Momentum Won't Be Sustained

- Total housing starts fell to an annualized rate of 1.599 million units; total housing permits fell to an annualized rate of 1.464 million units
- Single family starts rose to 1,072,000 units and single family permits rose to 1,004,000 units (seasonally adjusted annualized rates)
- Multi-family starts fell to 527,000 units and multi-family permits fell to 460,000 units (seasonally adjusted annualized rates)

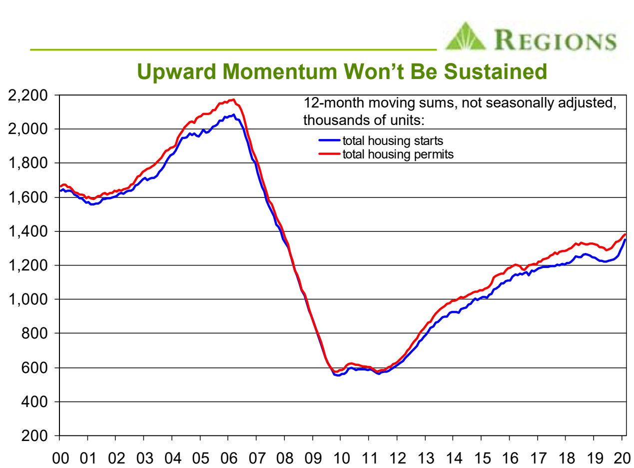
Total housing starts fell to an annualized rate of 1.599 million units in February. Take a second to process that sentence – specifically, the word "fell" – in light of how sluggish residential construction has been over much of the past several years. February's rate of starts is the third highest monthly rate since December 2006, the only months with a higher rate of housing starts were December 2019 and January 2020, the latter of which was revised up to an annualized rate of 1.624 million units. Starts came in well ahead of what we and the consensus expected. Total housing permits fell to an annualized rate of 1.464 million units in February, but, again, that comes after January saw a 13-year high in the rate of permit issuance. Clearly, housing market activity had been accelerating over the latter stages of 2019 and the early stages of 2020. Just as clear is that this upward momentum will not be sustained, given the harsh toll it appears the coronavirus will take on the U.S. economy.

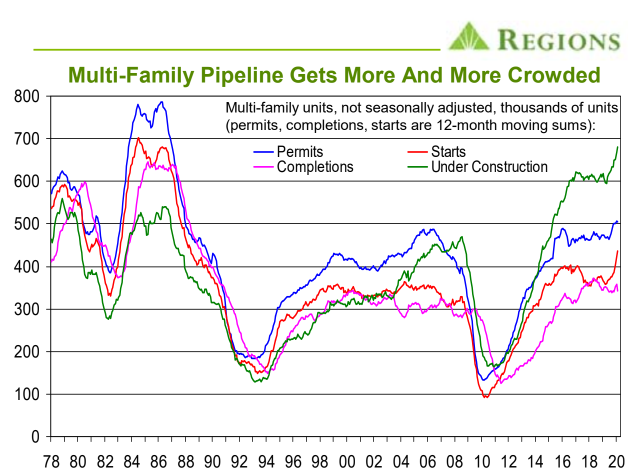
On a not seasonally adjusted basis, there were 113,000 total housing starts in February, easily ahead of our forecast of 102,200 starts. Our forecast anticipated that what in many parts of the Southeast region were record or near-record levels of precipitation in February would have held down construction activity, but this is not reflected in the February data. There were 75,300 single family units started last month, far more than our forecast of 65,100 units. Our miss is entirely accounted for by the South region – the 47,900 single family starts in the South region is the second highest monthly total since May 2007. The unadjusted data show 37,600 multi-family starts in February, in line with our forecast. As of February, the running 12-month total of not seasonally adjusted housing starts, which we see as the most reliable gauge of the underlying trend rate of starts, stood at 1.349 million units, the highest such total since December 2007.

On a not seasonally adjusted basis, 100,800 housing units were permitted in February, lagging our forecast of 111,600 units. Our miss is accounted for by multi-family permits; there were 30,200 multi-family units permitted in February, well short of our forecast of 42,100 units. The 70,600 single family units permitted in February is just above our forecast of 69,300 units. For both housing permits and, to a much greater degree, starts, keep in mind that atypically warm winter weather in January accounted for some activity being pulled forward, such that even with declines in February, the first two months of 2020 saw a higher than normal volume of residential construction activity than is typically the case for these months. February's totals put the running 12-month total of not seasonally adjusted housing permits at 1.381 million units, the highest such total since December 2007.

The 30,200 multi-family units permitted in February marks a two-year low, and what is unclear is whether that simply reflects the inherent volatility in multi-family permits and starts, or whether it reflects a more structural shift. Given how overall economic activity is being impacted by the coronavirus, we may not know the answer to that question for some time to come, if ever. But, it is still worth thinking about in the context of the continuing growth in the backlog of multi-family units under construction. As of February, there were 681,600 multi-family units under construction, the most in any month since September 1974. At the same time, multi-family completions fell in February, thus further widening the gap between starts and completions. Our expectation has been that at some point this gap would translate into diminished multi-family permit issuance and starts, but up until now that had not been the case.

The obvious unknown at present is the extent to which economic activity will slow due to the effects of the coronavirus, and this certainly includes the housing market. Builders face potential shortages of materials, and, lower mortgage interest rates notwithstanding, falling consumer confidence amidst labor market turmoil will clearly take a toll on the demand side of the market. What is unknowable at this point is how severe and how persistent these effects will be. Though it is likely of little comfort, what we do know is that the housing market took a good deal of positive momentum into the building economic storm.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com