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## September Residential Construction: Hurricanes Mask Ongoing Shift in Construction

- > Total housing starts fell to an annualized rate of 1.127 million units; total housing permits fell to an annualized rate of 1.215 million units.
- > Single family starts fell to 829,000 units while single family permits rose to 819,000 units (annualized rates).
- > Multi-family starts fell to 298,000 units and multi-family permits fell to 396,000 units (annualized rates).

Total housing starts fell to an annual rate of 1.127 million units in September from August's rate of 1.183 million units, slightly below our below-consensus forecast of 1.146 million units. Total housing permits slipped to an annual rate of 1.215 million units from August's rate of 1.272 million units, well below our high-end forecast of 1.365 million units as the post-hurricane bump in permits we anticipated for the South region did not materialize. That, however, is a matter of timing and the rebuilding efforts will turn up in the data over coming months. A more persistent pattern – the deceleration in multi-family activity – will continue to make its mark on the data. As such, while the headline numbers for total permits and total starts may not change much, that will mask the ongoing shift in activity away from multi-family and toward single family construction.

On a not seasonally adjusted basis, there were 101,300 total starts in September, slightly below our forecast of 102,100 units. Single family starts fell to 72,300 units, reflecting a sharp decline in the South and increases in the other three broad Census regions. Multi-family starts edged up to 29,000 units, with notably low numbers of starts in both the Midwest and Northeast regions while the South and West regions saw multi-family starts increase. If the increase in the South region seems odd, in light of the hurricanes, it isn't – keep in mind that in August there were only 8,700 multi-family starts in the South region, which is the oddity in the data. Our forecast anticipated a rebound in September while still allowing for the effects of the hurricanes. The 12,200 multi-family starts in the South were right in line with our forecast but still below what had been the run rate prior to the large decline in August.

The not seasonally adjusted data show 100,500 total permits issued in September, well below our forecast of 119,200 permits. As noted above, we had anticipated somewhat of a bounce in single family permit issuance in the South region, hence our forecast of 43,400 single family permits in the South. This turned out to be too ambitious, as the data show 33,300 single family permits in the South. Multi-family permits in

the South also came in below our forecast, though not nearly to the same extent as with single family permits. Again, we think this to be more a matter of timing than anything else. After all, pulling permits is the first step in the process of rebuilding after the hurricanes, and in such episodes it is not at all unusual for permits to run ahead of starts. But, as we noted in our weekly *Economic Preview*, the rebuilding process in the wake of Hurricanes Harvey and Irma figures to be slower and more drawn out than has been the case in the past, as even prior to the storms builders were contending with shortages of labor and materials, with these shortages acting as drags on the pace of construction, particularly single family construction. Note that coming months will likely see sharp swings in the data for the West region in the aftermath of the severe damage done by the California fires.

The effects of the natural disasters will, at some point, fade from the data, and when they do we expect the underlying trends in the data prior to these disasters – the slow but steady grind higher in single family activity and the deceleration in multi-family activity – to gain increased visibility. The not seasonally adjusted data show 34,200 multi-family permits issued in September, with 29,000 multi-family starts. This leaves the running 12-month total of multi-family housing permits at 439,700 units, the lowest such total since May 2015, with declines in multi-family permits in each of the four broad Census regions. The pace of multi-family completions remains notably slow, with September marking the 14<sup>th</sup> consecutive month in which there were over 600,000 multi-family units under construction. The bulging multi-family supply pipeline is one factor behind permits and starts having tailed off over recent months, and growth of apartment rents has slowed over recent months as well. We expect these trends to persist over coming months, seeing the bigger question as the pace, not the direction, of change.

We expect the always volatile housing market data to be even more so over coming months in the wake of the series of natural disasters. What won't change, however, is the shift in the mix of construction.

