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November Residential Construction: Strong Headline Numbers, But Soft Details

- > Total housing starts rose to an annualized rate of 1.256 million units; total housing permits rose to an annualized rate of 1.328 million units
- > Single family starts fell to 824,000 units while single family permits rose to 848,000 units (annualized rates)
- > Multi-family starts rose to 432,000 units and multi-family permits rose to 480,000 units (annualized rates)

Total housing starts rose to an annualized rate of 1.256 million units in November, matching our above-consensus forecast, while total housing permits jumped to an annualized rate of 1.328 million units, topping our above-consensus forecast of 1.277 million units. Our forecasts were above consensus on both permits and starts, permits came in above our forecast and starts matched our forecast, yet we find the report on November residential construction to be somewhat disappointing, which may have you rolling your eyes and going "man, there's just no pleasing some people." Sure, we get that a lot, but in this specific instance we feel our reaction is warranted, as the mix of residential construction was much more weighted toward multi-family than our forecast anticipated. And, given what remains a sizeable backlog of multi-family units under construction, the November data are somewhat perplexing on top of being somewhat disappointing.

As we noted in this week's *Economic Preview*, in any given year November is a seasonally weak month for residential construction, which in turn means that the seasonal adjustment factors used to get from the not seasonally adjusted data to the headline (i.e., seasonally adjusted and annualized) numbers tend to be overly generous. This, at least to us, highlights the importance of looking at the details in the not seasonally adjusted data. On a not seasonally adjusted basis, there were a total of 101,700 housing permits issued in November, right in line with our forecast of 101,500 units, while there were a total of 95,900 housing starts, a bit lower than our forecast of 99,700 starts. Again, though, the mix of permits and starts between single family and multi-family units anticipated in our forecast was off.

The unadjusted data show 60,300 single family units were started and 35,600 multi-family units were started in November, with 60,900 single family units permitted and 40,800 multi-family units permitted. As with other data series for November (employment, retail sales) there are signs of weather effects in the data on residential construction. The declines in not seasonally adjusted single family permits and starts in

the Midwest region were larger than normal for November. To the extent this is the case, that activity will be made up for in subsequent months. More significantly, single family activity in the South region fell well short of our forecast while multi-family activity was much stronger than our forecast anticipated. The 18,900 multi-family starts marks the highest monthly total since July 2016, and the 18,900 multi-family permits is the highest monthly total since this April. At the same time, the 32,500 single family starts in the South region is the lowest monthly total since last December. The extent to which the data for the South region continue to be impacted by Hurricanes Florence and Michael is, at least to us, unclear, and will take more time to sort out.

Based on the not seasonally adjusted data as of November, over the past 12 months there have been a total of 1.261 million housing starts, with 880,000 single family starts and 381,000 multi-family starts. Over the past 12 months there have been a total of 1.312 million housing permits issued, of which 858,000 have been single family permits and 454,000 have been multi-family permits. Single family permits have flattened out over the past few months, and there continues to be a sizeable gap between multi-family permits and multi-family starts. Though this gap narrowed a bit in November, it nonetheless remains large. This could reflect labor supply and, to a lesser extent, financing issues that are keeping developers from following through on new projects that have already been permitted, or it could be that a notably swollen supply pipeline is acting as a more effective deterrent to multi-family starts. For more than two years now, in any given month there have been over 600,000 multi-family units under construction. We've been consistent with our view that, while demand for multi-family units remains healthy, it isn't that healthy, higher mortgage rates notwithstanding.

We continue to expect slow, but nonetheless steady, growth in single family starts over coming quarters. The wide gap between multi-family permits and starts and the slow pace of multi-family completions are difficult to interpret, but we still expect multi-family starts to tail off.

