

This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the “Contents”) based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

January Residential Construction: Starts, Permits Telling Different Stories

- Total housing starts rose to an annualized rate of 1.230 million units; total housing permits rose to an annualized rate of 1.345 million units
- Single family starts rose to 926,000 units while single family permits fell to 812,000 units (annualized rates)
- Multi-family starts fell to 304,000 units and multi-family permits rose to 533,000 units (annualized rates)

New residential construction got off to a solid start in 2019, with total housing starts rising to an annualized rate of 1.230 million units, just ahead of our above-consensus forecast of 1.222 million units. Total housing permits rose to an annualized rate of 1.345 million units, falling a bit short of our above-consensus forecast of 1.358 million units. Still, the starts data and the permits data appear to be telling different stories, leaving some question as to how residential construction will play out in 2019. Our expectations have not really changed much, as we continue to look for further gradual growth in single family construction across the board – permits, starts, and completions – while multi-family permits and starts ease as the considerable backlog of multi-family units under construction gets smaller, but only modestly so. Sure, we have only one month of data for 2019 so it is far too soon to know, but we nonetheless are encouraged by the data on single family activity, particularly given the “housing is done” narrative that seemed to dominate the reporting on the housing market by year-end 2018.

On a not seasonally adjusted basis, there were 82,600 total housing starts in January, below our forecast of 84,400 units. Harsh winter weather over the back half of January took a toll on construction in the Midwest. Multi-family starts in the Midwest tumbled to just 500 units, the lowest monthly total since January 2013, and the 4,900 single family starts in the Midwest are well below normal for the month of January. Thanks to the virtual standstill in the Midwest, total multi-family starts came in at just 21,600 units in January, well below what our forecast had anticipated. In contrast, the 61,000 single family starts (again, not seasonally adjusted) easily topped our forecast, primarily on the strength of the 37,500 starts in the South region.

On a not seasonally adjusted basis, 96,900 housing units were permitted in January, just below our forecast of 97,200 units, with single family permits just shy of what our forecast anticipated. With 39,500 permits in January, multi-family permits remain oddly elevated – this is a strong number for the month of January which, combined with a generous

seasonal adjustment factor, yielded the seasonally adjusted annualized multi-family permit number of 533,000 units. We say multi-family permits remain “oddly elevated” in the context of what remains a sizeable backlog of multi-family units under construction. As of January, there were 615,000 multi-family units under construction, and this number has topped 600,000 over the past 30 months, the longest such run since the early/mid 1970s. And, even allowing for harsh winter weather having brought starts in the Midwest to a virtual halt in January, we’ve also noted that the ratio of multi-family starts to permits has remained notably low for some time now.

These patterns in multi-family activity continue to confound us, and the strength of multi-family permits in January gets our forecast of scaled down multi-family permits in 2019 off on the wrong foot. While the seasonally adjusted data show multi-family completions picked up in January, this reflects a generous seasonal adjustment factor more than anything else, and the reality is that completions are simply not keeping pace with starts. It is interesting that, while the Federal Reserve’s quarterly surveys of commercial lending practices have showed steadily declining demand for multi-family construction loans and steadily tightening lending standards on such loans, financing appears to be no problem for multi-family developers, reflecting private equity flowing into this space. One of our forecasting shortcomings has been trying to apply reason to our forecasts of multi-family activity, so we’ll just say that, clearly, something has to give in the multi-family segment of the housing market. We just don’t know what will give or when it will give.

We’ve consistently argued against the “housing is done” narrative that took hold in 2018, with an increasingly tight grip as the year wore on. We’ve pointed to single family as where there was room for growth, even if only modest, and this call has served us well. Where our housing forecasts have gone off track is multi-family, but nonetheless we still expect to see permits and starts taper down in 2019. At some point, this will be the correct call, it’s just a matter of when, right?

