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June Residential Construction: Single Family Permit Issuance Something To Watch

- › Total housing starts fell to an annualized rate of 1.253 million units; total housing permits fell to an annualized rate of 1.220 million units
- › Single family starts rose to 847,000 units and single family permits rose to 813,000 units (annualized rates)
- › Multi-family starts fell to 406,000 units and multi-family permits fell to 407,000 units (annualized rates)

Total housing starts fell to an annualized rate of 1.253 million units in June, below the 1.291 million unit pace our forecast anticipated, while total housing permits tumbled to an annualized rate of 1.220 million units, far below what we and the consensus expected. As always, our main interest is in the raw, i.e., not seasonally adjusted, data, and our reaction to the raw data is somewhat mixed. That activity in the multi-family segment of the market, both permits and starts, fell shy of our expectations is not at all concerning given what remains a sizable backlog of units under construction. As for the single family segment of the market, the raw data show single family starts were line with our forecast. What is concerning, however, is that single family permits were notably weak. It is too soon to know whether reflects some evening out for May, when single family permit issuance in the South was notably strong, or something more ominous.

On a not seasonally adjusted basis, there were 117,500 total housing starts in June, below our forecast of 121,300 starts. The 81,600 single family starts were pretty much in line with the 82,500 single family starts our forecast anticipated. Single family starts rose in the Midwest, Northeast, and West regions but fell slightly in the South, with 44,000 starts in June compared to 44,500 in May. June marks the third straight month in which single family starts increased in the Midwest region, but the level of activity in that region remains seasonally weak, which likely reflects the ongoing effects of severe flooding in parts of the Midwest. At 35,900 units, unadjusted multi-family starts fell short of our forecast of 38,800 units, with sizable drop-offs in the South and West region. These declines, however, came on the heels of notably high numbers of starts in May – the revised data show 20,400 multi-family starts in the South region in May, the highest monthly total since September 2015.

The not seasonally adjusted data show a total of 110,100 housing permits were issued in June, well short of our forecast of 125,100 total permits. Our forecast of 84,000 single family permits proved to be overly ambitious, with 74,100 single family permits actually issued.

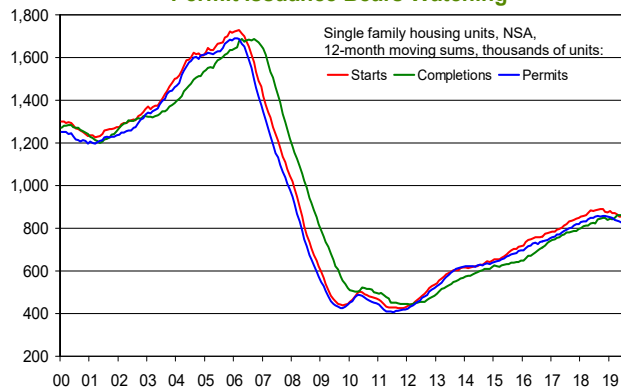
Single family permit issuance was flat between May and June in the Northeast region but down in the other three broad regions. Again, though single family permit issuance was strong in the South and West regions in May, so the slowdown in June could simply reflect payback, though we expected there to be more catching up in the Midwest region in June than proved to be the case.

Again, it is simply too soon to know whether the decline in multi-family activity in June reflects payback from a stronger than normal May or a more fundamental adjustment. It helps to recall that, when trying to assess the multi-family segment of the housing market, the first rule is to throw logic out the window. In our weekly *Economic Preview*, we noted the most important number to watch in the multi-family segment would be the number of completed units, which would tell us whether there has been any progress in clearing what for some time has been a considerable backlog of units under construction. Rather than progress, however, June saw another step backwards – after having fallen sharply in May, the number of multi-family completions fell even further in June. As a result, the backlog got even larger, with a total of 617,400 multi-family units under construction in June. As we show below, there seems an odd disconnect between the under-construction pipeline and the numbers of multi-family permits and starts, while completions remain strikingly low. The ratio of multi-family starts to permits has fallen, but it is nonetheless puzzling, at least to us, why permit issuance remains at such a high level. Obviously market dynamics vary from one metro area to the next, but backlogs of under construction multi-family units are growing in each of the four broad regions.

We'll see how that plays out, but it is the single family segment of the market that is of more significance. One way to square weakness in single family permit issuance in June with builders reporting a strong month for orders is that builders were working to clear spec inventories before tackling these new orders. If so, permits and starts should both head higher over coming months.



Permit Issuance Bears Watching



Multi-Family Pipeline Gets More Crowded In June

