ECONOMIC UPDATE

REGIONS

November 18, 2020

October Residential Construction: Still Further To Go For Single Family

- Total housing starts rose to an annualized rate of 1.530 million units; total housing permits were unchanged at a rate of 1.545 million units
- Single family starts rose to 1.179 million units and single family permits rose to 1.120 million units (seasonally adjusted annualized rates)
- Multi-family starts were unchanged at 351,000 units and multi-family permits fell to 425,000 units (seasonally adjusted annualized rates)

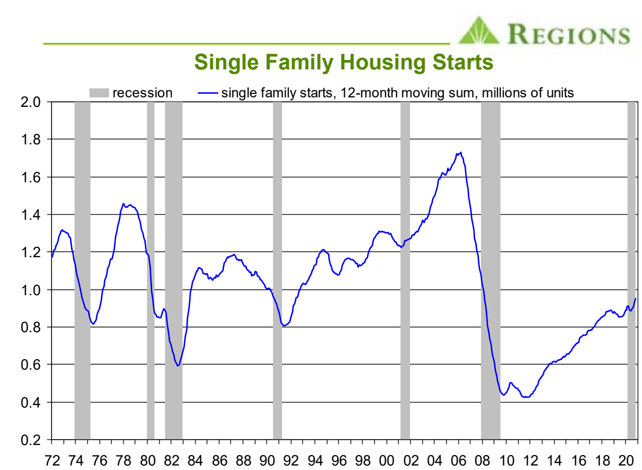
Total housing starts rose to an annualized rate of 1.530 million units in October, besting our above-consensus forecast of 1.484 million units, while total housing permits held steady at an annualized rate of 1.545 million units, a bit below our forecast of 1.586 million units. On top of the stronger than expected starts rate for October, the prior estimate of September starts was revised higher, to an annual rate of 1.459 million units. At 1.179 million units, October marks the fastest monthly rate of single family starts since April 2007. October marks the third straight month with an annualized rate of multi-family starts at 351,000 units, which is notable in that this is one of the most inherently volatile data series in the history of economic data series. This is surely some kind of karmic payback for our, in our weekly *Economic Preview*, having called out multi-family starts for their wild gyrations; if nothing else, multi-family starts being the same for three straight months is oh so 2020. Of far more significance, however, is the continued advance of single family starts, which at present is being checked only by capacity constraints amongst builders.

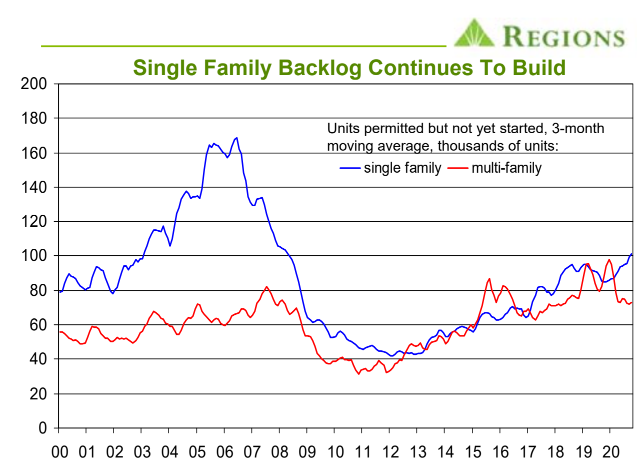
On a not seasonally adjusted basis, there were 132,000 total housing starts in October, topping our forecast of 126,500 starts. While multi-family starts matched our forecast, the 101,000 single family starts topped our forecast, and marks the highest monthly total since June 2007. Unadjusted single family starts fell in the Northeast but rose in each of the other three broad Census regions; at 24,300 units, the West saw the highest monthly total of single family starts since July 2007, while the 55,600 single family starts in the South mark that region's highest monthly total since April 2007. Over the past 12 months, there have been a total of 952,200 single family starts. With 31,900 multi-family starts in October, that puts the running 12-month total of not seasonally adjusted multi-family starts at 409,500 units.

On a not seasonally adjusted basis, there were 138,100 housing units permitted in October, ahead of our forecast of 133,000 units as single family permits were higher than we anticipated. At 94,500 units, single family permits were basically unchanged from the 94,700 permits issued in September, as slight increases in the South and West were countered by slight declines in the Midwest and the Northeast. Over the past 12 months, there have been a total of 933,600 single family permits issued, the highest 12-month total since January 2008, the difference between then and now being that back then single family permit issuance was rapidly fading from the frenzied peak seen prior to the 2007-09 recession, whereas now single family permits are on a more gradual, and more sustainable, climb higher. The unadjusted data show a total of 38,500 multi-family permits issued in October, little changed from 38,600 in September, which puts the running 12-month total at 469,300 units, a figure we expect to drift lower over coming months.

Completions of both single family and multi-family units were little changed in October, leaving larger pipelines of under construction units. At 658,000 units in October, the backlog of under construction multi-family units has topped the 600,000 mark for 18 straight months. With permit issuance drifting lower, though at a slower pace than we've been expecting, multi-family starts will eventually slow, but with the pace of multi-family completions remaining notably slow, this backlog is likely to persist for some time. In the single family segment, it isn't so much the backlog of under construction units that catches our eye, but rather the growing backlog of single family units that have been permitted but not yet started, a backlog that continues to rise. Builders are literally straining to keep pace with demand, another sign of which is that spec inventories of new homes for sale have been shrinking for almost two years. While we do not think we are there yet, should demand for new single family homes begin to fade, this backlog of unfilled orders will help sustain starts, making for a smoother transition to a slower pace of construction, unlike the sudden stop seen in the prior cycle.

Single family construction and sales stand out as one of the brightest spots in an economy still trying to right itself. We see much more upside room, with builders remaining busy for some time to come.





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