ECONOMIC UPDATE
REGIONS
July 20, 2021



## June Residential Construction: Upside Surprises Leave Plenty Of Questions

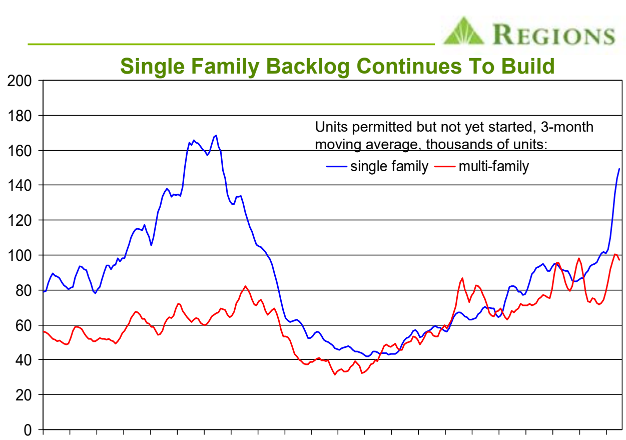
- Total housing starts rose to an annualized rate of 1.643 million units; total housing permits fell to an annualized rate of 1.598 million units
- Single family starts rose to 1.160 million units and single family permits fell to 1.063 million units (seasonally adjusted annualized rates)
- Multi-family starts rose to 483,000 units and multi-family permits fell to 535,000 units (seasonally adjusted annualized rates)

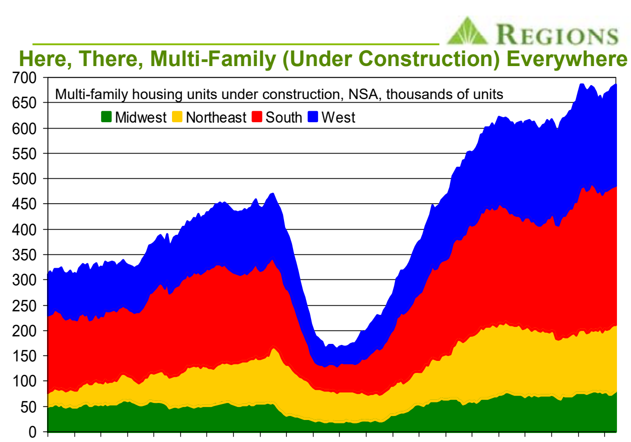
Total housing starts rose to an annualized rate of 1.643 million units in June, ahead of expectations, while total housing permits fell to an annualized rate of 1.598 million units. The initial estimate of May housing starts was revised lower, now printing at an annual rate of 1.546 million units rather than 1.572 million units as originally reported. The not seasonally adjusted data on both permits and starts surprised us to the upside; we had expected activity this June to be weaker than is typical for the month, which accounted for our below-consensus forecasts of the seasonally adjusted, annualized data. We had also expected builders to make some headway in working down the considerable backlog of units permitted but not yet started, but instead this backlog got even larger in June. At the same time, multi-family permits remain oddly elevated and continue to run significantly ahead of multi-family starts against the backdrop of a notably large, not to mention persistent, pipeline of multi-family units under construction. On the whole, then, while residential construction activity in June topped our expectations, the data don't do much to change our overall view of the housing market, i.e., builders pressed to keep pace with demand for single family homes and questions around the timing of what will at some point be a significant bump in multi-family supply.

On a not seasonally adjusted basis, there were 152,600 total housing starts in June, easily distancing our forecast of 139,600 starts. At 41,500 units, multi-family starts matched our forecast, but the 111,100 single family units started were well above our forecast and the most in any month since May 2007. Single family starts fell in the Midwest, which comes as no surprise after May saw the region's highest monthly total since July 2007, but single family starts hit multi-year highs in each of the three other broad Census regions. The 8,800 single family starts in the Northeast were the most in any month since June 2007, the 62,600 single family starts in the South were the most in any month since September 2006, and the 25,800 single family starts in the West were the most in any month since May 2007. That starts were so strong is at odds with reports of growing constraints on supplies of materials and labor. As such, it remains to be seen whether June's blistering pace of starts can be sustained.

On a not seasonally adjusted basis, there were 155,000 total housing permits issued in June, well ahead of our forecast of 141,300 permits, with both single family and multi-family permits topping our forecast. At 104,900 units, single family permits were up from the 99,100 permits issued in May but below the number issued in both March and April. Our expectation was that, with many builders across the U.S. imposing caps on sales as a means of contending with elevated and uncertain materials prices and growing backlogs of unfilled orders, single family permit issuance would lag in June but would pick back up later this year as caps on sales were eased or lifted altogether. It could be that monthly single family permit issuance will simply be more stable than we had anticipated, leaving little difference in the total number of permits ultimately issued.

Either way, builders fell further behind in June; the number of single family units permitted but not yet started rose to 152,200 in June, the highest monthly total since August 2006 (we show three-month moving averages to smooth out the data). At the same time, single family completions fell in June and the backlog of single family units under construction rose to a level last seen in September 2007. That of course pales in comparison to the backlog of under construction multi-family units, which rose to 685,900 in June and has topped 600,000 units for 26 consecutive months. The ratio of multi-family starts to multi-family permits remains notably low, and the pace of multi-family completions remains notably slow. The backlogs of under construction multi-family units are the most pronounced in the South and West regions, and while we do not question the strength of demand in these regions, the more relevant question is whether demand will be sufficient to absorb the added supply when completions ultimately begin to pick up. Again, this is in stark contrast to the single family segment of the market, where the question remains when builders will finally catch up with demand.

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