ECONOMIC UPDATE

REGIONS

October 19, 2021

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September Residential Construction: Mixed Signals Don't Mask Supply Side Constraints

- Total housing starts fell to an annualized rate of 1.555 million units; total housing permits fell to an annualized rate of 1.589 million units
- Single family starts were flat at 1.080 million units and single family permits fell to 1.041 million units (seasonally adjusted annualized rates)
- Multi-family starts fell to 475,000 units and multi-family permits fell to 548,000 units (seasonally adjusted annualized rates)

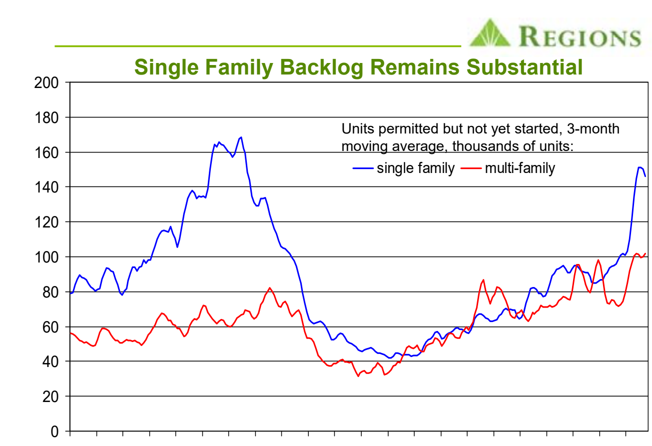
Total housing starts fell to an annualized rate of 1.555 million units in September, short of what we (1.636 million) and the consensus (1.615 million) expected. Total housing permits fell sharply, to an annualized rate of 1.589 million units, far below our forecast of 1.736 million units and the consensus forecast of 1.680 million units. The initial estimate of August housing starts was revised down, with starts now reported at 1.580 million units rather than the 1.615 million units (annualized rates) first reported. For the most part, the always volatile but never boring multi-family segment is behind September starts and permits coming in below expectations and entirely accounts for the downward revision to the initial August estimate. As such, neither is too troubling given that we have for some time thought multi-family starts were higher than made sense given the considerable backlog of units under construction. The other main source of our forecast misses is that activity in the South region came in below what we had anticipated, which could reflect a bigger impact from Hurricane Ida than we had allowed for, though any hurricane-related shortfalls will be made up for down the line. One thing we did get right is that, on a not seasonally adjusted basis, single family starts came in ahead of single family permits for a fifth straight month, reflecting the extent to which builders are working to clear backlogs of unfilled orders. While there was some progress along those lines in September, those backlogs remain substantial, and difficulty in procuring materials and ongoing labor supply constraints mean that further progress will come at only a grudging pace.

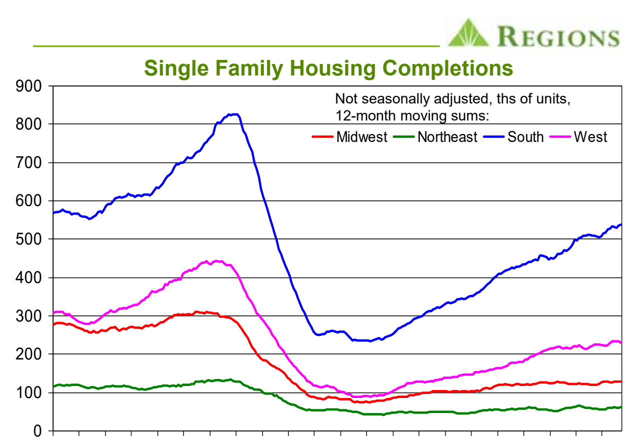
On a not seasonally adjusted basis, there were 135,800 total housing starts in September, lagging our forecast of 142,700 starts. The 92,800 single family starts fell short of our forecast of 98,900 starts, with our miss isolated in the South region. After seeing 60,000 or more single family starts in each of the prior three months, the South registered only 52,700 single family starts in September. As noted above, however, to the extent activity was impacted by Hurricane Ida, there will be payback in the months ahead. There were a total of 43,000 multi-family units started in September, while at the same time revisions now put multi-family starts at 43,600 units in August, as opposed to the initial estimate of 47,400 units (leading to a sizable markdown on an annualized basis), with the Northeast and South regions seeing the largest revisions.

The not seasonally adjusted data show 134,900 housing units were permitted in September, short of our forecast of 146,000 units. Both single family and multi-family permits came in below our forecasts, and while our forecast of unadjusted single family permits in the Midwest region was on the mark, single family permits in the other three regions came in lower than we anticipated. After jumping to 61,100 units in August, multi-family permits settled back to 47,500 units in September. Recall that August's spike mainly reflected the South region logging the most multi-family permits in any month since December 1985.

The drop-off in single family permits in September is easier to notice than to interpret. The not seasonally adjusted data show single family permits fell 6.5 percent, smaller than the typical September decline (an average decline of 9.8 percent over the 2000-2020 period). In that sense, September's decline is not alarming. That said, it does come at a time when mortgage interest rates had begun to rise, and even though increases to date have been moderate, affordability is more sensitive to a given change in mortgage rates now than would have been the case had we not seen such rapid house price appreciation over recent months.

It seems unlikely that the increase in mortgage rates over the back half of the month would have had a meaningful impact in the September data on single family permits. It is more likely that permit issuance is being weighed down by constraints on materials and labor supplies. The pace of single family completions slowed in September and is not likely to rebound to a meaningful degree any time soon. Moreover, the number of single family units permitted but not yet started has fallen a bit but nonetheless continues to hover at levels last seen in 2006. Our sense is that while higher costs and longer delivery times may be having an impact, demand remains solid, and the issue remains builders not being able to keep pace. This is not likely to change for some time.





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