

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.

February Residential Construction: Single Family Pushes Higher . . . At Least For Now

- › Total housing starts rose to an annualized rate of 1.769 million units; total housing permits fell to an annualized rate of 1.859 million units
- › Single family starts rose to 1.215 million units and single family permits fell to 1.207 million units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 554,000 units and multi-family permits fell to 652,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annualized rate of 1.769 million units in February, topping our above-consensus forecast of 1.742 million, while total housing permits fell to an annualized rate of 1.859 million units, above consensus but below our forecast of 1.892 million units. We had anticipated some payback in single family starts after harsh winter weather weighed on starts in January, but beyond that we saw little room for growth given worsening supply constraints and sizable order backlogs, and the not seasonally adjusted data show this to have been the case. That multi-family permits came in lower than we expected accounts for our miss on our forecast of total housing permits, as single family permits topped our forecast. February's seasonally adjusted and annualized rate of housing starts reflects the highest monthly rate since June 2006, though the mix of starts is decidedly different now compared to mid-2006, when single family starts were much higher. While the rate of single family starts in mid-2006 isn't necessarily a realistic target to shoot at, we continue to see only limited room for growth from the current pace of starts until there is meaningful relief from supply-side constraints, both labor and materials.

On a not seasonally adjusted basis, there were 124,600 total starts in February, topping our forecast of 123,100 starts. Single family starts rose to 83,600 units, more than we expected, and February's increase ended a run of seven straight monthly declines. As we noted above, however, there is an element of payback in the February total, and it will bear watching which way the March data go. That we're even asking the question given that we are entering into a seasonally strong period for single family construction is a telling indication of how badly impaired single family construction is. To that point, though rising from January, single family starts in February were nonetheless 25.1 percent below the recent peak of 111,600 units seen last June. Over the past 12 months, the unadjusted data show a total of 1,138,100 single family starts, down from the recent peak of 1,139,700 units as of August.

The not seasonally adjusted data show total housing permits of 131,000 units in February, below our forecast of 132,300 units. As noted above,

our miss reflects fewer multi-family permits being issued than we had expected. What is more significant is that single family permits rose to 87,200 units, the highest monthly total since September. It bears noting that prior to starts having been held down by harsh winter weather in January, single family permits had for several months come in below single family starts. Our view was that this was a reflection of builders concentrating on working down sizable order backlogs, which for many builders entailed caps on new sales. With builders having made little, if any, headway in working down order backlogs, we had expected single family permit issuance to remain subdued. This makes February's increase in single family permits stand out to us, but it is too soon to draw any conclusions from a single month of data.

February did see an increase in single family completions but, again, part of that reflects payback after a steep decline in January, and at 75,800 units, February's count of single family completions is far below the 12-month average prior to January's decline. At the same time, multi-family completions fell further in February, to just 18,000 units, which is the lowest monthly total for multi-family completions since March 2015. Though multi-family developers are by no means immune to the labor and materials constraints that have held down single family construction, February's decline still stands out.

As of February, there were a total of 1.558 million housing units under construction, the fourth straight month with a total above 1.5 million units. For some perspective, in the two years before the pandemic, the average monthly total was 1.146 million units. While we have for years been pointing to the backlog of multi-family units under construction, what stands out now is the growth in under construction single family units. At the same time, there has also been a significant increase in the number of single family units permitted but not yet started. There is no quick fix for what ails the supply side of the housing market. While many are focused on how higher mortgage interest rates will impact single family demand, our sense is that even as growth in demand slows, builders will still not be able to keep pace for some time to come.

