

*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.*

## May Residential Construction: More Soft Headlines, More Solid Single Family Details

- Total housing starts fell to an annualized rate of 1.277 million units; total housing permits fell to an annualized rate of 1.386 million units
- Single family starts fell to 982 million units and single family permits fell to 949,000 units (seasonally adjusted annualized rates)
- Multi-family starts fell to 295,000 units and multi-family permits fell to 437,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annual rate of 1.277 million units in May, short of our forecast of 1.323 million units, while total housing permits fell to an annual rate of 1.386 million units, in line with our forecast of 1.382 million units. In each case, our forecast was considerably below the consensus forecast, the second straight month in which this was the case. And, for a second consecutive month, we'll note that the details of the not seasonally adjusted data are much better than implied by the "headline" (i.e., seasonally adjusted and annualized) prints on permits and starts, which is at odds with the common narrative that elevated interest rates are crushing the housing market. We're not for a minute trying to deny that elevated mortgage interest rates have been a heavy weight on housing market activity, our point instead is the extent to which that has been the case is being meaningfully overstated by the headline prints on permits and starts, and to a lesser extent on sales of single family homes. As we discussed in our *Economic Preview*, the declines we expected in both permits and starts on a not seasonally adjusted basis in May were off of what were notably strong levels in April, a point lost on those who don't look at the unadjusted data. And, while unadjusted starts came in a bit short of our forecast, that was accounted for by multi-family starts falling short of our forecast, which is neither surprising nor concerning to anyone familiar with the sizable backlog of multi-family units under construction and the underlying trends in multi-family permits and starts. So, while the housing market is by no means the picture of perfect health, neither is it as anemic as the headline prints on permits and starts suggest. This is yet another illustration of why we pay no attention at all to these headline numbers.

On a not seasonally adjusted basis, there were 116,900 housing units started in May, short of our forecast of 122,100 units but, as noted above, our miss here is due to multi-family starts. There were 90,000 single family units started in May, down from 95,900 single family starts in April, which was the highest monthly total since June 2022. As we discussed in this week's *Preview*, a drop-off in buyer interest amid growing spec inventories led many builders to dial back a bit in May,

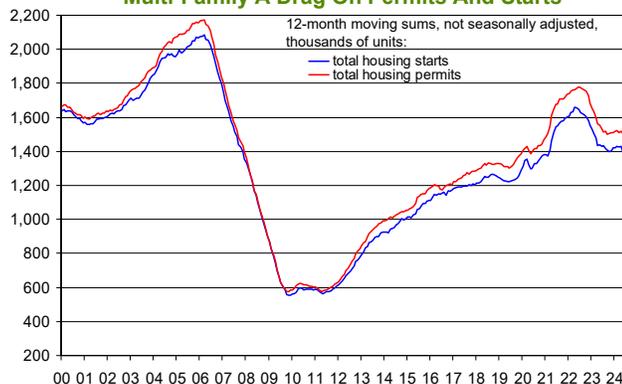
which shows up in the decline in single family starts. That decline, however, still leaves single family starts at an elevated level. To our point about the health of the housing market, through May there were a total of 427,200 single family housing starts thus far in 2024. As shown in our second chart below, barring 2021 and 2022 when single family activity was being juiced by ultra-low mortgage rates, this is the highest year-to-date total through May since 2007, which has come despite the most punitive mortgage rate backdrop over this entire span. There is little doubt that, were rates not where they've been, single family starts, and sales, would be even higher but, again, the headline numbers are understating the strength of activity. That the running 12-month total of unadjusted housing starts has tailed off, as shown in our first chart below, reflects the downshift in the pace of multi-family activity. The not seasonally adjusted data show 27,000 multi-family starts in May, down from 30,300 in April, with this decline magnified by seasonal adjustment, hence the notably low adjusted and annualized rate.

The unadjusted data show 131,300 housing units were permitted in May, ahead of our forecast of 127,400, with our miss accounted for by single family permits topping our forecast while multi-family permit issuance matched our forecast. At 93,400 units, single family permits basically didn't budge from the 93,600 permits issued in April, making this the highest two-month total in two years despite, once again, a far less favorable mortgage rate backdrop. That the running 12-month total of unadjusted housing permits has flattened out reflects a rising total of single family permits being negated by a falling total of multi-family permits, a pattern we expect to continue over coming months.

Completions were mixed in May, with single family falling and multi-family rising, though both are trending up, even if at a halting pace. May saw a further increase in single family units permitted but not yet started, a backlog that has been substantial for some time. Should the recent easing in mortgage interest rates be sustained, don't be surprised to see rapid increases in single family permits and starts, even with somewhat elevated levels of spec inventories of single family homes.



### Multi-Family A Drag On Permits And Starts



### "Soft" Is In The Eye Of The Beholder

