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## July Residential Construction: Decline In Single Family Starts A Bit Overstated

- › Total housing starts fell to an annualized rate of 1.238 million units; total housing permits fell to an annualized rate of 1.396 million units
- › Single family starts fell to 851,000 units and single family permits fell to 938,000 units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 387,000 units and multi-family permits fell to 458,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annual rate of 1.238 million units in July, well below our forecast of 1.269 million units and even further below the consensus forecast of 1.333 million units, while total housing permits fell to an annual rate of 1.396 million units, in between our forecast of 1.315 million units and the consensus forecast of 1.425 million units. The not seasonally adjusted data were a mixed bag, with unadjusted housing starts falling a bit short of our forecast and unadjusted housing permits coming in a bit ahead of our forecast, a distinction we think matters in terms of how we're assessing the July data. In our weekly *Economic Preview*, we noted three factors that would weigh on residential construction activity in July. First, July is a seasonally weak month for residential construction, as evidenced by not seasonally adjusted permits and starts declining as the spring/summer rush of construction activity begins to wind down. Second, mortgage interest rates having been stuck right at seven percent from April through June took an increasing toll on single family sales and builder confidence which, in conjunction with rising inventories of spec homes for sale, would act as a weight on single family activity in July. Third, we expected Hurricane Beryl to have been a meaningful drag on activity in Texas and, in turn, the South region as defined by Census. With the South region accounting for over one-half of all permits and starts, any factor that impacts activity in the South will have an outsized impact on the national level data. The July data show a bigger impact on activity in the South region than our forecast anticipated, but at the same time unadjusted single family permit issuance surprised us to the upside, though this comes after an oddly decline in single family permit issuance in June. On the whole, however, the July data do not change how we see the housing market, i.e., single family activity is holding up better than many had anticipated, and lower mortgage rates will bring some relief, while the trends in multi-family permits and starts continue, typical volatility notwithstanding, to point downward.

On a not seasonally adjusted basis, there were 113,000 total housing starts in July, a bit below our forecast of 114,500, with single family starts lower than we anticipated and multi-family starts higher. To our

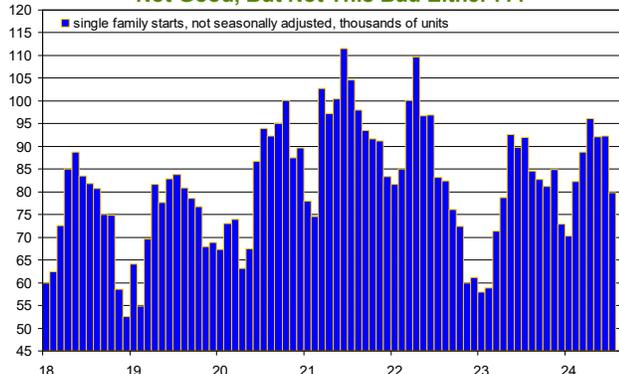
point about the impact of Hurricane Beryl, the 41,300 single family starts in the South region reflects a 26.1 percent decline from June, and one has to go all the way back to the 2007-09 recession to see a decline of that magnitude in the South region. We think it implausible to argue, as we've seen some do, that Beryl had no impact on the July data. Unadjusted single family starts rose in the Midwest region and fell in the Northeast and West regions. Unadjusted multi-family starts rose in July, though the regional splits look somewhat odd. At 4,700 units, the West region saw the fewest multi-family starts since December 2018 while the Northeast saw the most multi-family starts in almost two years. Either way, the multi-family data are inherently volatile, but we think the downward trends in multi-family activity have further to run.

On a not seasonally adjusted basis, there were 125,600 housing units permitted in July, topping our forecast of 117,600 units. Both single family and multi-family permits rose in July, contrary to typical seasonal patterns. Again, the increase in single family permits comes off an oddly large decline in permits in June, leaving it hard to interpret the past two months' data. We will note that single family permit issuance in the South region increased in July, and the increase in unadjusted permits seems at odds with the argument that the decline in starts had nothing to do with Hurricane Beryl.

Total housing completions fell in July, with declines in both single family and multi-family completions. Still, with completions outpacing starts, backlogs of housing units under construction were pared down a bit further in July. At 884,300 units, there were fewer multi-family units under construction than in any month since July 2022, though this still leaves a notably large construction pipeline. This is one reason we expect the downward trends in multi-family permits and starts to remain in place for some time to come. There are still sizable backlogs of housing units that have been permitted but not yet started. While the backlog of multi-family units in this bucket has come down far from the cycle high, there has been much less progress on the single family side of the market. That will likely remain the case until builders are more confident in the path of demand than they are at present.



**Not Good, But Not This Bad Either . . .**



**Trend In Multi-Family Is Still Downward**

