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January Residential Construction: Sometimes, More Really Is Less

- › Total housing starts rose to an annualized rate of 1.487 million units; total housing permits fell to an annualized rate of 1.376 million units
- › Single family starts fell to 935,000 units and single family permits fell to 873,000 units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 552,000 units and multi-family permits fell to 503,000 units (seasonally adjusted annualized rates)

Sometimes, more really is less. Anyone doubting that can actually be the case need only look to the report on January residential construction. Total housing starts rose to an annual rate of 1.487 million units in January, topping our forecast of 1.452 million units and in an entirely different zip code than the consensus forecast of a rate of 1.341 million units. As impressive as the headline starts number may seem, the reality is that it is more a reflection of friendly seasonal adjustment than a faster pace of starts, and the modest increase there was in unadjusted starts reflects a jump in multi-family starts. This is the scenario we laid out in our preview of the January data; we expected the combination of atypically harsh winter weather across much of the U.S. and elevated inventories of spec homes for sale to weigh on single family starts and at the same time expected a bump up in multi-family starts after a notable spike in multi-family permit issuance in December. We did, however, expect generous seasonal adjustment to ride to the rescue of a fairly pedestrian count of not seasonally adjusted starts, particularly in the single family segment. So, while our forecast of January housing starts was easily the highest in the weekly surveys we participate in, our reaction to the data is much more tempered than most of those we've seen. As for housing permits, total housing permits fell to an annual rate of 1.376 million units, basically in line with our forecast of 1.377 million units but lagging the consensus forecast of 1.410 million units. As with housing starts, the multi-family segment easily outperformed the single family segment in terms of January permit issuance. The details of the January data suggest single family starts will be somewhat listless over the months ahead, which should come as no surprise.

On a not seasonally adjusted basis there were 104,300 total housing starts in January, a touch above our forecast of 103,600 units. At 63,600 units, not only did single family starts fall short of our forecast (65,100 units) but this marks the lowest monthly total since February 2023. To be sure, some of this reflects the impacts of the unusually harsh winter weather that gripped much of the nation over the last week of January (and which carried into early February), but the reality is that not seasonally adjusted single family starts had been trending lower since

last summer. Again, this is the byproduct of elevated inventories of spec homes for sale and increasingly binding affordability constraints, to which builders have reacted by tamping down the pace of new single family starts. Even as mortgage interest rates had dipped below six percent last month, we expected the process of paring these inventories down to be gradual and somewhat drawn out, which is one reason our baseline forecast has anticipated a decline in single family starts for full-year 2026. Multi-family starts rose to 40,900 units in January, up 25.5 percent from December. As noted above, this jump was presaged by the spike in multi-family permits in December, and with multi-family activity counted on a number of units basis, as opposed to a number of structures basis, the effects of harsh weather are less clear cut than is the case in the single family segment.

It should be noted that the spike in multi-family permits in December was not sustained in January, nor did we expect it to be. That spike reversing pulled total housing permits lower, with unadjusted permit issuance of 99,500 units, shy of our forecast of 105,300 units. Single family permits fell further, and January caps the weakest three-month count of single family permit issuance in three years.

Builders paring back single family starts will be a continued weight on single family permit issuance, but not the only weight. Though off its cyclical peak seen in mid-2023, the backlog of single family units already permitted but not yet started nonetheless remains substantial. We expect this to hold down single family permit issuance over coming months. While the multi-family backlog is also sizable, at least there the backlog has been steadily diminishing – we attribute the bounce seen in December to the sheer volume of multi-family permit issuance in that month and the decline in January supports our premise. With the large block of multi-family deliveries in 2024 having been mostly digested, multi-family permits and starts had been pushing higher, but we suspect softer labor market conditions and the impact on demand of diminished immigration inflows will temper further gains in multi-family construction, particularly given softening rents across much of the U.S.

