



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.

August Housing Starts: Single Family Pulls Total Starts Higher

- Total housing starts rose to an annualized rate of 891,000 units; total housing permits fell to an annualized rate of 918,000 units.
- Single family starts rose to 628,000 units; multi-family starts fell to 263,000 units (annualized rates).
- Single family permits rose to 627,000 units; multi-family permits fell to 291,000 units (annualized rates).

Total housing starts rose modestly in August to an annualized rate of 891,000 from July's rate of 883,000 units (revised down from the initial estimate of 896,000 units). The rise in starts in August is due to a jump in single family starts, which rose to an annualized rate of 628,000 units from July's pace of 587,000 units. In the more volatile multi-family segment of the housing market, starts fell to an annualized rate of 263,000 units in August. This marks the third consecutive month in which multi-family starts have been below 300,000 on an annualized basis. On a year-to-date basis through August, total housing starts are 23.9 percent ahead of their 2012 pace, with single family starts up 20.8 percent and multi-family permits up 30.9 percent.

On the permit side, it was a decline in multi-family permits that dragged total permits lower in August. On an annualized basis, multi-family permits fell to 291,000 units in August from 345,000 units in July (an upward revision to the initial estimate), while single family permits rose to 627,000 units, leaving total housing permits at 918,000 units.

Total housing starts rose in the South region, reflecting somewhat of a catch-up from July's weather related decline, but starts fell in the three remaining broad Census regions. These declines were due to lower multi-family starts, however, as single family starts rose in each of the four Census regions. Single family permits were flat in the Midwest region and rose in the three remaining Census regions, but declines in multi-family permits pulled total permits lower in the South and West.

As is typically the case with the residential construction data, the monthly data have been somewhat volatile over the course of 2013, and seasonal adjustment issues can also come into play and add to the month-to-month volatility. One way around the volatility of the annualized monthly data is to look at the raw, i.e., not seasonally adjusted, data on a 12-month moving sum basis, as illustrated in the second chart below. On this basis, over the past twelve months builders

have started 604,000 single family units and 291,000 multi-family units.

In our view, the bigger story in the August data is the single family segment, which is clearly not as far along on the road to recovery as is the case in the multi-family segment. As the housing recovery began to take hold, single family construction was held down by a number of factors, including stringent mortgage loan standards, bloated inventories of distressed single family homes, and lots/labor/materials constraints. To varying degrees, these factors have eased – particularly the inventory overhang – over time and single family construction has picked up. Indeed, at an annualized rate of 627,000 units in August, single family permits are at their highest point since May 2008. Clearly there is much further to run in the single family segment, with inventories of completed homes for sale still exceptionally low and, as we discussed in our August *Monthly Economic Outlook*, acting as a constraint on sales. While higher mortgage interest rates will take some of the wind out of single family's sails – okay, and sales too – builders are not yet overly worried, as indicated in yesterday's release of the latest NAHB survey of homebuilder sentiment. Expected sales six months forward did dip a bit between the August and September surveys, but nonetheless expectations for sales remain significantly above where they were in May – before mortgage rates began to rise.

As to the multi-family segment, lower starts and permits in August reflect more of a pause than a retrenchment, particularly with the six-month moving average of permits having remained above the 300,000 unit mark for each of the past twelve months. There are some markets in which supply has gotten ahead of demand, but this is not the case for the U.S. as a whole.

The upturn in single family activity is an encouraging sign that the housing market recovery has plenty of staying power, and this is the case regardless of any decision the FOMC takes on tapering.

