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June Housing Starts: The South Sinks, Takes The Rest Of The U.S. Down

- > Total housing starts fell to an annualized rate of 893,000 units; total housing permits fell to an annualized rate of 963,000 units.
- > Single family starts fell to 575,000 units while single family permits rose to 631,000 units (annualized rates).
- > Multi-family starts fell to 318,000 units and multi-family permits fell to 332,000 units (annualized rates).

We admit to a certain sinking feeling as the June data on new residential construction came across the screen – total housing permits plummeted to an annualized rate of 893,000 units, far below expectations, while total housing starts dropped to an annual rate of 318,000 units. In addition to June's surprisingly weak headline numbers, prior estimates for April and May were marked down with both single family and multi-family starts revised lower. At first glance, the weak June data would seem to fit right in with the concern over the durability of the housing market recovery expressed by Fed Chair Yellen in her Congressional testimony this week.

Not to brush those concerns aside, but as it turns out, the decline in housing starts for the U.S. as a whole was due entirely to an unusually large decline in the South, where starts fell from 533,000 units in May to 375,000 units in June (annual rates) and offset what were increases in starts in the other three broad Census regions. And while the inclination is to look to the always volatile multi-family segment, both single family and multi-family starts fell sharply in the South region in June, with the 29.6 percent decline in total starts the largest monthly decline on record for the South in the life of the data. Of course, isolating the source of the decline in starts and understanding the cause are two different matters, and to be quite honest, we do not have a good explanation as to why activity in the South would have slowed so sharply in June and, if they have one, the Census Bureau isn't sharing it.

Single family starts in the South fell to an annual rate of 278,000 units, the slowest pace since June 2012, while multi-family starts fell to an annual rate of 97,000 units, the slowest pace since last July. Multi-family starts rose in each of the three remaining Census regions while single family starts were up modestly in the Midwest and West and fell slightly in the Northeast. As to permits, it was more of a mixed bag across geographies – single family permits rose in the Midwest, South, and West regions and fell in the Northeast, while multi-family permits

rose slightly in the Midwest but fell in the other three regions.

As our regular readers know all too well by now, we have for some time been expressing concerns over the lack of a meaningful pick up in the pace of single family activity (as shown in the chart below). We have marked down our forecast for single family starts, but have also thought there could be a "breakout" month for single family, in which we would see a sizeable jump in permits that signal a shift into a faster pace of construction. While total single family permits did increase in June, the 631,000 unit annual pace hardly constitutes a breakout. Moreover, at a year-to-date pace of 611,000 units, single family starts are running slightly below last year's pace at the half-way point, as are single family permits, suggesting our full-year forecast for single family starts will have to be marked lower still.

As to the multi-family segment of the market, both permits and starts are easily ahead of last year's pace through June and on a six-month moving average basis multi-family permits continue to hover around the 400,000 unit pace. While we do not see this as sustainable, neither are we concerned over the reported decline in activity in June. Demographic factors continue to favor multi-family construction and further improvement in the labor market will help support a faster rate of household formation. As such, we see the June data as the outlier and continue to see much further to run in the multi-family segment.

While the monthly data on residential construction are inherently volatile, it is simply hard to know what to make of the June data, particularly without an understanding of why the South posted the largest monthly decline in activity on record. That decline notwithstanding, the main takeaway, at least for us, is the single family segment of the housing market remains weaker than we and many others had anticipated, and this remains a legitimate source of concern even as the multi-family segment of the market will continue to thrive.

