ECONOMIC UPDATE

REGIONS

August 19, 2014

July Housing Starts: July's Bounce Doesn't Alter The Fundamental View

- Total housing starts rose to an annualized rate of 1,093,000 units; total housing permits rose to an annualized rate of 1,052,000 units.
- Single family starts rose to 656,000 units while single family permits rose to 640,000 units (annualized rates).
- Multi-family starts rose to 437,000 units and multi-family permits rose to 412,000 units (annualized rates).

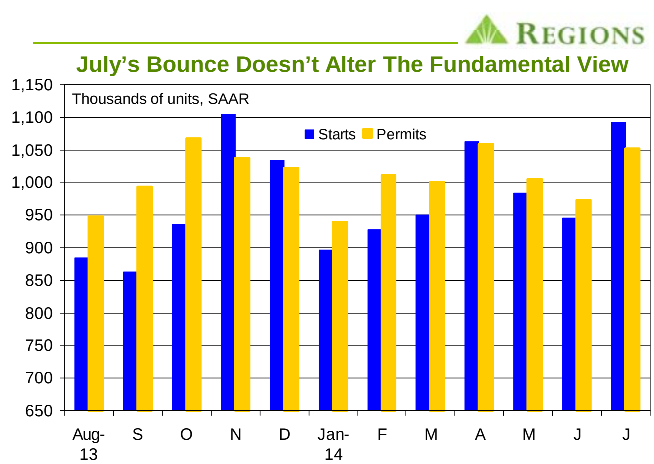
As our regular readers may recall, our response to the dismal June report on new residential construction wasn't so much shock or disappointment as it was "what, are you kidding me?" Though the housing market has clearly underperformed expectations thus far in 2014, the June data simply did not make sense, particularly the largest plunge in housing starts in the South region on record. Upon further review, the Census Bureau seems to agree, at least judging by the July report which shows not only an upward revision to the June data but also even higher levels of housing permits and starts in July. Total housing starts are reported to have risen to an annual rate of 1.093 million units in July, from an upwardly revised rate of 945,000 units in June (originally reported as 893,000 units) and total housing permits rose to an annual rate of 1.052 million units. In both the single family and multi-family segments, both permits and starts rose in July. That said, the revisions to the June data and the estimates for July do not alter our view of the housing market but instead merely reinforce our view, particularly of the single family segment.

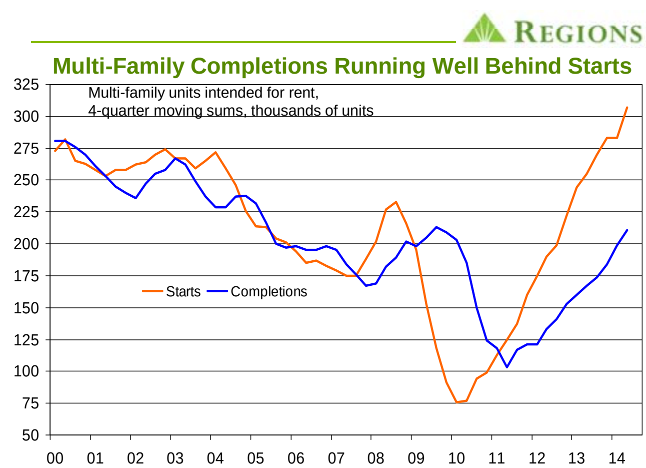
Total starts rose in the Northeast, South, and West regions while falling in the Midwest, where both single family and multi-family starts declined. Total starts in the South jumped to an annual rate of 511,000 units, up from June's rate of 396,000 units which reflects a slight upward revision from the initial estimate but still looks unusually low. Both single family and multi-family starts in the South region rose in July. Total housing permits were basically flat in the Midwest in July, up moderately in the West and Northeast regions, and up sharply in the South where both single family and multi-family permits were higher.

If our reaction to the July data, including revisions to the June data, makes it seem as though there is just no pleasing some people, well, is that necessarily a bad thing? In any event, while single family housing starts rose to an annual rate of 652,000 units in July permits came in at an annual rate of 640,000 units. To be sure, permits and starts do not necessarily synch in any given month but over time tend to, particularly in the single family segment. And, as we frequently note, we prefer to look at the data on new residential construction on a 6-month moving average basis as a means of filtering out the inherent month-to-month volatility. On this basis, starts and permits are fairly closely aligned, but at a rate well below where we, and many other analysts, had expected the market to be at this point. At a pace of 613,000 units (6-month moving average) there is simply nothing in the permit data to suggest the pace of single family construction will even match July's pace over coming months, let alone meaningfully accelerate.

As to the multi-family segment of the market, both permits and starts topped the 400,000 unit annual rate in July, and that permits are running easily ahead of starts on our 6-month moving average basis, the former above the 400,000 mark, the latter well below it, suggests room for further gains in starts over coming months. The story behind multi-family is by now familiar – further improvement in the labor market will help support a faster rate of household formation and demographic factors continue to favor multi-family (rental) construction. Thus far, rent growth remains solid, as affirmed in today's CPI data, but one striking element of the data is the sharp divergence between starts and completions of multi-family units intended for the rental market, as seen below. Reports of shortages of construction workers are by now familiar as an explanation of the lack of single family activity. In reality, such shortages also plague the multi-family segment, as may be the case with materials, at least to some extent. In the multi-family segment, builders are clearly starting units much faster than they can complete them and when this gap narrows (even allowing for time to build) rent growth will likely waver.

So, while the July data may look and feel better than did the June data, the bottom line is they do not alter the higher level view of the housing market, which leaves the single family segment as a source of concern.





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