ECONOMIC UPDATE REGIONS
December 16, 2014

November Housing Starts: Overstating The Single Family Case?

- Total housing starts fell to an annualized rate of 1,028,000 units; total housing permits fell to an annualized rate of 1,035,000 units.
- Single family starts fell to 677,000 units while single family permits fell to 639,000 units (annualized rates).
- Multi-family starts rose to 351,000 units and multi-family permits fell to 396,000 units (annualized rates).

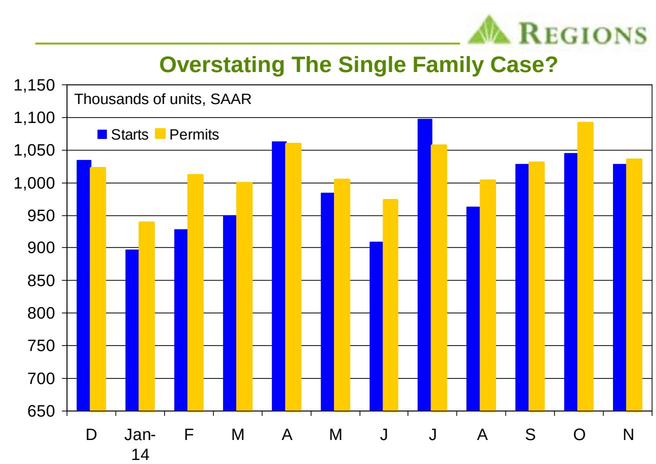
Total housing starts fell to an annualized rate of 1.028 million units in November, with single family starts falling to 677,000 units and multi-family starts rising to 351,000 units (all annual rates). Total housing permits fell to an annual rate of 1.035 million units with both single family and multi-family permits dropping. Despite the decline reported for November, the pace of single family activity has picked up over the past few months – October's rate of single family starts was revised up to an annual rate of 716,000 units, which would be the fastest rate of single family starts since 2008. We do, however, continue to harbor doubts about the single family data, at least the starts data as reported on a seasonally adjusted annual rate basis, which we think to be overstating the degree of single family construction.

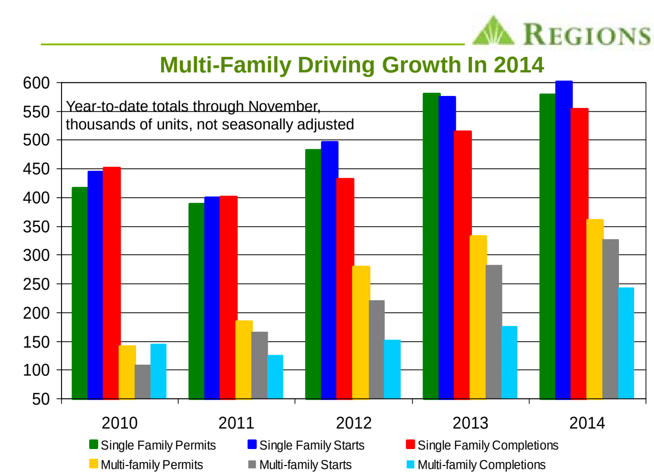
For openers, as we have pointed out over the past few months, the reported pace of single family starts, at a seasonally adjusted annual rate, has far outpaced the reported pace of single family permits, and that disparity has been wider in October and November than in prior months. To be sure, permits 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 are running ahead of and permits and there is simply nothing in the permit data to suggest the pace of single family construction will match the stepped-up pace reported for October and November over coming months.

As a general rule of thumb, when starts and permits are telling different stories, go with permits, as they are based on hard numbers, not surveys as is the case with starts, which are also more prone to being impacted by seasonal adjustment noise. To that point, it seems clear single family starts in October were boosted by favorable seasonal adjustment – the decline in not seasonally adjusted single family starts this October was atypically small for the month, so the seasonal adjustment factor in essence overcompensated for what was expected to be a larger decline.

One way to get around this issue is to look at the not seasonally adjusted data. Over the twelve months ending in November, a total of 644,000 single family units have been started, reflecting a steady but gradual increase over the course of 2014 that seems more consistent with other housing market metrics than does the recent stepped up pace of starts reported on a seasonally adjusted annual rate basis. The chart below shows a more complete picture of the housing market on the basis of the raw data. As seen in the chart below overall housing market activity has increased in 2014 but it has been the multi-family segment of the market that has driven this growth. Over the twelve months ending in November, single family permits are barely keeping pace with last year's totals while single family starts are up just over 3 percent. Again, the point here is that while there has been some improvement in the single family segment of the market that has come at a much more gradual pace than suggested by the seasonally adjusted annualized data.

In contrast to the single family segment of the market, multi-family starts have been running behind multi-family permits over the past several months, and this disparity suggests multi-family starts have further room to run in the months ahead. But, as we have noted before one potential concern is multi-family completions have accelerated but not to the extent that would be expected given the sharp run-up in starts, even accounting for the normal time to build. At some point completions will become more closely aligned with starts which could weigh on rent growth. One element of the November multi-family data that will bear watching is the decline in both permits and starts in the South region – which includes Texas, where multi-family construction has been running flat out. If depressed oil prices lead to a sharp, sustained downshift in activity in the energy sector of the economy that could translate into a similar downshift in multi-family construction.





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