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## January Housing Starts: A More Solid Foundation For Single Family?

- > Total housing starts fell to an annualized rate of 1.065 million units; total housing permits fell to an annualized rate of 1.053 million units.
- > Single family starts fell to 678,000 units while single family permits fell to 654,000 units (annualized rates).
- > Multi-family starts rose to 387,000 units and multi-family permits rose to 399,000 units (annualized rates).

Total housing starts fell to an annualized rate of 1.065 million units in January, roughly in line with expectations and down from December's rate of 1.087 million units. The decline in starts was concentrated in the single family segment, with 678,000 units started in January compared to the 727,000 units started in December (annual rates). This was as anticipated, as December's pace of starts was not sustainable and was not backed by similarly elevated levels of single family permits. Multi-family starts rose to an annual rate of 387,000 units in January, up from December's rate of 360,000 units. Permit issuance followed the same pattern as starts in January, with single family permits falling and multi-family permits rising.

Total starts rose in the South region thanks to a jump in multi-family starts which offset a drop in single family starts, but the Northeast, Midwest, and West regions all posted declines in total starts in January. The Northeast region was the only one of the four broad regions to post an increase in single family starts. Starts fell the most in the Midwest region and the magnitude of the decline in January, combined with the sharp decline in prospective buyer traffic in the Midwest region reported yesterday in the NAHB's survey of builder sentiment, suggests weather dampened activity in the Midwest region in January. The total number of housing permits issued rose in the Northeast and West regions in January while falling in the Midwest and South regions.

The rate of single family completions continues to edge higher, in line with the gradual upturn in the rate of single family starts over the past several months. As we have noted in past months, our preferred lens through which to view the monthly data on new residential construction is a 12-month moving sum of the not seasonally adjusted data, and on this basis there were 644,000 single family units completed in the 12 months ending with January – this is the highest such total since June 2009 (when completions were dropping like a rock). True, single family starts and completions have accelerated at a rate which, while not

surprisingly slow has nonetheless been frustratingly slow, but the main point is the pace of activity is increasing. This will help ease what in many markets are abnormally low inventories of new single family homes for sale.

On the multi-family side of the market, however, there remains an unusually large gap between starts and completions, even allowing for the normal time to build – around 12 months for structures with five or more units. This is illustrated in the chart below, and one concern is the potential for material supply-demand imbalances to develop as the rate of completions increases. In the 12 months ending with January 2015 there were 271,000 multi-family units completed, of which 263,000 were in structures with five or more units. While the rate of multi-family completions has steadily risen, to illustrate our concern about the lag between starts and completions, as of January there were 462,000 multi-family units under construction in structures with five or more units, which is the highest number since November 1986. As we regularly note, supply-demand imbalance is more of a local than a global concept, so while in the aggregate the disparity between starts and completions may not seem unduly large that will not necessarily be the case in any given metropolitan area market.

All in all, despite the slightly slower rates of permit issuance and starts in the single family segment, we nonetheless find some encouragement in the January data. Our main concern for the housing market in 2015 was whether or not there would be meaningful improvement in the single family segment. As our regular readers are aware, we stress looking at the longer-term trends in the data on new residential construction given the high degree of noise in the month-to-month data. Smoothing out the noise of the past few months suggests there has been and will be further improvement in the single family segment. This is in line with our baseline forecast, but we will note our expectations for the extent of that improvement remain below those of many other analysts.

