ECONOMIC UPDATE

REGIONS

June 16, 2015

May Housing Starts: Noisy Headlines Mask Underlying Trends

- Total housing starts fell to an annualized rate of 1.036 million units; total housing permits rose to an annualized rate of 1.275 million units.
- Single family starts fell to 680,000 units while single family permits rose to 683,000 units (annualized rates).
- Multi-family starts fell to 356,000 units and multi-family permits rose to 592,000 units (annualized rates).

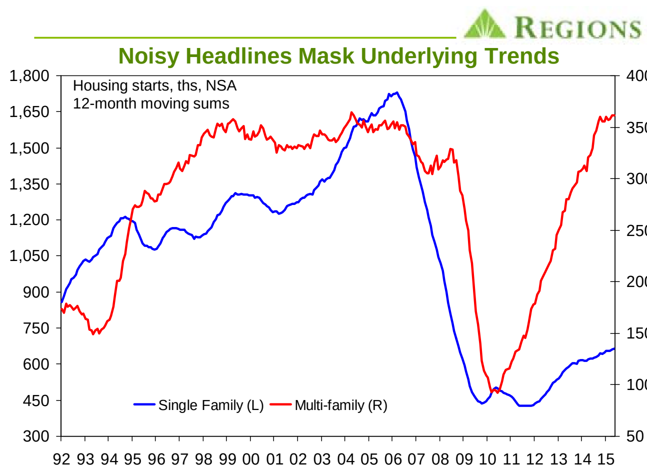
Total housing starts fell to an annualized rate of 1.036 million units in May; starts were expected to have fallen but the magnitude of the decline was greater than had been anticipated. Both single family and multi-family starts fell in May. Perhaps the bigger story, or at least the bigger question mark, is the housing permit data. Thanks to a surge in multi-family permits – the 592,000 annual rate is the highest monthly rate since January 1990 – total housing permits came in at an annual rate of 1.275 million units. As anyone who regularly follows the monthly data on new residential construction is aware, the multi-family data are notoriously volatile, which makes it somewhat tricky to draw any conclusions from the May data. The more sedate single family segment of the market, however, continues to stick to the script – steadily rising rates of permits and starts consistent with our outlook of a gradual recovery in single family construction.

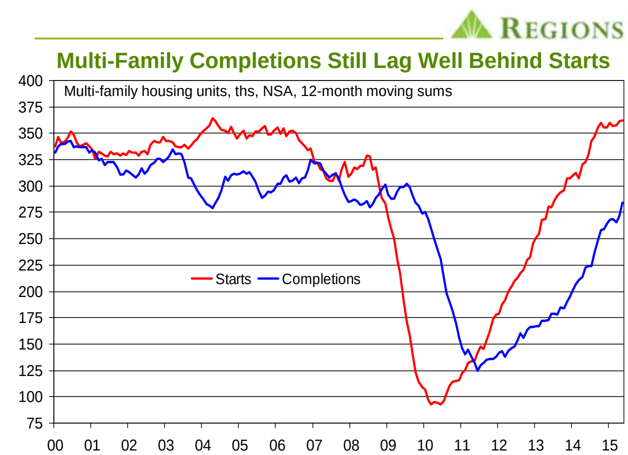
As noted above, the decline in total housing starts in May was anticipated, as April's spike in starts (revised higher than initially estimated) was payback for February and March, when harsh winter weather (February) and saturated ground (March) took a toll on construction activity. Both single family and multi-family starts jumped in April, reflecting this payback, and starts in both segments fell in May. May's rate of single family starts – an annual rate of 680,000 units – is consistent with what has been a steadily improving pace, and May's annual rate of 683,000 single family permits suggests more of the same for single family in the months ahead.

Multi-family starts fell back to an annual rate of 356,000 units in May from an upwardly revised rate of 446,000 in April. As noted earlier, the multi-family data are quite volatile and May's rate of starts is right in line with the longer-term trend. What is out of trend, however, is the jump in multi-family permits. The outlier in the multi-family data is the Northeast region, in which multi-family permits spiked to an annual rate of 264,000 units, the highest monthly rate on record (the regional data only go back to 1988). Looking at the raw, i.e., not seasonally adjusted, data shows 22,700 multi-family permits were issued in the Northeast in May – a sharp increase tied to expiring tax credits in New York (421-a) as opposed to being indicative of underlying momentum. Unadjusted permits also rose sharply in the Midwest region but fell in the South and West regions – the latter two are far larger than the former two regions.

May's spike in multi-family permits will prove to be more noise than signal. As our regular readers will be aware, our preferred lens through which to view the monthly data on residential construction is to take the 12-month moving sum of the not seasonally adjusted data. To us, then, the second chart below is the more relevant view of the multi-family segment. For the past several months we have noted a wider than normal disparity between the rates of starts and completions, and that disparity remains. But, multi-family starts have more or less leveled off over the past six months, while the rate of completions has increased of late. We, have expressed concern over the magnitude of the multi-family supply pipeline and the leveling off of multi-family starts lessens, but by no means eliminates this concern. To be sure, as the possibility remains more than a few individual markets could face supply-demand imbalances that will ultimately weigh on rent growth.

As to the single family segment of the market the first chart below shows the steady improvement seen in new construction over the past several months. By now the litany of woes holding down both the supply of and demand for single family homes is familiar – constraints on buildable lots and the supply of construction labor, financing constraints for smaller builders, tougher credit conditions for prospective buyers, lack of adequate down payments – and while these constraints are easing, to varying degrees, when combined with demographic factors supporting demand for rental housing (see our June *Monthly Economic Outlook*) we see nothing in the data that would change our view on single family – steady, if frustratingly slow, improvement is likely to remain the driving theme in the months ahead.





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