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July Housing Starts: Single Family Sizzles While Multi-Family Cools

- Total housing starts rose to an annualized rate of 1.206 million units; total housing permits fell to an annualized rate of 1.119 million units.
- Single family starts rose to 782,000 units while single family permits fell to 679,000 units (annualized rates).
- Multi-family starts fell to 424,000 units and multi-family permits fell to 440,000 units (annualized rates).

Total housing starts were little changed in July, with an annual rate of 1.206 million starts compared to an upwardly revised rate of 1.204 million units in June. But, the flat headline number covers up what was a sharp shift in the composition of construction, as single family starts jumped to an annual rate of 782,000 units, the highest rate of starts since December 2007. In contrast, multi-family starts fell from an annual rate of 511,000 units in June to a rate of 424,000 units in July. Total housing permits fell to 1.119 million units in July, down from 1.337 million units in June. Single family permits fell to 679,000 units from 692,000 units in June, while multi-family permits fell to 440,000 units in July from 645,000 units in June (these are all annual rates).

Keep in mind, however, the data on multi-family permits and starts has been distorted over the past few months by the originally scheduled expiration of New York City's 421-a tax credits which have since been revamped and extended. To this point, multi-family starts in the Northeast region hit an all-time high in June, with an annual rate of 180,000 units started (in New York, work would have had to have been at least started by June 15 to take full advantage of tax abatements) but in July multi-family starts retreated back to an annual rate of 91,000 units. This is still easily ahead of what had been the run rate in the Northeast region, so multi-family starts will likely ease further in the region in the months ahead, as affirmed by the sharp slowdown in multi-family permit issuance in the region. Elsewhere, multi-family starts rose in the Midwest and South regions but fell in the West region, while multi-family permits were down in the Midwest and West regions but unchanged in the South.

The second chart below illustrates the distortion introduced by the originally scheduled expiration of New York's tax credits, but aside from that the pace of permit issuance and starts has clearly leveled off in the other three Census regions. At the same time, the pace of completions is picking up a bit, over the past 12 months 306,000 multi-family units have been completed, the highest 12-month total since

September 2007. Still, there remains a substantial backlog of multi-family units under construction, with 507,000 units in structures with five-or-more units under construction as of July, which is the highest number since December 1974. If starts are indeed leveling off the pace of completions will likely continue to accelerate over coming months.

As for single family, our call has for some time now been for steady improvement at a pace that will excite nobody, so while at odds with our outlook July's spike in starts nonetheless injects some much appreciated energy into the single family segment. The question, however, is whether July's pace of starts will be sustained, and the drop in single family permits casts some doubt along these lines. Single family starts were up in all four Census regions while permit issuance was up slightly in the Northeast but lower in the other three regions. Much has been made about raising homebuilder confidence, with the NAHB's index of homebuilder sentiment rising to its highest level since September 2005. Of course, at that time single family starts were at an annual rate of 1.808 million units, a pace not even the most bullish of housing market analysts expects to see any time soon. The unadjusted data show over the past 12 months 690,000 single family units have been started, the best 12-month total since September 2007 and more in line with how we have seen the single family segment of the market.

We do expect continued job and income growth and what should remain favorable mortgage interest rates to sustain growth in demand for new single family homes over coming quarters. In light of today's report, however, the question is not so much whether but at what pace that improvement will come. As we always do, we go with the pace suggested by the 12-month sums of the not seasonally adjusted data as opposed to the headline numbers reported on a seasonally adjusted annualized basis. Either way, the ongoing housing market recovery is on stable ground and we do expect to see a continued shift towards single family activity, even if not at the pace suggested by today's headline numbers.

