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## July Residential Construction: The Real Stories Lie Beneath The Headline Numbers

- > Total housing starts fell to an annualized rate of 1.155 million units; total housing permits fell to an annualized rate of 1.223 million units.
- > Single family starts fell to 856,000 units while single family permits were unchanged at 811,000 units (annualized rates).
- > Multi-family starts fell to 299,000 units and multi-family permits fell to 412,000 units (annualized rates).

Total housing permits and starts both came in below expectations in July, with permits falling to an annualized rate of 1.223 million units and starts falling sharply to an annualized rate of 1.155 million units. At first glance, it would be easy to finger the multi-family segment as the primary culprit, as both permits and starts fell sharply from June's pace. More likely than not, anyone taking this view will simply note the inherently volatile nature of the multi-family segment and, as such, be inclined to brush off July's declines on the premise that the August data will show a rebound. Digging through the details of today's report, however, shows there is far more to the story than that.

As our regular readers know, we have very little use for the seasonally adjusted annualized headline numbers on any of the reports pertaining to the housing market, as these numbers in any given month tell you very little about what's actually going on in the housing market. Instead, our focus is always on the raw, i.e., neither seasonally adjusted nor annualized, data, as the trends in the raw data are what actually matter. Sometimes, however, it is hard to know what the raw data are trying to tell you in a given month, and July is one such example.

To us, the biggest story of the July report on residential construction is the sharp decline in single family housing permits seen in the not seasonally adjusted data. Single family permit issuance fell to 69,100 units in July, a winter-like number in the middle of summer and well below our forecast of 82,700 permits. Each of the four broad Census regions logged a decline in single family permits. At the same time, however, single family starts came in at a fairly solid 81,100 units, a bit below our forecast of 83,500 units and down from 84,100 single family starts in June, which was the highest monthly total since August 2007. Each of the four broad Census regions saw modest declines in single family starts in July. We're not sure we have a good explanation, or even a bad one for that matter, for July's sharp decline in single family permits, but we will note that over recent months single family starts had gotten a bit ahead of permits. One explanation for this is that, as

we've noted in our write-ups of the new home sales data, units on which construction had not yet started accounted for an elevated share of total new home sales over recent months. It could be that as builders begin to clear these backlogs, they are starting more units on which permits have already been issued and, as such, are simply filing for fewer permits. Again, this may or may not be a factor, but it is at least one possibility.

The other main stories in the July report do revolve around the multi-family segment. On a not seasonally adjusted basis, multi-family starts fell to 27,900 units, shy of our forecast of 30,700 units and down from an above-trend 32,200 starts in June. Multi-family starts rose slightly in the West but fell in the other three Census regions. What stands out here is the South region, which logged 6,500 multi-family starts in July, this region's lowest total since July 2012 and which comes off of a similarly weak 6,900 total in June. Though multi-family permit issuance in the South has also fallen over recent months, the decline is not nearly as sharp as the decline in starts. Overall, there were 31,300 multi-family permits issued in July, a bit below our forecast of 33,700 units.

As we have noted for some time now, we do expect further declines in multi-family activity over coming months, which ties in with another main story of the July report on residential construction. In our weekly *Economic Preview* we pointed to multi-family completions as the below the headlines number to watch, as a means of gauging any progress in clearing the largest backlog of under construction multi-family units since the mid-1970s. Our expectation was that there would be very little progress made, and that proved too optimistic on our part. Multi-family completions fell in July which, even with a diminished number of starts, still leaves a construction backlog of over 600,000 multi-family units.

The July report on residential construction both supports our view of the multi-family segment of the housing market and makes us question our view of the single family segment. It is too soon to draw conclusions on the latter, but the data over coming months will merit close attention.

