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April Residential Construction: Single Family Starts Spring Back In April

- › Total housing starts rose to an annualized rate of 1.235 million units; total housing permits rose to an annualized rate of 1.296 million units
- › Single family starts rose to 854,000 units and single family permits fell to 782,000 units (annualized rates)
- › Multi-family starts rose to 381,000 units and multi-family permits rose to 514,000 units (annualized rates)

Total housing starts rose to an annualized rate of 1.235 million units in April, while total housing permits rose to an annualized rate of 1.296 million units. The report on April residential construction incorporates revisions to the historical data over the past several years, which meant there would be some play in any forecasts of the April data, so while our forecast of the level of starts was a bit too low and our forecast of the level of permits was a bit too high, they were correct directionally and our expectation of a notable bounce in single family activity in the not seasonally adjusted data was affirmed. On the whole, the revised data change neither the broad patterns that have been apparent in the data nor our outlook for residential construction going forward.

On a not seasonally adjusted basis, there were 114,100 total housing starts in April, ahead of the 107,800 starts our forecast anticipated. Our miss was entirely accounted for by single family starts – the 81,200 starts in April were easily ahead of our forecast. Single family starts rose in each of the four broad Census regions in April, with notable increases in the Northeast and West. While the Midwest region saw an increase in single family starts in April, activity in that region remains below where normal seasonal patterns would dictate, which reflects the ongoing impact of flooding in that region. Even with April's big single family starts number, the running 12-month total of not seasonally adjusted single family starts fell further. Keep in mind that the increases in single family starts in March and April are off of a base that had been pushed markedly lower, first by affordability constraints weighing on single family activity in Q4 2018 and then by weather related issues having weighed on activity earlier in 2019. We still see the running 12-month total of unadjusted starts as the best gauge of the underlying trend rate of single family starts, but the weakness in the late-2018 data will continue to weigh on that trend rate over coming months.

On a not seasonally adjusted basis, there were a total of 119,300 housing permits issued in April, topping our forecast of 115,300 total permits, with both single family and multi-family permits coming in a

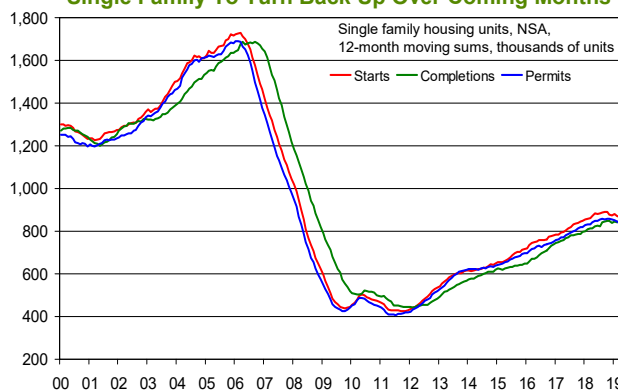
bit ahead of our forecast. The single family permit data are yet another illustration of the value of actually looking at the not seasonally adjusted data, as opposed to simply running with the headline, i.e., seasonally adjusted and annualized, number. The headline number tells us that single family permits tumbled in April, and we've already seen some analysts pointing to the headline single family permit number as a sign of lingering weakness in this segment of the housing market. As we noted in our weekly *Economic Preview*, however, in any given year the seasonal adjustment factors for the month of April do not flatter the raw, i.e., not seasonally adjusted, data, hence what is a fairly strong single family permit number in the raw data is made to look much weaker in the seasonally adjusted data. So, while our same caveat about the weakness from late-2018 influencing the data also applies to housing permits, the reality is that the raw data show both March and April to have been solid months for both single family permits and single family starts, and this is in keeping with what the data on purchase mortgage loan applications and builder sentiment are saying.

As for the multi-family segment, the not seasonally adjusted data show both permits and starts rose in April, with a much sharper increase in permits than in starts. This preserves what has been the atypically wide gap between multi-family permits and starts that has puzzled us over the past several months. We had wondered whether or not the revised data would yield a more internally consistent picture of the multi-family data, but, to use a highly technical term, no dice. The starts-to-permits ratio remains notably low, and though multi-family completions did rise modestly in April, the backlog of multi-family units under construction remains notably large, which continues to lead us to question the ongoing strength in multi-family permit issuance.

We continue to expect further steady, though by no means robust, growth in single family activity over coming months. While multi-family starts will likely drift lower, the pace at which they do so will probably remain slower than we think is warranted.



Single Family To Turn Back Up Over Coming Months



Revisions Or Not, Multi-Family Backlog Remains Sizable

