

# ECONOMIC UPDATE



REGIONS

August 19, 2025

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## July Residential Construction: Multi-Family Driving The Construction Train

- Total housing starts rose to an annualized rate of 1.428 million units; total housing permits fell to an annualized rate of 1.354 million units
- Single family starts rose to 939,000 units and single family permits rose to 870,000 units (seasonally adjusted annualized rates)
- Multi-family starts rose to 489,000 units and multi-family permits fell to 484,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annual rate of 1.428 million units in July, topping the consensus forecast and rather rudely trouncing our forecast of 1.236 million units. Total housing permits fell to an annual rate of 1.354 million units, falling short of our forecast of 1.386 million units. While single family starts came in above our expectations, most of our miss on the headline starts number owes to multi-family starts being much stronger than our forecast anticipated, which can be seen as an extension of the June data showing surprisingly robust multi-family permit issuance. We'd argue that the bigger story in the residential construction data is the ongoing decline in single family permits, even if the decline in July, on a not seasonally adjusted basis, was milder than we anticipated. The recent pop in multi-family activity and the ongoing adjustment in single family activity are of course somewhat related, as unrelenting affordability constraints continue to hold down sales of new (and existing) homes. This has pushed more demand to the multi-family segment than would otherwise be the case while at the same time uncomfortably high inventories of spec homes for sale are leading builders to pull back on new construction. We think this adjustment has further to run and look for a more pronounced drop in single family starts than we've thus far seen. Though that may seem at odds with the recent dip in mortgage interest rates, our view is that this has provided only limited relief from affordability constraints and, as such, will provide only a limited boost to home sales. At the same time, more favorable tax treatment of low-income housing construction should act as a further boost to multi-family construction.

On a not seasonally adjusted basis there were 130,200 total housing starts in July, easily ahead of the 111,900 units our forecast anticipated. Our miss on single family starts is entirely accounted for by starts in the South region coming in stronger – 51,000 units – than we anticipated, as net starts in the three remaining Census regions matched our forecast. As noted above, however, the main culprit in our miss on total starts is the multi-family segment, with starts jumping to 43,700 units in July. As we noted in our preview of the July data, we expected multi-family starts would settle back in July after having increased by 28.9 percent in

June, but instead multi-family starts rose a further 12.6 percent. One thing that stands out here is that the Midwest saw 11,400 multi-family starts in July, the highest monthly total since November 2022. At the same time, multi-family starts in the South region rose from 16,700 units in June to 23,000 units in July. While these July levels won't likely be sustained, it could be that the trend rate of multi-family starts is higher going forward than we've been anticipating, while at the same time we look for a more pronounced pullback in single family starts.

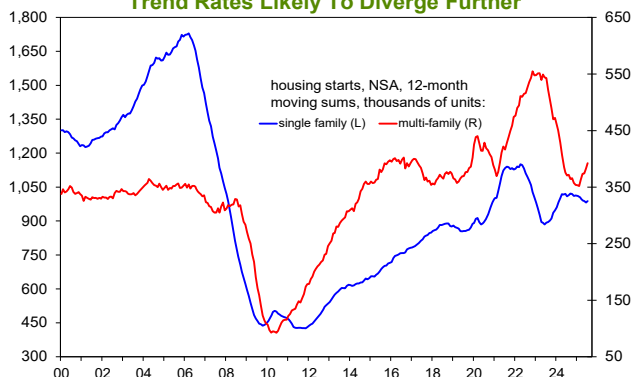
The not seasonally adjusted data show total housing permits of 120,800 units in July, a bit above our forecast 119,200 units. While multi-family permits were in line with our forecast, the 78,500 single family units permitted topped our forecast. That said, single family permits were still down 1.8 percent from June and down 8.4 percent year-on-year, the seventh straight month with a year-on-year decline. If we are correct, single family permits have further room to the downside, particularly as builders are making only slow progress in clearing backlogs of spec inventories, though the more aggressive use of sales incentives many builders are resorting to may hasten the decline in inventories.

We've pointed to the elevated backlog of single family units already permitted but not yet started as one reason single family starts are holding up better than single family permits. For instance, it could be that many of these units have already been sold, meaning builders have to start construction. Keep in mind that new home sales can be booked before construction has started, and while the share of new home sales accounted for by units not yet started has fallen significantly, as it will do during slow sales cycles, they nonetheless still account for roughly ten percent of all new home sales. At some point, however, the slowdown in sales of units not yet started should be reflected in a more pronounced slowdown in single family starts.

Even with the recent dip in mortgage affordability constraints continue to keep prospective buyers, particularly first time buyers, on the sidelines. Barring much larger drops in interest rates and/or house prices, further cuts in new single family construction are almost a given.



Trend Rates Likely To Diverge Further



Further Downside Room For Single Family Permits

