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August Residential Construction: The Adjustment We've Expected Unexpectedly Shows Up

- Total housing starts fell to an annualized rate of 1.307 million units; total housing permits fell to an annualized rate of 1.312 million units
- Single family starts fell to 890,000 units and single family permits fell to 856,000 units (seasonally adjusted annualized rates)
- Multi-family starts fell to 417,000 units and multi-family permits fell to 456,000 units (seasonally adjusted annualized rates)

For some time now, we've expected much more meaningful pullbacks in single family permits and starts than have shown up in the data. Our premise was that with affordability constraints weighing down demand and significantly elevated inventories of spec homes for sale, builders would pull in the reins. While both permits and starts had drifted lower, we were nonetheless more than a bit puzzled by the fairly tame pace at which that was taking place, to the point that our forecasts for single family permits and starts have tended to be too low. In what may be the forecasting equivalent of having been lulled to sleep, the August data show much sharper pullbacks than we, and in this case the consensus, expected. Total housing starts fell to an annual rate of 1.307 million units in August, while total housing permits fell to an annual rate of 1.312 million units, the lowest monthly rate of permit issuance since (for obvious reasons) April 2020. To be sure, the August declines were not strictly due to a pullback in single family activity, as multi-family permits and starts also fell but, given the quirky and offbeat nature of the multi-family segment, it's hard to make too much of that. By far the bigger story, at least to us, is the extent to which single family activity dropped off in August. Under the heading of "timing is everything," however, it is interesting that on the same day we get the August data on residential construction, the Mortgage Bankers Association's weekly release puts rates on thirty-year fixed rate mortgages at their lowest point in almost a year, and the declines over recent weeks have led to an upturn in applications for purchase mortgage loans. At least initially, this may not have much of an impact on builders given the extent to which spec inventories remain elevated. If mortgage rates drift lower, however, the response from builders will likely be stronger.

On a not seasonally adjusted basis there were 113,300 total housing starts in August, falling short of our forecast of 121,000 starts. There were 78,400 single family starts, down 10.4 percent from July and down 12.4 percent year-on-year. This puts the running twelve-month sum of unadjusted single family starts at 978,900 units, the lowest total since January 2024. It is noteworthy that single family starts in the Northeast region jumped in August as the other three Census regions saw declines,

with the South seeing the fewest single family starts in any month since July 2024. Unadjusted multi-family starts also fell, with an increase in the West more than offset by declines in the three remaining regions.

On a not seasonally adjusted basis, there were 112,200 housing units permitted in August, badly lagging our forecast of 125,000 units. At 72,200 units, unadjusted single family permits logged their lowest monthly total since December, with declines in each of the four Census regions. Single family permits have fallen in each of the past four months, leaving them down 15.9 percent year-on-year. The decline in multi-family permits in August was much less harsh.

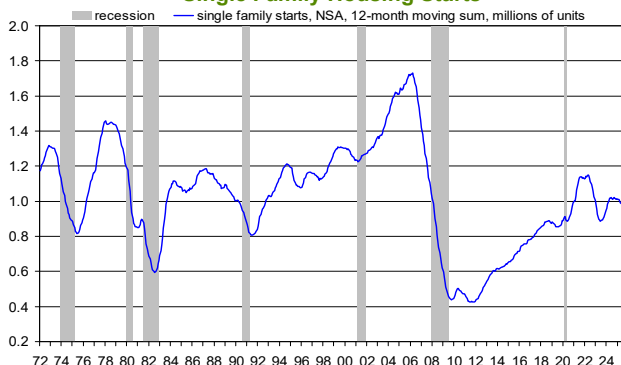
We had put forth the premise that one reason single family starts had held up better than single family permits over recent months was the large backlog of single family units which had been permitted but not yet started, thinking that if a large share of these units had already been sold builders would have had to break ground at some point. We did, however, note in our preview of the August data that this backlog had been pared down over recent months and, as such, could pose downside risk to our forecast of August starts. Whether that played a role or not, even with starts having dropped off so in August, the backlog of units awaiting construction fell further, but this nonetheless leaves it much larger than had been the case prior to the pandemic.

It does stand out that amid the sharp declines in permits and starts, the pace of completions picked up substantially in August, with the 144,600 units completed the highest monthly total in a year. The 95,600 single family units completed were the most in any month since December 2023, while multi-family completions hit their high mark since last December. Between the drop in starts and the jump in completions, the backlog of housing units under construction fell further. The backlog of single family units under construction fell in August, but what stands out here is that the backlog of multi-family units under construction is now lower than in any month since August 2021. As for single family, these patterns suggest builders upping their resolve to further pare down spec inventories. What remains to be seen is how firm that resolve will remain in light of sharply lower mortgage interest rates.



REGIONS

Single Family Housing Starts



REGIONS

Single Family Housing Permits

