ECONOMIC UPDATE

REGIONS

June 16, 2026

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May Residential Construction: Don't Build In May, Just Go Away?

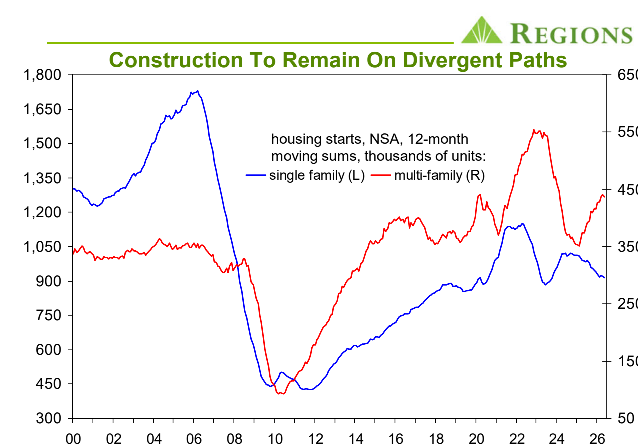
- Total housing starts fell to an annualized rate of 1.177 million units; total housing permits fell to an annualized rate of 1.413 million units
- Single family starts fell to 882,000 units and single family permits fell to 886,000 units (seasonally adjusted annualized rates)
- Multi-family starts fell to 295,000 units and multi-family permits fell to 527,000 units (seasonally adjusted annualized rates)

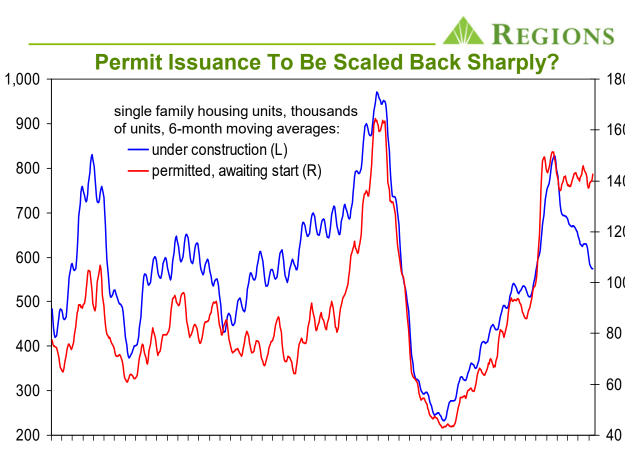
The age-old stock market adage says to "sell in May and go away," a reflection of typical seasonal weakness over the May-October period. The data on May residential construction may seem to offer a real-time housing market corollary, which would be "don't build in May, just go away." Total housing starts fell to an annual rate of 1.177 million units in May, far below our forecast of 1.372 million units and, aside from the disruptions triggered by the pandemic, the lowest monthly rate since February 2019 (the consensus forecast was 1.430 million units). Total housing permits slipped slightly in May, with an annual rate of 1.413 million units, closer to what the consensus (1.418 million units) and we (1.438 million units) anticipated. While the tendency may be to look at the headline starts number and conclude that the combination of weak demand and elevated spec inventories of single family homes has led builders to throw in the towel on 2026, May's surprisingly weak total instead reflects a dramatic drop-off in the pace of multi-family starts, led by a sizable decline in the South region. There were instances of severe weather, including flooding, in parts of the South in May that could have contributed, and that there was no corresponding drop-off in multi-family permits suggests the decline in starts was a one-off that will be made up for in subsequent months. Single family starts and permits, however, underperformed our expectations, which to some extent reflects activity in the South lagging our forecast. This does, however, also point to a possibility we raised in our preview of the May data, which was that a disappointing spring sales season which did little to pare down elevated spec inventories may indeed have led builders to begin scaling back production plans for 2H 2026. We had thought that decision would have been made over the course of this month, but it could have come sooner than we thought. In that sense, the weak starts number notwithstanding, the May data don't really change much for us in terms of our view of the path of residential construction.

On a not seasonally adjusted basis there were 107,000 total housing units started in May, easily below our forecast of 125,100 units. To our earlier point, multi-family starts fell to 25,400 units, with the South seeing only 7,200 multi-family units started, the fewest in the region in any month since June 2017 and just over ten thousand units below our forecast for the region. There were a total of 81,600 single family units started in May, below our forecast of 87,500 units, with single family starts in the South region falling just under six thousand units below our forecast. Single family starts in the Midwest and Northeast topped our forecast while slightly lagging our forecast in the West. It is interesting to note that affordability constraints tend to be less binding in the Midwest than is the case in the other three broad Census regions, the obvious caveat being that this is market specific, which helps account for why single family construction has held up better in the Midwest than in the other regions. May saw 14,400 single family starts in the Midwest, up from 12,400 in April.

The not seasonally adjusted data show total permit issuance of 120,900 units, lagging our forecast of 126,300. Multi-family permit issuance was a bit stronger than we anticipated, and to our earlier point the South region saw 17,100 multi-family permits, matching our forecast, which suggests the drop-off in multi-family starts was a one-off that will be made up for in the months ahead. In contrast, single family permit issuance, at 78,700 units, lagged our forecast, with each of the four Census regions seeing fewer single family permits issued than our forecast anticipated. This is more consistent with builders beginning to reassess 2H 2026 production plans in light of still-elevated inventories of spec homes for sale.

One reason to look for an even more pronounced drop-off in single family permit issuance is the sizable backlog of single family units permitted but not yet started. At the very least, with single family starts sagging and a sharp decline in the backlog of single family units under construction, the backlog of not yet started single family units suggests little upside room for single family permits. Total completions slipped in May, but the decline was more than entirely accounted for by the South region, with completions rising in each of the other three Census regions. It would, however, be reasonable to expect single family completions to drift lower across all regions in the months ahead.





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