ECONOMIC UPDATE

REGIONS

July 17, 2026

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June Residential Construction: Better Than Expected June Doesn't Change Much

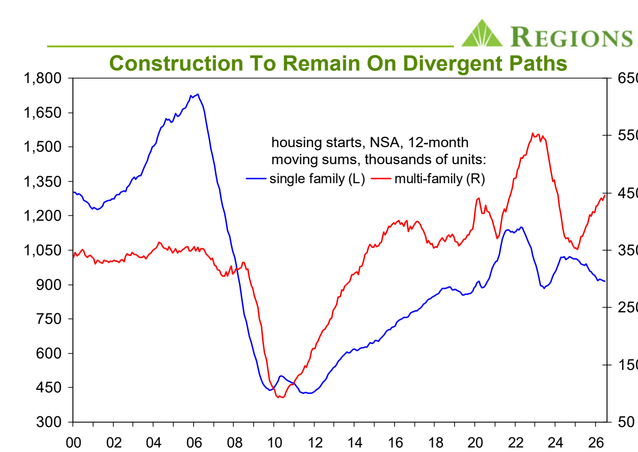
- Total housing starts rose to an annualized rate of 1.427 million units; total housing permits fell to an annualized rate of 1.367 million units
- Single family starts fell to 895,000 units and single family permits fell to 871,000 units (seasonally adjusted annualized rates)
- Multi-family starts rose to 532,000 units and multi-family permits fell to 496,000 units (seasonally adjusted annualized rates)

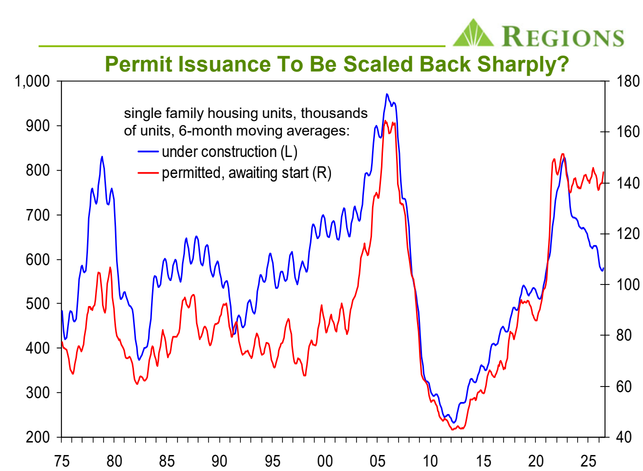
Total housing starts rose to an annual rate of 1.427 million units in June, easily ahead of what we (1.289 million units) and the consensus (1.314 million units) expected, while total housing permits slipped to an annual rate of 1.367 million units, lagging the consensus forecast (1.440 million units) but topping our forecast (1.293 million units). Any time there is a large discrepancy between actual and expected housing starts, a good rule of thumb is to blame, umm, we mean, look to the multi-family segment given the inherent volatility in that series. While it made sense to look for a sizable increase in multi-family starts after a drop as big as that seen in May, mostly accounted for by adverse weather conditions in the South region, the extent of the rebound took us by surprise. Much of that rebound, however, reflects a spike in multi-family permits in the Midwest region, with the not seasonally adjusted data showing the most multi-family permits in the region since October 1997 and for which there was no advance indication in permit issuance. In fairness to the multi-family segment, however, single family activity held up better in June than we had anticipated, with the not seasonally adjusted data showing both single family permits and starts coming in ahead of our forecasts. Not by huge margins, but remember the headline numbers are both seasonally adjusted and annualized, and the June seasonal factor for single family starts was more forgiving than we had anticipated. So, while the June numbers topped our expectations, the question becomes whether that changes our outlook for residential construction, and our answer is "no." The data still point to a sizable drop in single family permits, and that is reinforced by still-elevated spec inventories and eroding builder sentiment. And, while we continue to expect the ills in the single family segment to support multi-family permits and starts, there is a limit to which that will be the case. In other words, nothing in the better-than-expected June data alters how we see residential construction playing out over coming quarters.

On a not seasonally adjusted basis there were 134,200 total housing units started in June, easily hurdling our forecast of 120,700 units. As noted above, the Midwest saw 12,100 multi-family units started in June, more than in any month since October 1997. At the same time, after having fallen sharply in May, multi-family starts in the South region bounced back more strongly than we expected, with the 20,000 units started topping our forecast. Adding to our forecasting woes was that there were 85,500 single family units started, topping our forecast of 81,800 units. The main culprit here was that a stronger rebound in the South region than we expected. To our point about the June data not really changing our outlook, though up by just over three percent from May, unadjusted single family starts are still down 3.8 percent year-on-year. Moreover, the running twelve-month total of unadjusted single family starts, which we see as the most reliable gauge of the trend rate, fell further in June and, at 913,700 units, is lower than at any point since October 2023 and we expect it to slip further over coming months.

The not seasonally adjusted data show total permit issuance of 129,900 units, topping our forecast of 122,300 units, with both single family and multi-family permit issuance topping our forecast. On the single family side, permit issuance in each Census region was a bit above our forecast while our miss on the multi-family side came from the Midwest and Northeast regions. At 83,700 units, single family permits were up 4.1 percent year-on-year, the first over-the-year increase since December 2024, though we don't think this changes much.

We continue to point to still-elevated spec inventories and the sizable backlog of single family units permitted but not yet started as reasons to expect a meaningful pullback in single family permit issuance over the back half of 2026. The number of single family units under construction continues to trend lower, as does the trend rate of single family starts. Put all of these factors together and it's hard to expect anything but a more pronounced pullback in single family permits and further declines in single family starts. While we do see some room for the multi-family segment to profit from the pain in the single family segment, keep in mind that multi-family rents are only now beginning to stabilize and, while having been pared down significantly, the backlog of multi-family units under construction remains sizable. We think this caps the upside for the multi-family segment in the near term.





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