



Construction Declines Signal Need for Policy Changes

As might have been expected considering the sixth consecutive drop in the National Association of Home Builders' (NAHB's) Housing Market Index released yesterday, residential builders pulled back in a big way last month. **Both residential permitting and housing starts plummeted in June**, although both so far are ahead of last year at the same date.

The U.S. Census Bureau and the Department of Housing and Urban Development report that the seasonally adjusted annual rate of residential permitting dropped 7.0 percent in May to 1.695 million units compared to 1.823 million in April. The April rate is a revision from the 1.819 million units reported last month. The May 2022 number represents a 0.2 percent increase from the 1.691 permitting rate reported for May 2021.

Single-family permitting was down 5.5 percent for the month and 7.9 percent lower on an annual basis at 1.048 million units. The annualized 592,000 permitting rate for multifamily units was down 10.0 percent and 19.8 percent from the two earlier periods.

On an unadjusted basis there were 148,900 construction permits issued in May compared to 156,600 the prior month. There were 95,000 single-family homes authorized, down from 98,200 in April.

During the first five months of the year 739,300 permits were issued, a 2.7 percent increase from the same period in 2021. Single family permits are down 2.5 percent while multifamily permits have risen 14.8 percent

Housing starts fared worse. The annual rate dropped 14.4 percent to 1.549 million from 1.810 million in April. The latter, however, was a substantial upward revision from the original April estimate of 1.724 million. **Starts were 3.5 percent lower than in May 2021.**



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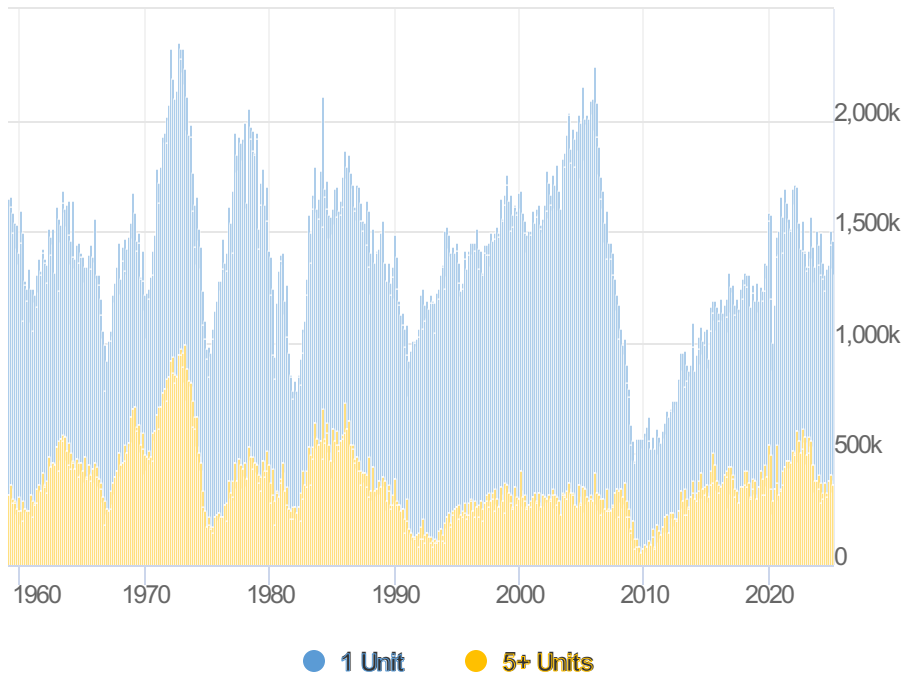
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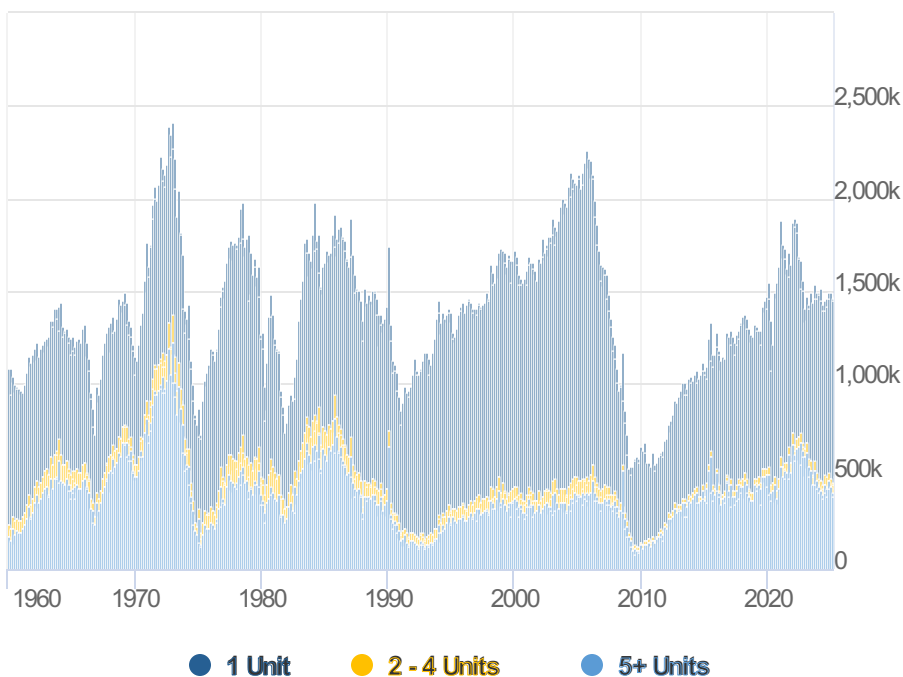
Single family starts fell 9.2 percent from the prior month and 5.3 percent on an annual basis to a rate of 1.051 million. According to Rebert Dietz, chief economist for NAHB, this is the lowest pace for single-family permits since July 2020. Starts in buildings with more than five units declined 26.8 percent for the month and 3.3 percent year-over-year.

Housing Starts By Structure



On an unadjusted basis the number of permits fell from 163,400 in April to 138,300. Single-family starts were down to 93,600 from 107,400. Still, starts for the year-to-date are up 8.2 percent from last year to 691,300. Single-family starts have increased by 3.2 percent and multifamily starts are up 19.8 percent.

Building Permits By Structure

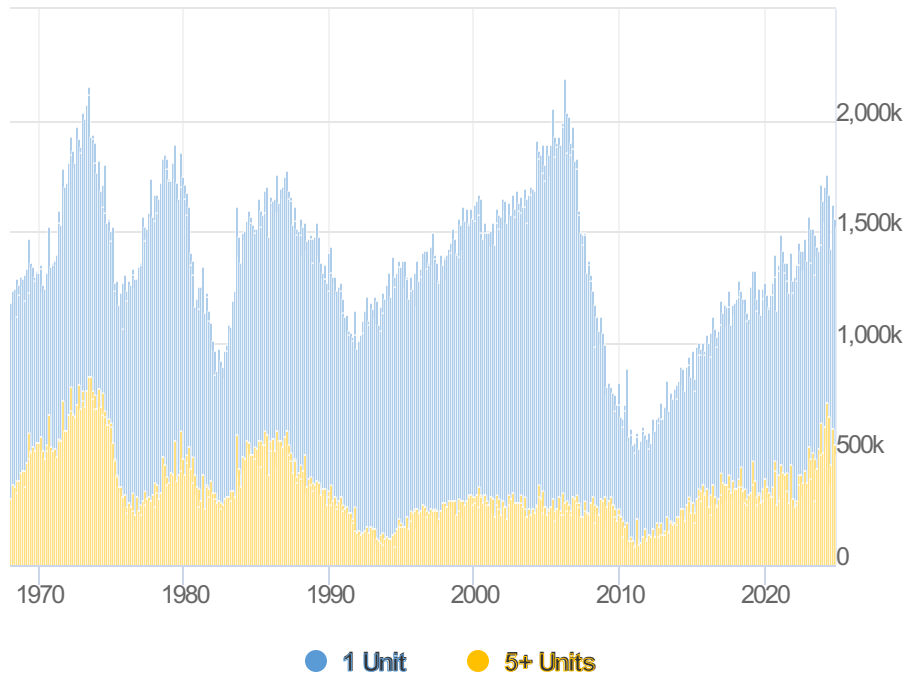


The rates of both permitting and housing starts in May were below the lowest estimates by analysts polled by *Econoday*. They reached consensus estimates of 1.780 million for permits and 1.695 million for housing starts.

At the end of the reporting period there were 1.665 million housing units under construction, 822,000 of them single-family homes. The figure is 9.1 percent higher than in a year earlier in the Northeast and higher by double digits in every other region. There is a backlog of 283,000 permits including 152,000 for single-family construction.

Housing units were completed at an annual rate of 1.465 million units in May, just over 9 percent higher than in both April and in May 2021. The rate of single-family completions was up 2.8 percent and 8.5 percent, respectively while multifamily completions increased 32.2 percent and 11.5 percent. There have been 529,600 units of housing brought online thus far in 2022, an 0.7 percent decline.

Housing Completions By Structure



Dietz said of the report, “With inflation running at a 40-year high, economic policy needs to **focus on improving the supply side of the economy** by bringing down material, energy, and transportation costs. Due to supply-chain effects, there are 152,000 single-family units authorized but not started construction—up 3.4 percent from a year ago. However, this total number has leveled off recently with slowing for single-family permits.

He said the sharp rise in mortgage interest rates in the first half of the year has also impacted the volume of home construction. “Consequently, the market has now passed an inflection point whereby single-family home building is weakening. We expect further declines in the months ahead, which itself is a recession warning for the quarters ahead. For instance, single-family permits decreased 5.5 percent to a 1.05-million-unit rate.

Regional results were mixed. **Permits were down for the month in all four regions** although both the South and the Midwest managed annual gains. Starts rose 14.6 percent for the month and 26.3 percent annually in the Northeast and ticked up 1.9 percent from April in the Midwest but declined elsewhere.

Housing Starts By Structure

