

The Mortgage Corner

Home Sales Forecast to Hold Strong in 2006

With home sales holding at historically high levels, only modest cooling is expected next year, according to a forecast released today by the National Association of Realtors (NAR). This is coming off NAR's earlier prediction for record-breaking home sales this year.

David Lereah, NAR's chief economist, said strong demand should keep home sales at historically high levels in 2006. "We are in the process of setting a fifth consecutive annual record for both existing- and new-home sales, but the market will be coming off of a five-year boom and experience a soft landing next year," Lereah said. "An uptrend in mortgage interest rates will cause some slowing of the sales pace, but we forecast 2006 to be the second highest year on record and housing will continue to support the overall economy."

That "uptrend" in interest rates could well depend on Federal Reserve actions, however. The PIMCO Bond funds Managing Director, Bill Gross, has been predicting sub-par economic growth next year—perhaps in the 2 percent range—which could the Federal Reserve under new Chairman Ben Bernanke to begin to ease interest rates.

Existing-home sales, which should increase 4.8 percent to 7.11 million this year, are projected to decline 3.5 percent in 2006 to 6.86 million. New-home sales, seen to grow by 8.0 percent to 1.30 million in 2005, are expected to fall 4.5 percent to 1.24 million next year. The figures for 2006 would be the second highest year for each sector.

Total housing starts this year are forecast to be the highest since 1972, rising 5.7 percent to 2.06 million units, before declining 4.6 percent to 1.97 million in 2006.

"Baby boomers remain in their peak earning years. Their children – the 'echo boomers' – are just entering the period of life when people typically buy their first home. Immigrants, who have been arriving in strong numbers for many years, are buying in to the American Dream," Lereah said. "The market transition will result in a cooling of home price gains, but it'll be fair to say housing activity will remain healthy for some time to come."

The 30-year fixed-rate mortgage is projected to rise slowly to 6.7 percent by the end of next year. "As interest rates rise and home sales ease, it should help to bring the market closer to equilibrium between home buyers and sellers," Lereah said. "That is expected to take pressure off of home prices and allow appreciation to settle to a more normal pace in 2006."

The national median existing-home price for all housing types, after jumping about 12.4 percent to \$208,100 for all of this year, is projected to grow by 5.3 percent in 2006 to \$219,200. The median new-home price is seen to increase 4.1 percent to \$230,200 in 2005, and then rise more sharply next year as higher construction costs work into the market. The typical new home price is forecast to rise 7.3 percent in 2006 to \$247,000.

Historically, home prices grow 1 to 2 percentage points faster than the rate of inflation. The Consumer Price Index is likely to rise 3.4 percent this year, and then ease

to an increase of 2.7 percent in 2006. Inflation-adjusted disposable personal income is expected to rise by 1.5 percent in 2005 and 4.1 percent next year.

The U.S. gross domestic product is forecast to grow 3.5 percent for all of this year and 3.8 percent in 2006. The unemployment rate should average 5.1 percent through the first quarter of next year, and then decline to 4.9 percent by second half of 2006.

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