

The Mortgage Corner

BUILDERS' CONFIDENCE DECLINES

A one-point decline in the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) for March indicates that housing demand and sales are gradually returning to a sustainable pace that is right in line with our forecasts, said the NAHB survey.

"Today's HMI provides the latest evidence of a predicted and orderly cooling process for the nation's single-family new-home market, which easily hit record highs in 2005," maintained NAHB President David Pressly.

Noting that the confidence gauge has remained within a narrow two-point range for four consecutive months following a retreat from its peak in mid-2005, NAHB Chief Economist David Seiders attributed March's slight downshift to eroding affordability conditions as well as a gradual withdrawal of investor demand in some areas.

"Rising interest rates and high rates of home-price appreciation have raised the bar for homeownership to beyond what some families can reach," he noted. "Meanwhile, a retreat of short-term investors from certain markets is helping restore equilibrium between supply and demand."

Affordability has been declining since last summer, according to the National Association of Realtor's (NAR) Housing Affordability Index. The NAR measures the amount of income required to buy a median-priced existing home. It has declined from 138 percent to 121 percent in the years 2003 to 2005. This is because median housing prices have risen 22 percent while the median family income rose just 8.6 percent over that time. Interest rates have remained flat.

Another indication that real estate is returning to a more sustainable pace is the pending sales survey by the NAR. Its Pending Home Sales Index, based on contracts signed in January, slipped 1.1 percent to a level of 116.3 from an upwardly revised index of 117.6 in December, and is 4.8 percent below January 2005. After hitting a record of 128.2 last August, the index declined at a more rapid pace through December, averaging nearly 3 percentage points per month.

David Lereah, NAR's chief economist, had foreseen a flattening in the index. "This looks like we're touching down for the soft landing we've been expecting," he said. "We are at a much more sustainable level of home sales now – a welcome cooling from the super-heated conditions that were driving exceptional price gains. This will give people the time to be more thoughtful about a process that is the biggest single investment most of us make in our lifetime."

March's HMI, at 55, represented a one-point decline from February's downwardly revised 56 reading, which followed two consecutive months at 57. There was slight erosion of the index's three components in the latest report, with single-point declines in the gauges for current single-family sales and traffic of prospective buyers and a two-point decline in sales expectations for the next six months. Both the current and expected sales components remained well in the positive range, at 60 and 62, respectively.

Builder confidence declined in all regions but the Midwest in March, where it rebounded seven points to 39 from an exceptionally low point of 32 in February. Even so, the Midwest remained the region with the lowest confidence gauge, while the West remained the region with the strongest builder confidence (at 67) despite a six-point decline that erased a gain equal to that amount in February. The Northeast and South also remained in the positive range, with a two-point decline to 55 and a four-point decline to 58, respectively.

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