

The Mortgage Corner

BUILDERS' CONFIDENCE DECLINES SHARPLY

Rising mortgage rates, deepening affordability issues and the retreat of investors/speculators from the marketplace are prompting single-family home builders to further adjust their perspectives on the new-home market, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) for May, released today. The HMI declined six points from an upwardly revised reading in the previous month to hit 45 for the latest report, its lowest mark since mid-1995.

It was as high as 70 one year ago, and has declined 23 points in just 7 months, according to CBS Marketwatch. This is in part because of a slight cooling of home sales, as reported by the National Association of Realtors (NAR).

The national median existing single-family home price was \$217,900 in the first quarter, up 10.3 percent from a year earlier when the median price was \$197,600. The median is a typical market price where half of the homes sold for more and half sold for less. In the fourth quarter of 2005, the annual rate of home-price appreciation was 13.6 percent.

David Lereah, NAR's chief economist, said the market is responding to the improvements in inventory. "With the supply of homes picking up very nicely in many areas of the country, pressure is coming off of home prices," he said. "By the time we report second quarter data, I expect most areas will be returning to normal rates of price growth in the single-digit range. Consumers generally can expect normal price appreciation for the foreseeable future, providing solid returns over time."

NAHB Chief Economist David Seiders said that builders' confidence was declining in line with sales returning to more normal levels. "Based on historical experience, particularly the 1994-1995 episode, the pattern of movement in the HMI is not inconsistent with the orderly cooling-down process we're projecting for home sales and single-family housing starts in 2006," said. "We expect new-home sales to be off by 12 percent from the record posted in 2005. Single-family starts, supported by large builder backlogs of unfilled orders and reconstruction in the wake of last year's record-breaking hurricane season, should be down by about 7 percent from the 2005 record."

Derived from a monthly survey that the National Association of Home Builders has been conducting for nearly 20 years, the NAHB/Wells Fargo HMI gauges builder perceptions of current single-family home sales and sales expectations for the next six months as "good," "fair" or "poor." The survey also asks builders to rate traffic of prospective buyers as either "high to very high," "average" or "low to very low." Scores for each component are then used to calculate a seasonally adjusted index where any number over 50 indicates that more builders view sales conditions as good than poor.

All three component indexes declined in May. The index gauging current sales and the index gauging sales expectations for the next six months each fell five points, to 50 and 54, respectively. Meanwhile, the index gauging traffic of prospective buyers declined seven points, to 32.

The decline in builder confidence was broad-based and registered in every region this month. The HMI fell three points to 47 in the Northeast, two points to 30 in the Midwest, six points to 51 in the South and eight points to 61 in the West.

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