

Housing Starts

July housing starts fell 2.5% to 1.795 million (SAAR). Single family starts were down 2.3% to 1.452 million (SAAR). Permits, a good indicator of what may happen in the next two to three months, fell 6.5%.

| U.S. Housing Starts | | | | |
|---|---------|-------------|----------|--------|
| Millions - Seasonally Adjusted Annual Rate (SAAR) | | | | |
| U.S. Totals | July | June (rev.) | % Change | |
| Starts | 1.795 | 1.841 | -2.5% | |
| Permits | 1.747 | 1.869 | -6.5% | |
| Single Family | | | | |
| Starts | 1.452 | 1.486 | -2.3% | |
| Permits | 1.318 | 1.404 | -6.1% | |
| Multi Family | | | | |
| Starts | 0.343 | 0.355 | -3.4% | |
| Permits | 0.429 | 0.465 | -7.7% | |
| Starts and Permits By Region: | | | | |
| NE | Starts | 0.159 | 0.171 | -7.0% |
| | Permits | 0.165 | 0.175 | -5.7% |
| MW | Starts | 0.306 | 0.304 | 0.7% |
| | Permits | 0.291 | 0.308 | -5.5% |
| S | Starts | 0.889 | 0.912 | -2.5% |
| | Permits | 0.881 | 0.918 | -4.0% |
| W | Starts | 0.441 | 0.454 | -2.9% |
| | Permits | 0.410 | 0.468 | -12.4% |

Analysis & Outlook: The housing market fell for the fifth time in six months, to the lowest level in 2 years. Because housing (and related activity) is so important to the economy (in the past 4-5 years it has contributed more than 20% to our GDP), there is concern over the potential impact of a cooling housing market on the overall economy. Although mortgage applications were up in August, the increase was entirely due to refinance applications, which was up 4% for the week ending August 11, while purchase applications were down almost 1%. As house price increases continue to moderate, and even recede in some areas, the past practice of "using our home's equity as a piggy bank" will wane, and this will impact consumer spending. Inflation is still a concern, due to volatile energy prices and higher interest rates—also capacity utilization is now at 82.4%, which means factories can't increase production much more without causing inflationary pressures in the labor market and elsewhere in the supply chain. The latest CPI report tells us that overall inflation at the consumer level is up 4.2% YOY while core inflation is up a strong 2.7% YOY. It isn't a foregone conclusion that the Fed tightening is over. Some analysts are concerned that we may see a return of "stagflation"—slowing economy and inflation. The jury is still out, but it is something to think about and be prepared for if it happens. In the end, this is still a good housing market (historically speaking) that is simply correcting to more sustainable levels (i.e., based on demographics). This "correction" and rebalancing is good for the market. If it were delayed for another year, the pullback would only be more severe. Energy prices continue to be a problem for most of the world's economy; global interest rates are still headed upward, and the political climate remains very unstable. The fact that the U.S. (and world) economy has performed as well as it has the past 12 months is a testimony to its resilience.

This housing starts report is provided to SBC on a monthly basis by SBC Economic Environment columnist Al Schuler. Visit www.sbcmag.info for more economic news.



Builder Banter

"StrawJet" Wins Modern Marvel of 2006 Award

Modern Marvels Invent Now is a competition held by the History Channel® and Invent Now® Inc., a subsidiary of the National Inventors Hall of Fame® Foundation. Inventors from across the nation are judged on the ingenuity and innovation of their inventions. David R. Ward of Ashland, OR was the grand prize winner of the 2006 Modern Marvel of the Year Award. Ward's vision was to create a building system that was strong enough to withstand natural disasters while being economical enough to revolutionize the rebuilding of the less developed regions of the world. With this in mind, Ward came up with StrawJet, a new building material designed to preserve the environment.

Here's how it works: Straw from harvests (wheat, flax, sunflower) is processed into a mat that is used to construct composite building panels, similar to fiberglass or carbon fiber. Rather than using plastic resin as the binder, StrawJet uses paper pulp, clay and cement. Besides being continuously renewable, straw is available worldwide, making this system a revolutionary development that could have benefits around the globe. [Source: PR Newswire, www.prnewswire.com]

Builder Confidence Slides In August

Reacting to what they perceive as increasing consumer uncertainty regarding the market for new single-family homes, builders tempered their views on current and expected sales activity in the Wells Fargo/National Association of Home Builders Housing Market Index (HMI) for August, released on August 15. The HMI declined seven points to 32, its lowest level since February of 1991. This was the seventh consecutive month in which builder confidence, as measured by the index, has fallen.

"Two big factors are coloring builders' perceptions of the market right now—rising sales cancellations and substantial growth in inventories of both new and existing homes," said NAHB Chief Economist David Seiders. "These factors are largely the result of an increasing number of potential buyers adopting a 'wait-and-see' attitude because of uncertainty about where the housing market is headed, and record-high energy costs also appear to be weighing on housing demand. We're also seeing an anticipated withdrawal of investors/speculators from the market, following a major influx in 2004-2005."

"It's important to recognize that home sales and housing production are subsiding from record levels a year ago, and those levels clearly were unsustainable," noted Seiders. "We expect the erosion in market activity to continue through most of this year before stabilizing in 2007." Seiders also noted that, historically, builder sentiment tends to contract by a greater margin than actual sales and production activity.

"On the bright side for consumers, the economy continues to be in fundamentally good shape, mortgage rates remain near historic lows, house price gains are decelerating, and builders are offering substantial buyer incentives to keep their inventories down. Such favorable market conditions certainly are reason for optimism among those in the market to buy new homes," Seiders said. [Source: NAHB Press Release, www.nahb.org, 8/15/06]

Housing Market Index 2005-06 (HMI)

The HMI is a weighted, seasonally adjusted statistic derived from ratings for present single family sales, single family sales in the next 6 months and buyers traffic. The first two components are measured on a scale of "good" "fair," and "poor," and the last one is measured on a scale of "high," "average" and "low." A rating of 50 indicates that the number of positive or good responses received from the builders is about the same as the number of negative or poor responses. Ratings higher than 50 indicate more positive or good responses.

| Sept | Oct | Nov | Dec | Jan06 | Feb | Mar | Apr | May | June | July | Aug |
|------|-----|-----|-----|-------|-----|-----|-----|-----|------|------|-----|
| 65 | 68 | 61 | 57 | 57 | 56 | 54 | 51 | 46 | 42 | 39 | 32 |

Source: National Association of Home Builders

Second Home Buyers Account for 40% of 2005 Resales

The National Association of Realtors (NAR) reported that vacation and investment homes accounted for 40 percent of homes resold in 2005. In 2005, 28 percent of homes sold were purchased as investments, while 12 percent were bought as vacation properties. Baby boomers are the driving force behind the second home market with the help of historically low interest rates.

"Vacation home buyers are making lifestyle choices and purchasing primarily for their own enjoyment," NAR Chief Economist David Lereah said. "Investment home buyers are seeking rental income and portfolio diversification, although vacation home buyers also mentioned diversification." The majority of vacation home buyers (72 percent) purchase for their own enjoyment, while the rest (28 percent) are seeking to diversify their investments.

Purchasers of second homes valued their proximity to:

- An ocean, river or lake, 40%
- Family members, 34%
- Preferred recreational activities, 27%
- Their primary residence, 27%
- Mountains, 26%
- A preferred vacation area, 24%
- A job or school, 17%

Lereah predicted that vacation home sales would remain strong for the foreseeable future, but he said that sales to investors were likely to decline this year in response to rising mortgage interest rates. [Source: *Nation's Building News*, www.nbnnews.com] SBC

Email ideas for this department to builderbanter@sbcmag.info.

Chapter Corner

Continued from page 119

Greensboro on August 25, it was agreed that the next chapter meeting should be moved to coincide with this event.

The WTCA Board resolution requesting each chapter designate a Fire Service Relations Chair was reviewed. Jack Parker was the unanimous favorite to fill this position and he accepted the new title. He also reminded members of the Carbeck CDs that are available and are a good resource to give to local fire departments. If possible, these CDs should be given to the training officer at the fire department. The Board resolution requesting local chapters to create a Legislative Relations Chair was discussed next and David Horne of Universal Forest Products was elected to fill the position.

The technical code committee gave an update on the need to re-dip plates or paint to satisfy coastal area requirements and the need for testing. It was decided that members would continue using double

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dipped or painted plates in applications that require more stringent corrosion protection.

The education committee reported that Jack Parker delivered three sessions for building departments in Craven County, Wayne County and Camp Legune. Tom Hollinshed of Comtech and Chris Lambert of Southeastern Materials would be the next members to represent the chapter at an educational event, a building inspectors meeting in Asheville in August.

Under new business, Tom Hollinshed reported that he started efforts to get some NC DOT regulations addressed, especially concerning length limitations on tractor and trailer combinations. It seems that the law is being enforced inconsistently. Tom will work with his local contacts and WTCA staff to address the issue. SBC

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