

Housing Starts

Housing starts increased 14.5% in January to 2.276 million (SAAR), the highest level since March 1973. Weather was the primary reason for the surge as the unseasonably warm January encouraged more starts than normal in the northern half of the country. The single-family sector was up 12.8% to 1.819 million SAAR, and multi-family increased 21.9%. Permits, which are less affected by weather, were up a more modest 6.8%.

U.S. Housing Starts			
Millions - Seasonally Adjusted Annual Rate (SAAR)			
U.S. Totals	Jan	Dec(rev.)	% Change
Starts	2.276	1.988	14.5%
Permits	2.217	2.075	6.8%
Single Family			
Starts	1.819	1.613	12.8%
Permits	1.685	1.645	2.4%
Multi Family			
Starts	0.457	0.375	21.9%
Permits	0.532	0.430	23.7%
Starts and Permits By Region:			
NE Starts	0.217	0.168	29.2%
NE Permits	0.212	0.207	2.4%
MW Starts	0.371	0.300	23.7%
MW Permits	0.391	0.339	15.3%
S Starts	1.177	1.083	8.7%
S Permits	1.080	1.019	6.0%
W Starts	0.511	0.437	16.9%
W Permits	0.534	0.510	4.7%

Analysis & Outlook: Although actual starts in January were up a substantial 11.3%, the seasonality factor made the increase look even stronger. All this is just to point out that monthly starts can fluctuate significantly, and that means we should focus on trends: (1) Interest rates are going up with the 30-year mortgage averaging 6.15% in January, compared with 2005's average of 5.86%. NAHB expects the 30-year mortgage to average 6.5% in 2006. This will increase the monthly payment on a typical mortgage by a little less than \$1000 per year, which will drop a growing number of first time buyers from the market. This should show up in better multi-family starts over the next two years. (2) The key to housing is jobs, income and interest rates. Rates are driven by inflation expectations, which in turn are impacted by risk or uncertainty. While we expect inflation to remain relatively tame, one must consider the risk associated with geopolitical concerns that add "risk premiums." With terrorism remaining a concern, any up tick increases risk and that usually translates into problems for the world economy. (3) New home price gains are starting to moderate with the median price increasing 7.4% in 2005, down considerably from the 13.3% increase in 2004. The inventory of new and existing homes for sale are at all time highs, which make the market more vulnerable to sudden shifts in demand—something to monitor. (4) Builders should get a break in building material prices for wood products in 2006 as demand capacity ratios fall in response to increasing supply in the face of moderately lower housing demand. In summary, as long as the "wild cards" don't come into play, housing should remain healthy in 2006—single-family will pull back some while multi-family is expected to make modest gains. **SBC**

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

Rural Builders Going to Town

As cities continue to grow and expand into the countryside, builders who work on farms and rural housing projects have to adapt to working in the city. Power lines, gas lines, trees, landscaping, neighbors, and more zoning restrictions and building codes are all issues that rural builders are learning to manage.

Elliot Christensen, a sales consultant for Morton Buildings in Monticello, MN, has witnessed the differences that accompany city building. "When you do work in town there are more inspections, more zoning concerns, and more meetings to go to, but we take these projects because, these towns are within our sales territory. Second, the countryside is shrinking. And, finally, construction projects in towns can provide some of our high-dollar commercial jobs."

Building in town can also be more complicated due to restrictions inhibiting maneuvering room and space to store materials. On the other hand, building in the city requires less travel to the job-site, lumberyards and material suppliers. [Source: *Rural Builder*, Dec 2005, p.20-23]

The Power Behind Cordless Tools

Power tools may soon be getting an exciting new makeover in the power department. Lithium-ion technology, more commonly associated with laptops, cell phones and digital cameras is showing promising results for power tools. High-voltage batteries often have weight and safety restriction and never seem to last as long as needed, but the size and weight of compact lithium-ion batteries present endless possibilities and can deliver more cycles than current power tool battery technology. "With this technology, you can beat the cord; that is, you can get more power from a battery than from the outlet in the wall," said Ric Fulop, co-founder and vice president of A123Systems. "It's time for the construction world to get excited about the innovation this technology will make possible." [Source: www.jlconline.com]

Builder Confidence Unchanged in February

Indicating stabilizing conditions in the nation's single-family housing market, home builder confidence remained unchanged in February from levels gauged in each of the past two months, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI), released on February 15.

February marks the third consecutive month in which the HMI has held at 57, and the second consecutive month in which there has been no change posted in the index component that gauges current single-family home sales.

"After several record-breaking years for home sales, builders are anticipating a return of the market to a healthy and steady pace," said David Pressly, a home builder from Statesville, NC, and NAHB president. He noted that any number above 50 on the index indicates that more builders view conditions as good than poor in their markets. [Source: NAHB Press Release, 2/15/06, www.nahb.org.] **SBC**

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

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.

Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan06	Feb
70	67	70	72	70	67	65	68	61	57	57	57

Source: National Association of Home Builders

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