

Housing Starts

November housing starts reversed the downward trend of the past ten months, increasing 6.7% to 1.588 million (SAAR). Single family starts were up 8.1% to 1.281 million (SAAR). Permits, a good indicator of what may happen in the next two to three months, fell 3%.

U.S. Housing Starts

Millions - Seasonally Adjusted Annual Rate (SAAR)

U.S. Totals	Nov	Oct(rev.)	% Change	
Starts	1.588	1.488	6.7%	
Permits	1.506	1.553	-3.0%	
Single Family				
Starts	1.281	1.185	8.1%	
Permits	1.144	1.181	-3.1%	
Multi Family				
Starts	0.307	0.303	1.3%	
Permits	0.362	0.372	-2.7%	
Starts and Permits By Region:				
NE	Starts	0.165	0.152	8.6%
	Permits	0.147	0.161	-8.7%
MW	Starts	0.222	0.237	-6.3%
	Permits	0.235	0.242	-2.9%
S	Starts	0.851	0.718	18.5%
	Permits	0.791	0.790	0.1%
W	Starts	0.350	0.381	-8.1%
	Permits	0.333	0.360	-7.5%

Analysis & Outlook: On a year-to-date basis (i.e., Jan-Nov 2005 versus Jan-Nov 2006), housing and single family starts are down 12.5% and 14% respectively, while permits are down 14.1% and 17.1% respectively. As we mentioned in last month's report, the main concern for 2007 is whether the housing correction will drag the economy into a recession. I haven't seen anything in the past 30 days to change my mind that housing should not derail the economy. However, "re-fi" activity continues to weaken and the recent PPI report and the transcripts from the recent Fed meeting suggest that inflation concerns have not disappeared. In fact, a steady job market (service related growth offsetting manufacturing weakness) is driving solid income gains and lower energy prices are putting more money in consumers' pockets. It's true that recent manufacturing data suggests some pullback—related primarily to the auto sector and construction related activity. The economy is slowing—NAHB estimates GDP growth of 2.6% in 2007, compared to 3.3% this year. Their housing forecast for 2007 is 1.56 million starts with 1.25 million being single family—compared to 1.808 million and 1.47 million respectively in 2006—off about 14%.

As we mentioned in previous reports, inventory overhang is the main problem and that is being caused by poor affordability. Affordability (the ability to carry a mortgage) is weaker today than at anytime in the past 20 years, due to high house prices and rising mortgage rates. Most analysts expect the inventory overhang to continue for another six months or so—until it is rebalanced, builders will keep a close eye on starts. A key factor will be the resale market. When that picks up again (inventories are high there too), housing starts will rebound. **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

Caulk Is Put to the Test

A new research project supported by the Partnership for Advanced Technology in Housing (PATH) and is taking place at the National Institute of Standards and Technology (NIST). It will provide a realistic method for predicting the durability of caulking material, which until now has no accepted procedure to help builders determine which caulk will provide superior value.

The SPHERE (Simulated Photodegradation via High Energy Radiant Exposure) is a testing device developed by NIST in conjunction with the caulking industry that exposes samples to high intensity sunlight (up to the intensity of 50 suns) at controlled temperature and humidity. This test will take two to three weeks of testing compared to the previous 26-month exposure period used to test caulk. With these results builders can look forward to choosing caulking products with proven qualities that will not only lower maintenance costs but also reduce water leakage and improve durability. [Source: www.pathnet.org]

California's Solar Power Requirement

The California Solar Initiative, known as a "million solar roofs" bill was recently signed into law by California's governor Arnold Schwarzenegger in response to the rising costs of new electric power sources. The plan aims to have one million solar roofs created in California by 2018, and will be implemented by the California Public Utility Commission. Those roofs could provide 3,000 megawatts of additional clean energy and reduce the output of greenhouse gasses by three million tons, which is comparable to taking one million cars off the road.

The bill includes \$2.9 billion in incentives to homeowners and building owners who install solar-electric systems and will allow consumers who install solar panels to sell excess energy back to power companies for credit on their monthly bills. Beginning January 1, 2011 the law also requires California developers of more than 50 new single-family homes to offer solar-energy systems as an option to all customers. [Source: Green Builder, Oct. 2006, p.14]

Builder Confidence Holding Steady In December

Heading into the holidays, builders of new single-family homes continue to believe that the worst of the downswing in home buying is behind them, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) for December. At 32 for the present month, the overall HMI is down a single point from November but remains above the recent low of 30 in September. "This was the third consecutive month in which builder expectations for sales over the upcoming six-month period have improved, and it's a good sign of things to come in the new year," said NAHB President David Pressly, a home builder from Statesville, N.C. "The HMI has come off September's low point, and other recent indicators confirm that buying conditions have improved and that demand is stabilizing—including improvements in measures of housing affordability, strengthening consumer assessments of home buying conditions and an upswing in applications for mortgages to buy homes," said NAHB Chief Economist David Seiders. [Source: www.nahb.org, 12/18/06] **SBC**

Housing Market Index 2006 (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.

Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
57	56	54	51	46	42	39	33	30	31	33	32

Source: National Association of Home Builders

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