

Housing Starts

February housing starts snapped back 9%, to 1.525 million (SAAR) while single-family starts were up 10.3% to 1.22 million (SAAR) and the more volatile multifamily sector was up 4.1%. However, permits, a good indicator of what may happen in the next two to three months, were down 2.5%.

U.S. Housing Starts				
Millions - Seasonally Adjusted Annual Rate (SAAR)				
U.S. Totals	Feb	Jan (rev.)	% Change	
Starts	1.525	1.399	9.0%	
Permits	1.532	1.571	-2.5%	
Single Family				
Starts	1.220	1.106	10.3%	
Permits	1.089	1.124	-3.1%	
Multi Family				
Starts	0.305	0.293	4.1%	
Permits	0.443	0.447	-0.9%	
Starts and Permits By Region:				
NE	Starts	0.135	0.192	-29.7%
	Permits	0.142	0.192	-26.0%
MW	Starts	0.161	0.188	-14.4%
	Permits	0.209	0.255	-18.0%
S	Starts	0.827	0.701	18.0%
	Permits	0.767	0.745	3.0%
W	Starts	0.402	0.318	26.4%
	Permits	0.414	0.379	9.2%

Analysis & Outlook: The drop in permits was the 12th time in the past 13 months that permits have fallen—an indication that builders continue to pare down inventories. New homes for sale in December totaled 539,000, a 5.7 month supply, while there were 3.45 million existing homes for sale (single-family plus condos), a 6.5 month supply. Builders will have to keep cutting back on starts (and accept lower prices) to bring inventories in line while many homeowners will have to accept lower prices if they expect to sell their existing homes. This natural process will continue until inventories are in balance with demand. On the demand side of the equation, we are seeing both good news and bad news. The good news is that mortgage rates are still attractive by historical standards—the 30 year fixed rate at time of writing is 6.14% while the 1 year ARM is 5.42%. The job market, with the exception of the auto-related industry and construction, is doing quite well and driving real gains in after tax incomes. Strength in the service sector, which represents 84% of the private sector employment in the U.S. today, is more than compensating for weakness in the manufacturing sector. The bad news is the growing problem in the subprime mortgage arena. But even this is not all that bad—according to statistics from the Fed, subprime mortgages account for about 13-14% of all mortgages, and less than 15% of these mortgages have been in default more than 60 days. If you do the math, this comes to about 2% of all mortgages. In addition, there are some conventional mortgages in default, but not an abnormal percentage. While this is a problem for the owners of these mortgages, the overall economy should be able to withstand the problem with subprime mortgages. In summary, the inventory correction will be delayed a bit by the subprime problems, but the adjustment process will continue without dragging the rest of the economy into a recession. The Fed is meeting the week of March 19, and most analysts feel that they will likely keep rates where they are for the rest of the year. In my opinion, this is good news in that they feel inflation (usually caused by a strong economy) is still a concern. In addition, interest rates are going up in China, Europe, South America, and probably Canada, so any lowering of rates here could weaken the U.S. dollar, and this would be inflationary given our appetite for imports. **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

Affordable Design Meets High-Tech Housing Technology

Fernando Pagés Ruiz, author of *Building an Affordable House* (The Taunton Press, 2005), broke ground on the first PATH Concept Home in December 2006, a project sponsored by the Partnership for Advancing Technology in Housing, a public-private program of the U.S. Department of Housing and Urban Development and the housing industry.

"I build homes for real people," Ruiz says. "These families deserve the best quality, with long-term durability, low maintenance, and manageable utility bills. PATH's Concept Home is designed to achieve these goals. It's packed with leading-edge technology aimed at improving construction efficiency and building performance."

Innovative features include preassembled insulating concrete forms for foundation walls, panelized floor framing, soy-based spray-foam insulation, wireless electrical switches, and movable interior walls. Designed by Torti Gallas and Partners, the 2000-sq.ft. home will meet Energy Star Environments for Living, LEED for Homes, and Fair Housing Act accessibility criteria. The house is in Omaha, NE on a corner lot donated by the city. [Source: *Fine Homebuilding*, March 2007, p.20]

Construction Payrolls Fall

The 2006 housing slump is starting to affect construction employment. *Business Week* reported that construction payrolls fell by 26,000 jobs in October, the biggest monthly drop since February 2003. But even with the October drop, construction payrolls are still up 144,000 jobs from a year ago, thanks to a strong commercial sector and the fact that the job decline in homebuilding has been small thus far. [Source: *Frame Building News*, January 2007, p.8]

Construction & Demolition Debris Recycling Database

A new Construction Waste Management Database service has been added to the National Institute of Building Sciences' web-based Whole Building Design Guide, located at www.wbdg.org.

The Construction Waste Management Database is the first online, nationwide list for builders, contractors and building owners who wish to quickly and easily search for nearby recyclers whose services match their needs. [Source: *Building Safety Journal*, December 2006, p.59]

Builder Confidence Slips In March

Builder confidence in the market for new single-family homes receded in March, largely on concerns about deepening problems in the subprime mortgage arena, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI), released on March 19. After rising fairly steadily since its recent low last September, the HMI declined three points from a downwardly revised 39 reading in February to 36 in March.

"Builders are uncertain about the consequences of tightening mortgage lending standards for

Housing Market Index 2006-07 (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.

Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan07	Feb	Mar
51	46	42	39	33	30	31	33	33	35	39(r)	36

Source: National Association of Home Builders

their home sales down the line, and some are already seeing effects of the subprime shakeout on current sales activity," said NAHB Chief Economist David Seiders. "The fundamentals of today's housing market still are relatively strong, including a favorable interest-rate structure, solid growth in employment and household income, lower energy prices and improving affordability in much of the single-family market—due in part to price cuts and non-price sales incentives offered by builders. NAHB continues to forecast modest improvements in home sales during the balance of 2007, although the problems in the mortgage market increase the degree of uncertainty surrounding our baseline (i.e., most probable) forecast."

Derived from a monthly survey that NAHB has been conducting for 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 either "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 registered declines in March after having risen in the previous month. The index gauging current single-family home sales and the index gauging sales expectations for the next six months each declined three points, to 37 and 50, respectively. Meanwhile, the index gauging traffic of prospective buyers declined a single point, to 28. [Source: www.nahb.org, 3/19/07]

Remodeling Market Remains Steady In Slower Housing Market

Remodeling activity remained steady in the fourth quarter of 2006, according to the National Association of Home Builders' (NAHB) Remodeling Market Index (RMI). The current market conditions index edged up slightly from 47.8 to 48.2 on a seasonally adjusted basis and future expectations moved up to 46.0 from 45.4. The RMI measures remodeler perceptions of market demand for current and future residential remodeling projects.

"Remodeling retained strength across most of the country compared to late last year," said NAHB Remodelers Chairman Mike Nagel, CGR, CAPS, a remodeler from Chicago, Ill. "Certainly regional economies and housing markets play an important role, but overall we see maintenance of high levels of remodeling activity and solid future prospects."

The RMI component for the rental market indicated a strong increase in activity for that sector in the fourth quarter of 2006. The current conditions index for renter-occupied markets increased from 38.8 to 44.1, while current conditions in owner-occupied units decreased from 51.4 to 49.7. The future expectations for the renter-occupied units also grew from 37.1 to 42.4, and owner-occupied units edged up from 45.0 to 45.6.

"Though the substantial reductions in home sales and new housing production have impacted the remodeling market to some degree, we feel that remodeling of both owner-occupied and rental housing will remain strong compared to other areas of the industry," said NAHB Chief Economist Dave Seiders. "With record levels of homeowner equity and the constant need to upgrade the older housing stock, the remodeling outlook appears quite good for years to come." [Source: www.nahb.org, 3/5/07]

Condo Builders' Confidence On The Rise:

Condo builders reported somewhat better market conditions in the fourth quarter of 2006 than in the previous quarter, according to the latest results of the National Association of Home Builders' (NAHB) Multifamily Condo Market Index (MCMCI). The current-conditions index remained substantially lower than it was at the same time last year, but builders and developers are more optimistic about what they think the condo market will be doing six months out. Traffic of prospective buyers also rose slightly from the previous quarter.

"The condo market is coming back toward balance following the previous four quarters when the pendulum swung from red-hot to seriously cold," said NAHB Chief Economist David Seiders. "What we are looking for—and likely to find in 2007—is a healthy and sustainable level of condo production that will fall short of the unsustainable levels registered during the earlier boom period, but that will meet current market demands." [Source: www.nahb.org, 3/2/07] **SBC**

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