

Housing Starts

April housing starts increased modestly 2.5%, to 1.528 million (SAAR) from a downwardly revised March number. Single-family starts were up 1.6% to 1.225 million SAAR while multi-family activity was up 6.3%. The starts number is a bit misleading because they represent activity already in the pipeline, while the real story this month is the almost 9% drop in permits to 1.429 million SAAR.

U.S. Housing Starts			
Millions - Seasonally Adjusted Annual Rate (SAAR)			
U.S. Totals	Apr	Mar (rev.)	% Change
Starts	1.528	1.491	2.5%
Permits	1.429	1.569	-8.9%
Single Family			
Starts	1.225	1.206	1.6%
Permits	1.063	1.131	-6.0%
Multi Family			
Starts	0.303	0.285	6.3%
Permits	0.366	0.438	-16.4%
Starts and Permits By Region:			
NE Starts	0.172	0.131	31.3%
NE Permits	0.157	0.166	-5.4%
MW Starts	0.194	0.226	-14.2%
MW Permits	0.223	0.243	-8.2%
S Starts	0.763	0.764	-0.1%
S Permits	0.700	0.753	-7.0%
W Starts	0.399	0.370	7.8%
W Permits	0.349	0.407	-14.3%

Analysis & Outlook: The market continues to correct for excessive inventories, which are being made worse by problems in the mortgage market. Defaulting loans and repossessions are adding to inventories while tougher lending standards are culling some potential buyers. Housing inventories continue to increase—new home inventories are now at 7.8 months, while existing home inventories for March are at 7.3 months. The key question is: How much longer will it take to bring inventories down to “comfort levels” where builders start building again? Builders are aggressively cutting back on permits to reduce inventories, but they need some help from the other part of the market—existing homes—as it represents 85% of the housing market. Existing home prices have to come down further if inventories are to shrink. Q1 2007 median prices were down 6.7% from the peak reached in Q3 2005. Some analysts suggest that prices will need to come down by at least that much again if the market is to make significant progress in bringing inventories closer to “comfort levels.” NAHB’s latest forecast (4/18) is calling for 1.455 million (SAAR) units in 2007 and 1.528 million (SAAR) in 2008. Their quarterly forecast suggests the bottom will be Q2 2007 (1.425 million SAAR) with a gradual strengthening through 2008 (1.56 million SAAR by Q4 2008). That is a plausible forecast, but it depends on the job market remaining relatively healthy and existing home prices coming down to a level that attracts more buyer interest. Builders will continue to reduce inventories by starting fewer homes until inventory levels reach the 5-6 month level, and that means soft building material prices well into 2008. The subprime problem doesn’t appear to be spreading to the rest of the mortgage market and that is good news. Most analysts would concur that the “housing correction” will not drag the economy into a recession, however, more analysts are considering “stagflation” as an increasing probability. The Fed remains concerned about inflation, particularly from the increasing income side of the equation. Now productivity is slowing and this has the Fed thinking that they have to remain vigilant. **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

GPS-Enabled Land Development Tools

You have seen GPS used in cars for directions and roadmaps, and now there is even an integrated GPS system for land development equipment. To facilitate grading of large areas, GPS-controlled earthmoving equipment (including bulldozers, backhoes, road graders, excavators and compactors) can greatly increase productivity during the land development process. This approach significantly reduces labor and the amount of earth being moved more than once.

The system consists of two major components: a digital three-dimensional model for the grade information (3-D site plan) and earthmoving equipment that has been fitted with automatic computer-operated controls on the cutting surface (machine blade). [Source: www.toolbase.org]

Builder Confidence Slips Again in May

Ongoing concerns about subprime-related problems in the mortgage market caused builder confidence about the state of housing demand to decline three more points in May, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI), released May 15. With a current reading of 30, the HMI has now returned to the lowest level in its current cycle, which was previously hit in September of 2006.

“Builders are feeling the impacts of tighter lending standards on current home sales as well as cancellations, and they are bracing for continued challenges ahead,” said NAHB President Brian Catalde, a home builder from El Segundo, Calif.

“The crisis in the subprime sector has infected other parts of the mortgage market as well as consumer psychology, and as a result the housing outlook has deteriorated,” added NAHB Chief Economist David Seiders. “We’re now projecting that home sales and housing production will not begin improving until late this year, and we’re expecting the early stages of the subsequent recovery to be quite sluggish. There still are tremendous uncertainties regarding our baseline forecast going forward, owing largely to the subprime crisis that is having widespread effects throughout the mortgage market.”

Derived from a monthly survey that NAHB has been conducting for more than 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 declined in May. The index gauging current single-family sales slipped two points to 31, while the index gauging sales expectations for the next six months fell three points to 41 and the index gauging traffic of prospective buyers fell four points to 23. [Source: NAHB Press Release, www.nahb.org, 5/15/07] **SBC**

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

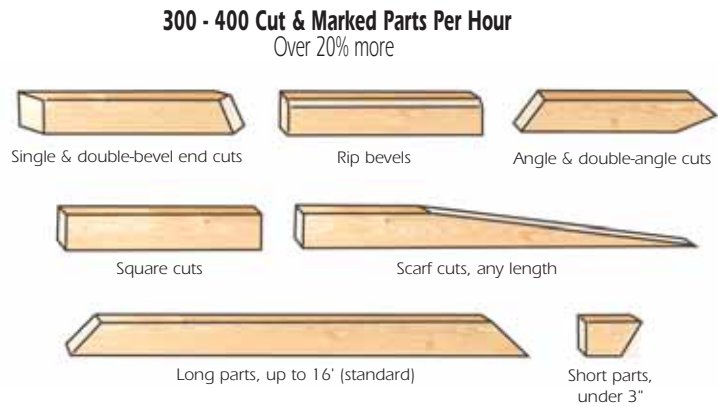
Housing Market Index 2006-07 (HMI)

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.

June	July	Aug	Sept	Oct	Nov	Dec	Jan07	Feb	Mar	Apr	May
42	39	33	30	31	33	33	35	39	36	33	30

Source: National Association of Home Builders

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