



# Popular Economics

*Promoting the Popular Understanding of Economics*

## The Mortgage Corner

### August Builder Activity Continues to Decline

Housing starts fell 2.6 percent in August to a seasonally adjusted annual rate of 1.331 million units as the downswing in the housing market continued, according to figures released by the Commerce Department today. Starts were down 19.1 percent from a year earlier, falling to the lowest level in 12 years.

This, and concerns about the substantial inventory of new homes for sale and the effects that deepening mortgage market problems are having on buyer demand caused builder confidence to decline for a seventh consecutive month in September, according to the latest National Association of Home Builders/Wells Fargo Housing Market Index (HMI), released today. The HMI dropped two points to 20, tying its record low reached in January of 1991 (the series began in January 1985).

"Builders are expressing concern that home buyers are getting spooked by the many headlines they are seeing on mortgage market issues and their continuing effects on the housing market and home prices," said NAHB President Brian Catalde. "Indications are that consumers are trying to time the bottom of the market before making their purchase, which historically can be a very tricky thing to do and is typically not an advisable strategy. The bottom line is, with the inventory situation what it is and the selection of units and deals to be had, now is a very good time to buy a home."

Starts of new single-family homes were down 7.1 percent for the month to a seasonally adjusted annual rate of 988,000 units. The August pace for single-family construction was 27.1 percent below a year earlier.

"Today's report is very much in line with what builders are reporting in our own surveys -- that they are cutting back on new production and focusing on reducing their inventories by offering a variety of incentives to boost sales and limit cancellations," said President Catalde.

"The housing market is still contracting, but yesterday's action by the Federal Reserve to cut the federal funds and discount rate calmed the financial markets and sent a message to American consumers that our central bank intends to ensure that the economy continues to move ahead," said NAHB Chief Economist David Seiders. "This will help to support housing, especially if the Fed takes further action in the months ahead. We expect starts and permits to bottom out by mid-2008 before a systematic recovery process gets underway."

Multifamily housing starts increased 12.8 percent to a seasonally adjusted annual rate of 343,000 units for the month. The pace of multifamily construction was 17.9 percent above August 2006. Total building permits fell 5.9 percent in August to a seasonally adjusted annual pace of 1.307 million units. Total permits were down 24.5 percent from a year earlier.

Single-family permit issuance was down 8.1 percent to a pace of 926,000 units for the month. This was 27.9 percent below a year earlier. The rate of multifamily permit issuance, 381,000 units for the month, equaled the July pace but was 14.6 percent below the August 2006 pace.

Regionally, starts of new homes and apartments were up in the Midwest and South in August by 4.2 percent and 11.4 percent, respectively, because of an increase in multifamily construction. Housing starts were down in the Northeast by 37.7 percent and in the West by 18.4 percent. All four regions reported a pace of construction well below a year earlier.

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