The Mortgage Corner

Housing Starts, Builder Optimism Dips

By **Harlan Green** / Special to CASA

NATIONWIDE HOUSING STARTS FELL TWO PERCENT to a seasonally adjusted annual rate of 1.065 million units in January, according to newly released data from the U.S. Commerce Department. This drop was mainly due to a 22.2 percent decrease in the Midwest, hit hard by winter weather.

And home builders' sentiment also fell slightly from 55 to 53 percent, meaning a majority of those surveyed are optimistic that 2015 will be a good year for housing construction.

"The drop in builder confidence is largely attributable to supply chain issues, such as lot and labor shortages as well as tight underwriting standards," said NAHB Chief Economist David Crowe. "These obstacles notwithstanding, we are expecting solid gains in the housing market this year, buoyed by sustained job growth, low mortgage interest rates and pent-up demand."

Single-family housing production fell 6.7 percent to a seasonally adjusted annual rate of 678,000 in January while multifamily starts rose 7.5 percent to 387,000 units. This is 2.0 percent below the revised December estimate of 1,087,000, but is 18.7 percent above the January 2014 rate of 897,000.

"After a strong single-family report in December, it is not surprising to see some pull back in January," said NAHB Chief Economist David Crowe. "With continued job creation and a growing economy, single-family production should make gains in the year ahead."

Though builder sentiment dipped, it was very good for a winter report.

"For the past eight months, confidence levels have held in the mid- to upper 50s range, which is consistent with a modest, ongoing recovery," said Crowe. "Solid job growth, affordable home prices and historically low mortgage rates should help unleash growing pent-up demand and keep the housing market moving forward in the year ahead."

So what does this say about housing in 2015? The Fed's FOMC minutes were just released, and it looks like they might not be ready to raise interest rates in the middle of 2015, as had been hinted by several of the Fed Governors.

"In connection with the risks associated with an early start to policy normalization, many participants observed that a premature increase in rates might damp the apparent solid recovery in real activity and labor market conditions, undermining progress toward the Committee's objectives of maximum employment and two percent inflation," said the minutes. "In addition, an earlier tightening would increase the likelihood that the Committee might be forced by adverse economic outcomes to return the federal funds rate to its effective lower bound."

Why is the Fed becoming more dovish regarding interest rates? The Producer Price Index for wholesale prices is hovering perilously close to deflation. The PPI — a good proxy for wholesale costs — fell a record 0.8 percent in January on a seasonally adjusted basis, the Labor Department said today. It was the third decline in a row and the fifth in the past six months.

This is big news, folks, and could mean mortgage rates would remain low much longer than originally projected.

Harlan Green has been the 11-year Editor-Publisher of PopularEconomics.com, a weekly syndicated financial wire service. He writes a Popular Economics Weekly Blog. He is an economic forecaster and teacher of real estate finance with 30-years experience as a banker and mortgage broker.