

The Mortgage corner

JUNE 13, 2005--MAY NEW HOME CONSTRUCTION INCREASES

Robust demand fueled by continuing low mortgage rates and favorable economic conditions kept new-home construction humming along at a high pace in May. According to U.S. Commerce Department figures released today, housing starts edged up 0.2 percent to a seasonally adjusted annual rate of 2.009 million units for the month. This was 1.8 percent above the pace of a year ago.

Encouraged by continuing low mortgage rates and robust demand for new homes, single-family home builders are also more confident this June than they've been all year, according to the latest National Association of Home Builders/ Wells Fargo Housing Market Index (HMI). The index rose one point to 71 in June, its highest level since a similar reading in December 2004.

"The favorable financing climate for new homes is proving too attractive for many buyers to pass up, so builders are staying very busy this summer," said NAHB President Dave Wilson.

"In the past four weeks, the average rate on a 30-year mortgage declined 21 basis points, ending at 5.56 percent as of June 9," noted NAHB Chief Economist David Seiders. "Combined with the very solid appreciation rates we've seen, and the widespread expectation that mortgage rates will begin creeping up soon, that's a powerful incentive to make a move," he agreed.

Single-family home construction led the way with a 4.7 percent increase to a pace of 1.704 million units for the month, 3.3 percent above May of last year. "Builders are operating at capacity," said Dave Wilson, president of the National Association of Home Builders (NAHB). "With mortgage rates and other market conditions still very favorable, they see no letup through the summer months ahead."

"The overall housing market continues to exhibit ongoing strength," said NAHB Chief Economist David Seiders. "Major forces driving the housing market—very favorable mortgage rates as well as strong household income and job growth—continue to bolster housing demand. Housing production most likely will make another positive contribution to overall GDP growth for the second quarter as builders strive to meet the demand," Seiders added.

Construction of new homes and apartments rose in three of four regions in May. The Northeast increased by 5.1 percent for the month, and the Midwest and West jumped by 18.7 percent and 12.3 percent, respectively. The South declined by 12.1 percent in May following a 23.7 percent surge in April.

Multifamily housing starts dropped in May on a national basis to a seasonally adjusted rate of 305,000 units. This was 19.3 percent below the multifamily market's strong showing in April. "The multifamily market is showing typical month-to-month volatility, but fundamental conditions in the condo and rental markets remain solid," Seiders said.

Issuance of total building permits declined 4.6 percent from the upwardly revised April pace to a seasonably adjusted rate of 2.050 million units. Single-family permit issuance dropped 1.3 percent to a rate of 1.619 million units.

On a year-to-date basis, both housing starts and building permits are running significantly above the pace of 2004. "It is now highly likely that housing production in 2005 will surpass the robust performance of 2004, even if the interest rate structure moves up as projected," Seiders said.

June's 71 HMI Builder Confidence reading, up a single point from May, is the highest reading of the year to date. It reflects slight upward movement in all three component indexes, including a one-point gain in the current sales index, to 77; a two-point gain in the index gauging expectations for sales in the next six months, to 79; and a one-point gain in the index gauging traffic of prospective buyers, to 54.

The most optimistic builders are in the West, where an HMI reading of 88 far outpaces that of builders in all other regions. Moreover, the 88 reading reflected a solid four-point gain from last month. Southern builders were also a bit more confident this time around, posting a one-point gain in their regional confidence gauge to 76 in June. Builders in the Northeast maintained a healthy, 70-point reading on the confidence scale, while builders in the Midwest registered a two-point confidence boost, to 52.

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