

The Mortgage Corner

JUNE 6, 2005--ANOTHER RECORD YEAR FOR HOME SALES

Lower-than-expected mortgage interest rates will push home sales to a fifth consecutive record in 2005, according to the latest forecast by the National Association of Realtors.

David Lereah, NAR's chief economist, said long-term interest rates look very favorable. "Not only have mortgage interest rates declined, but an expected rise in the second half of the year will be slower than in earlier projections," he said. "As a result, we now expect to set records for both existing- and new-home sales this year."

Lereah said the 30-year fixed-rate mortgage should rise slowly to only 6.1 percent in the fourth quarter, and reach 6.5 percent by the end of 2006. Last week, Freddie Mac reported the 30-year fixed rate dropped to 5.62 percent.

Existing-home sales are forecast to rise 1.6 percent to a total of 6.89 million this year from a record 6.78 million in 2004, while new-home sales are seen to grow by 3.2 percent to 1.24 million in 2005. At the same time, housing starts are projected to increase 3.4 percent to just over 2.02 million units, the highest level since 1973.

The national median existing-home price for all housing types is expected to rise 8.8 percent in 2005 to \$201,500, while the typical new-home price should increase 5.7 percent to \$233,600.

NAR president Al Mansell said a rapid growth in the number of mortgage products and loan options is helping buyers to overcome down payment hurdles. "However, some of these loans come at a price of increased risk to the borrower," he said. "In today's competitive market, it is even more important to consult with a professional who can assess loan risks and help buyers find both a home and a loan that is well suited to their personal situation."

The U.S. gross domestic product is expected to grow 3.5 percent in 2005, with the unemployment rate holding around 5.2 percent for the rest of the year. Inflation should remain modest with the Consumer Price Index rising 3.0 percent in 2005.

Inflation-adjusted disposable personal income is seen to grow 3.3 percent in 2005, while the Conference Board's consumer confidence index is expected to rise to 104 in the second half of the year. It is currently at 102.2, but consumers' expectations for the next six months is improving. "Consumers concerns about the economy and jobs have eased. The Expectations Index, which was below year-ago levels, continues to signal economic growth in the months ahead," said Lynn Franco, Research Center Director.