



Looking Back, There is Still Plenty to be Thankful

By Walt Hibner, Executive Director
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On November 28, 2005 my predecessor wrote in this column a story with the headline “Midwest Leads Cooling Off of Nation’s Housing Market”. He wrote; “In the case you haven’t noticed, the housing market – both nationally and here in the Miami Valley – has cooled from the sizzling pace of the past several years.”

According to the most recent Housing Market Index (HMI) produced by Wells Fargo and the National Association of Home Builders (NAHB), single-family builders have adjusted their marketplace expectations.

This is especially true for Ohio and other states in the Midwest, whose economies continue to be ambushed by developments like Delphi and last week’s plant-closing announcements from General Motors.

Due to sharply lower consumer confidence, rising interest rates and other factors, the HMI declined by eight points in November to 60, a number which is still very positive.

According to NAHB chief economist David Seiders, “it is most likely that we’re engaged in an orderly cooling process that will lead to somewhat lower home sales and production in the near future.” Seiders continued: “We’re looking for a 5-6% decline in homes sales next year, compared to 2005.”

Derived from a monthly survey that NAHB began 20 years ago, the HMI measures builder perceptions and sales expectations for the next six months as “good,” “fair” or “poor.” The survey also asks builders to rate the quality of traffic coming through their model and spec homes.

Scores for each component are then used to calculate a seasonally adjusted index where any number over 50 indicates that builders are generally positive.

And so while the current HMI of 60 is very much in the positive range, flagging consumer confidence has pushed the

index down in recent months. The recent hurricanes and rising energy prices have certainly been a factor here. And regional influences are important.

Take a look at the Midwest, for example, long-plagued by job-market weakness, repeated hits to the manufacturing sector, and declining population.

That relatively rosy national HMI of 60 nosedives to 38 when measured only for Midwestern states, including Ohio. (By comparison, the HMI for the West and South remains at a very robust 78 and 68, respectively.)

Locally, single-family permits reported by the Dayton HBA for the period December 2004-November 2005 are down by approximately 5% when compared to the same periods one year earlier.

Affordability problems have also arisen as house price gains have accumulated in many parts of the country. "These gains are probably not sustainable," said one economist, "especially in large markets (e.g., the Washington, DC metropolitan market) that have been booming."

The legislative environment in Washington is also something less than positive. President Bush's tax reform panel is recommending a series of drastic measures, including elimination of the mortgage interest deduction, that could have an enormous impact on the housing marketplace.

And while one can only hope that these proposals will never see the light of day, the marketplace, and consumer confidence, do not respond well to uncertainty.