

Housing recovery likely this year, but timing isn't clear

by Bend_Weekly_News_Sources

Unusual weather patterns and problems in the subprime lending marketplace are creating challenges in assessing housing market conditions, but a recovery is likely this year, according to the latest forecast by the National Association of Realtors.

David Lereah, NAR's chief economist, said there is some ambiguity about the current housing market. "Our goal each month is to fine-tune the forecast based on the latest housing data and a variety of economic indicators, but extraordinary weather variations are skewing home sales and clouding the picture," he said. "Underlying trends point to a housing recovery in 2007, but it will take a couple months for us to get a better handle on it. Existing-home sales are expected to slowly improve from what appears to be the cyclical low last fall, but we think there will be some additional pain in the new home market, which hopefully will start to rise later in the year."

Existing-home sales are projected at 6.42 million this year and 6.66 million in 2008, compared with 6.48 million last year. "Although existing-home sales will be marginally reduced due to subprime lending restrictions, they should be gradually rising this year and next. However, total sales this year will be fairly close to 2006 because last year started high and ended low," Lereah said.

"Lending problems in our nation's subprime marketplace are building, which could inhibit future housing activity and further dampen our forecast. Even so, these problems are likely to be contained and not spill over into the prime mortgage market."

New-home sales are forecast at 950,000 in 2007 and 981,000 next year, down from 1.06 million in 2006. Housing starts will probably total 1.50 million this year and 1.56 million in 2008, in contrast with 1.80 million units last year.

The 30-year fixed-rate mortgage is expected to rise to 6.7 percent by the end of the year. Last week, Freddie Mac reported the 30-year fixed rate dropped to 6.14 percent. "Over the last few years, mortgage interest rates have moved in surprising directions -- the unexpected dip we're seeing now, and a rise in mortgage applications, are positive signs," Lereah said. "With soft home prices and lower interest rates, affordability has improved for home buyers and that is encouraging them to get into the market."

The national median existing-home price is projected to rise 1.2 percent to \$224,500 this year, following a 1.0 percent gain in 2006. The median new-home price should grow 1.7 percent to \$249,600 in 2007, following a 1.9 percent increase last year. Stronger gains are probable in 2008, with existing-home prices rising 3.1 percent and new-home prices growing 3.0 percent.

For critics who don't understand the weather impact on seasonally-adjusted sales, Lereah explained we're likely to be reminded about the consequences throughout this spring. "Here's what's happened and how it's likely to play out. In December, unusually mild weather brought out shoppers and January existing-home sales rose," he said. "However, a sudden chill in January slowed shopping activity relative to December and pending sales, based on contracts, fell.

"We have yet to see the biggest weather impact -- February's winter storms brought markets to a halt in much of the country, and it was the coldest February since 1979 -- that should drag sales down in March," Lereah said. "This means we may not see an upturn in closed transactions before May 25 when we report sales for April."

The unemployment rate will probably average 4.7 percent this year; it was 4.6 percent in 2006. Inflation, as measured by the Consumer Price Index, is forecast at 2.1 percent in 2007, down from 3.2 percent last year, while growth in the U.S. gross domestic product is seen at 2.5 percent this year, compared with 3.3 percent in 2006. Inflation-adjusted disposable personal income is expected to rise 3.1 percent in 2007, up from a gain of 2.6 percent last year.

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