



The Advantages Are With YOU: The Economics of a Buyer's Market

Gone are the days when lines at builder sales offices run around the block. Or that home prices increase by thousands of dollars over the course of a single week. But as Ken Harney mentioned in this issue's lead article, a slowing market means the advantages are with you, the home buyer. What does this mean economically speaking?

Here are a few economic housing fundamentals from NAHB Chief Economist David Seiders:

- The housing market is in the midst of an inevitable adjustment period following the housing boom of 2004-2005 when activity soared to unsustainable levels. According to Seiders, these downward adjustments should run their course by mid-2007, and then move to a healthy and sustainable level by late 2008.
- The evolving housing downswing must be viewed in the context of the unsustainable upswing. The single-family and condo markets got grossly overpriced in many areas and an extended "cooling" process has been expected.
- The downturn in the market makes home buying conditions quite favorable. There are a lot of homes on the market, mortgage rates are at historically low levels, house prices are softening in some areas, household income is growing, and builders are offering a variety of sales incentives to prospective buyers. These developments improve the affordability of home buying.
- Despite the slowing housing market, overall GDP (Gross Domestic Product) growth is expected to average about 2.5 percent in the second half of 2006 and to move up to a trend pace (around 3 percent) by late next year. Overall economic conditions still are fundamentally solid.
- The above-average growth of GDP and employment experienced in recent years has caused upward pressures on labor costs and core inflation (excluding food and energy). The evolving slowdown certainly will diffuse some of the inflation pressures, heading off potentially damaging "overheating" of the U.S. economy and paving the way for additional years of solid economic expansion.
- Housing continues to bolster household financial positions. Recent estimates released by the Federal Reserve show ongoing growth in household assets as well as net worth (assets less liabilities) through mid-2006, although at a slower pace than earlier in the economic expansion. With respect to housing, the Fed's estimates show a year-over-year gain of 10.5 percent in the market value of homes owned by households, a 12.6 percent rise in home mortgage debt and an 8.7 percent gain in owner's equity.

Economic data support the fact that, although the chaotic housing boom of the past few years may be slowing down, in many ways it serves as an advantage to both home owners and to the overall U.S. economy.

For more information on why **now** is a great time to buy, visit www.nahb.com/timetobuy. To subscribe to NAHB's free consumer e-newsletter on all things home, visit www.nahb.org/housekeys.

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