

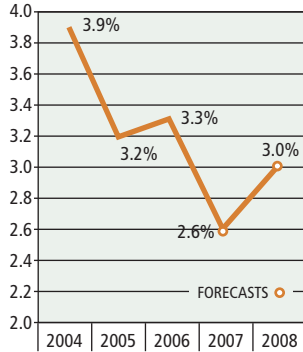
Outlook

by Daryl Delano



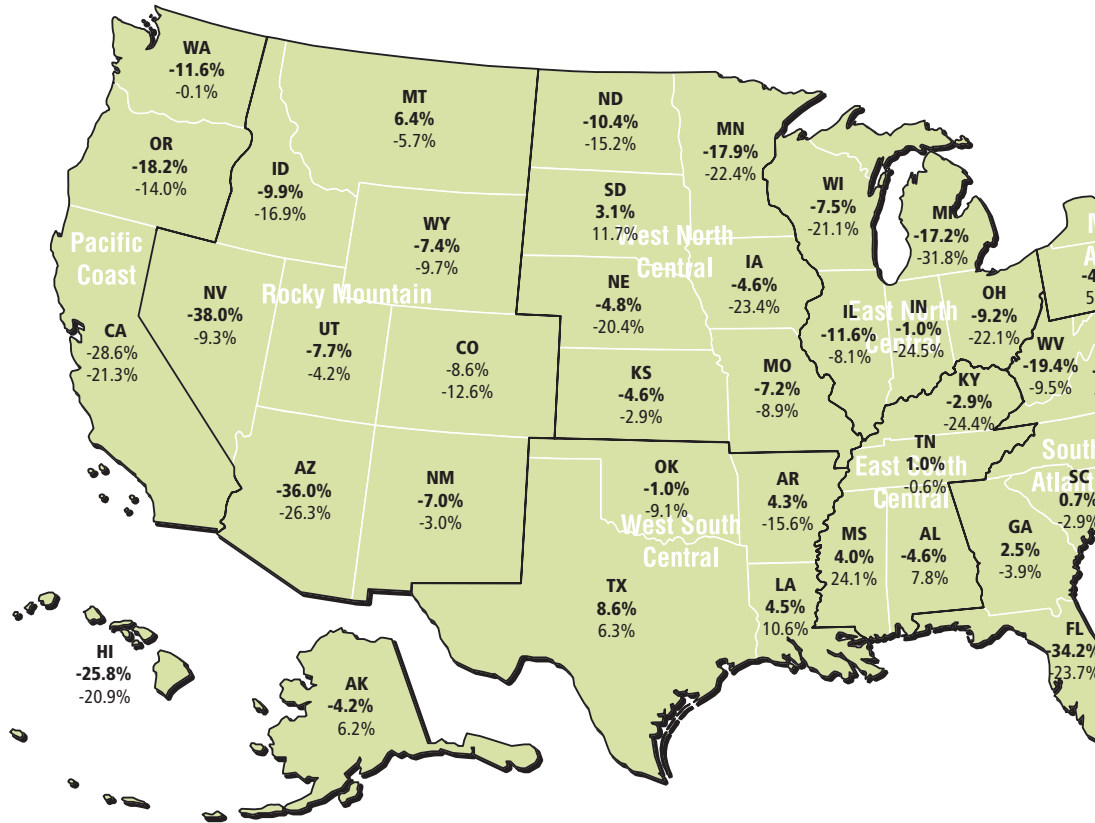
Daryl Delano has more than 25 years of professional experience in construction economics, labor economics, and macroeconomics. He has worked as a senior economist with Dodge Analytics, the research and consulting unit within McGraw-Hill Construction/Dodge.

Gross Domestic Product % change vs. previous year



The nation's overall Gross Domestic Product (GDP) grew at an annualized rate of 2.2 percent during the third quarter of 2006, but the residential investment component declined for the fourth consecutive quarter.

Home Sales and Building Permits by State



Housing Market 'Correction' Has Nearly Run Its Course

The decline in the housing market that began in the spring of 2006 and continued into the year's final quarter was showing signs of bottoming out as the year drew to a close. The market is more or less expected to stabilize during the first half of this new year, before beginning a long, slow road back to healthier levels.

The current consensus is that the volume of building permits being issued for new residential construction will bottom out by the second quarter of this year and

that housing starts will begin to show some month-to-month recovery by the third quarter of 2007. It's likely that total starts this year will still be 5 to 10 percent lower than the final total for 2006, which itself was more than 10 percent below the elevated level of 2005. This means the actual volume of new home construction won't approach the record levels of 2004 and 2005 again until 2009 at the earliest.

The damage that has been done to the market in the short- and medium-term shouldn't be underes-

timated — but the magnitude and duration of the market "correction" has turned out to be relatively modest and controlled in comparison to the much more severe declines weathered in 1981-1982, 1990-1991, and in 1995. Even with last year's double-digit drop, total housing starts during 2006 still managed to reach their fourth-highest level of the past 20 years.

Total nationwide housing starts through the first 10 months of 2006 were 11.1 percent below the January to October 2005 total. Starts

of single-family homes were off 12.5 percent, while starts of units in multifamily buildings held up relatively better, declining by a modest 4.1 percent during the first 10 months of 2006. Regionally, total starts in the Midwest had declined the most (19.1 percent) and in the South the least (6.1 percent) through October 2006.

Sales of new single-family homes in the United States fell at an even-steeper rate than starts, which contributed to a similarly steep decline in the number of new permits being issued

