

**Home Construction Plunged in 2007**

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The steep slump in housing intensified at the end of last year, pushing home construction down by the biggest amount in nearly three decades.

Analysts forecast more bad news in the months ahead with the big question remaining whether the housing slump will be severe enough to push the country into a recession.

The Commerce Department reported Thursday that construction was started on 1.353 million new homes and apartments last year, down 24.8 percent from 2006. It was the second biggest annual decline on record, exceeded only by a 26 percent plunge in 1980.

The year ended on a weak note with construction dropping by 14.2 percent in December and applications for new building permits, a good indicator of future activity, falling for a seventh consecutive month, indicating that activity will be weak at least through the spring of this year.

Economists said the current housing slump has already surpassed the 1990 downturn and will likely rival, if not surpass, the prolonged housing downturn in the late 1970s and early 1980s, a period when the Federal Reserve was pushing interest rates to the highest levels since the Civil War in a successful effort to halt a decade-long bout of high inflation.

Mark Zandi, chief economist at Moody's Economy.com, is forecasting that median sales prices for existing homes will fall by 2.5 percent for all of 2007, which would be the first annual price decline on records that go back four decades.

"I think this housing downturn will be unprecedented in terms of its breadth across the country and in its severity," Zandi said. "I don't think we have seen anything like this, certainly since the Great Depression, and back then housing was much less of a factor in terms of the overall economy because fewer people owned their own homes."

The troubles in housing and other areas of the economy are expected to push overall economic growth to 1 percent or less, meaning the economy will be very near the stall level of a recession.

Growing fears of a recession helped to push stock prices sharply lower again on Thursday. The Dow Jones industrial average fell by 306.95 points to close at 12,159.21, its lowest close since last March. The Dow's frequent triple-digit declines since the start of the year mean that the index has now given back all of its 2007 gains.

Various recent reports have increased recession worries and spurred President Bush and members of Congress into talks about offering an economic stimulus either to prevent a downturn or at least make it less painful and prolonged. Federal Reserve Chairman Ben Bernanke spoke out in favor of a stimulus package in congressional testimony on Thursday.

The drop in construction in December was bigger than economists had been expecting and reflected weakness in all parts of the country. Housing construction fell by 30.8 percent in the Midwest and was down 25.8 percent in the Northeast and 19.6 percent in the West. The decline in the South was a smaller 3.3 percent.

Economists said the weakness showed that the housing correction was getting worse since the turmoil in financial markets hit in August. Those problems, which have resulted in billions of dollars of losses at financial institutions, reflected rising defaults for subprime mortgages, loans offered to borrowers with weak credit histories.

Those defaults have dumped even more houses on an already glutted market and prompted banks to tighten their lending standards,



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making it harder for potential buyers to qualify for loans, delivering a double whammy on builders.

They have been slashing production and offering major incentives to move homes but still face a huge glut of unsold inventories. Analysts said the big decline in construction in December showed builders are intensifying their efforts to reduce the over-supply of homes.

"Builders have finally thrown in the towel," said Ian Shepherdson, chief U.S. economist at High Frequency Economics. "This is a precondition for recovery as it will eventually reduce the inventory overhang. But there is a long way to go."

For December, housing starts totaled 1.006 million units at an annual rate, while building permits fell by 8.1 percent to an annual rate of 1.068 million units.

A survey of builder sentiment prepared by the National Association of Home Builders came in at the second-lowest level on record in January at a reading of 19.

David Seiders, chief economist for the home builders, said he believed construction activity would bottom out this spring and start to improve slowly in the second half of this year. But other economists were not as optimistic, saying the turnaround in housing may not come until 2009.

<http://sfgate.com/cgi-bin/article.cgi?f=/n/a/2008/01/15/national/w053312S34.DTL>

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