**SUMMARY**

The economy grew at a rate of 2.2 percent in the third quarter of 2006, down from 2.6 percent in the second quarter. The labor situation in the third quarter saw continued job growth and a falling unemployment rate. Mortgage interest rates edged downward. Housing market performance was reduced, with production rates and sales declining. Single-family building permits, starts, and completions fell from levels recorded during the second quarter. Sales of new homes and existing homes also declined. Inventories of new homes and existing homes available for sale declined slightly but remain at high levels. The homeownership rate increased to 69.0 percent in the third quarter of 2006.

**Housing Production**

Housing production declined in the third quarter of 2006 but was reasonably strong. Building permits, starts, and completions each totaled more than 1.7 million units at a seasonally adjusted annual rate (SAAR), although they were lower than their second quarter values. Single-family permits and starts were strong—among the highest 10 percent of this quarterly series. Completions are running at a record-setting pace. Shipments of manufactured homes declined in the third quarter.

- In the third quarter of 2006, builders took out permits for 1,709,000 (SAAR) new housing units. The number of permits is 11 percent below the second quarter of 2006 and 23 percent below the third quarter of 2005. Single-family permits were issued for 1,276,000 (SAAR) housing units, down 13 percent from the second quarter of 2006 and down 26 percent from the third quarter of 2005. This is the fourth consecutive quarter in which the numbers of total and single-family building permits decreased. The level of both total and single-family building permits issued would be the fifth-best ever if the year-to-date pace continues.

- Construction was started on 1,735,000 (SAAR) new housing units in the third quarter of 2006, down 7 percent from the second quarter and down 17 percent from the third quarter of 2005. Single-family starts equaled 1,413,000 (SAAR) units, down 8 percent from the second quarter and down 19 percent from the third quarter of 2005. If the pace established during the first 9 months continues, 2006 will be the third-best year ever for single-family starts.

- In the third quarter of 2006, construction was completed on 1,968,000 (SAAR) new homes, down 1 percent from the second quarter but up 2 percent from the third quarter of 2005. Single-family completions were 1,674,000 (SAAR), down 1 percent from the second quarter but up 1 percent from the third quarter of a year earlier. Single-family completions were the fourth-highest quarterly values ever posted, and if the January-to-September pace were to continue, 2006 would be the second-best year for total completions and would set a new record for single-family completions.
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Manufacturers shipped 108,000 (SAAR) new manufactured homes in the third quarter of 2006 (based on data from the first 2 months of the quarter), down 11 percent from the second quarter of 2006 and down 17 percent from the third quarter of 2005.

Housing Marketing

Sales of new homes and existing homes declined in the third quarter of 2006, as did home sales prices. Although the inventory of homes available for sale remains at a high level, the inventory of new homes available for sale decreased 2 percent in the third quarter while the inventory of existing homes available for sale remained unchanged. Builders, who were much less optimistic in the third quarter of 2006, expressed their concern across current sales, future sales expectations, and prospective buyer traffic.

During the third quarter of 2006, builders sold 1,027,000 (SAAR) new single-family homes, down 7 percent from the second quarter and down 21 percent from the third quarter of 2005. Although declines have been reported in four consecutive quarters, the levels of sales have remained high enough during the first 9 months of 2006 to make this year the fourth-best year ever for single-family home sales.

REALTORS® sold 6,270,000 (SAAR) existing homes in the third quarter of 2006, down 6 percent from the second quarter and down 13 percent from the third quarter of 2005.

The median price for new homes sold in the third quarter of 2006 was $232,300, down 6 percent from the second quarter and down 2 percent from the third quarter of 2005. The average sales price increased by 1 percent from the second quarter of 2006 and by 4 percent from the third quarter of 2005 to $306,800. The price of a constant-quality new home was estimated to be $263,300, down 1 percent from the second quarter of 2006 but up 3 percent from the third quarter of 2005.

Existing homes sold during the third quarter of 2006 had a median price of $224,700, down 1 percent from the second quarter and down 1 percent from the third quarter of 2005. The average price was $270,000, down 1 percent from the second quarter of 2006 and down 1 percent from the third quarter of 2005.

The inventory of new homes available for sale was 557,000, down 2 percent from the second quarter of 2006 but up 14 percent from the third quarter of 2005. This figure is the second-highest value for quarter-ending inventories. This inventory would support 6.4 months of sales at the current sales pace, down 0.1 month from the end of the second quarter of 2006 but up 1.6 months from the end of the third quarter of 2005. The inventory of existing homes available for sale at the end of the third quarter of 2006 was 3,746,000, unchanged from the second quarter but up 35 percent from the third quarter of 2005. This inventory would support 7.3 months of sales at the current sales pace, up 0.5 month from the second quarter of 2006 and up 2.7 months from the third quarter of 2005.

Home builders were much less optimistic in the third quarter of 2006 than they were in the second quarter, according to the National Association of Home Builders/Wells Fargo Housing Market Index. The index was 34 in the third quarter, down 12 points from the second quarter of 2006 and down 33 points from the third quarter of 2005. All three components of the composite index declined—current sales and future sales expectations each were down 14 points and prospective buyer traffic was down 10 points. This is the fourth-lowest quarterly value since the index began in 1985.

Affordability and Interest Rates

In the third quarter of 2006, the interest rate for 30-year, fixed-rate mortgages averaged 6.56 percent, down 4 basis points from the second quarter but up 80 basis points from the third quarter of 2005. Housing affordability improved from the second quarter of 2006 but worsened from the third quarter of 2005, according to the index published by the NATIONAL ASSOCIATION OF REALTORS®. The composite index indicates that in the third quarter of 2006 the family earning the median income ($57,837) had 103.3 percent of the income needed to purchase the median-priced ($224,900) existing single-family home using standard lending guidelines. This value is up 0.6 points from the second quarter of 2006 but down 5.6 points from the third quarter of 2005. This increase is attributable to a 1-percent decrease in the median house sales price and a 0.8-percent increase in the median family income, more than offsetting the 13-basis-point increase in the composite interest rate. The decline from the
third quarter of 2005 resulted from a 92-basis-point increase in the composite mortgage interest rate, offsetting the 3-percent increase in the median family income and the 1-percent decrease in the median home sales price. The national homeownership rate in the third quarter of 2006 was 69.0 percent, up 0.3 percentage point from the second quarter of 2006 and up 0.2 percentage point from the third quarter of 2005.

Multifamily Housing

During the third quarter of 2006, the multifamily (five units or more) sector declined across production and rental segments. All production indicators were negative, absorption of new rental units fell, and the quarterly vacancy rate rose.

- In the third quarter of 2006, builders took out permits for constructing 356,000 (SAAR) new multifamily units, down 9 percent from the second quarter of 2006 and down 9 percent from the third quarter of 2005.
- Builders started construction on 271,000 (SAAR) new multifamily units in the third quarter of 2006, down 8 percent from the second quarter and down 12 percent from the third quarter of 2005.
- Builders completed 266,000 (SAAR) new multifamily units in the third quarter of 2006, down 2 percent from the second quarter but up 12 percent from the third quarter of 2005.
- The rental vacancy rate in the third quarter of 2006 was 9.9 percent, up 0.3 percentage point from the second quarter but unchanged from the third quarter of 2005.
- Market absorption of new rental apartments decreased by 1 percentage point in the third quarter of 2006, and the rate was down 4 percentage points from a year earlier. Of new apartments completed in the second quarter, 61 percent were leased or absorbed in the second 3 months following completion.