



Rising Lumber and Material Costs Put a Dent in Builder Confidence

The latest National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) dropped 2 points in June. The Index, a measure of home builders' confidence in the market for newly built homes, **fell to 81, its lowest reading since last August**. There was no change in the Index from April to May.

"Higher costs and **declining availability for softwood lumber and other building materials** pushed down builder sentiment in June," said NAHB Chairman Chuck Fowke, himself a custom home builder. "These higher costs have moved some new homes beyond the budget of prospective buyers, which has slowed the strong pace of home building. Policymakers need to focus on supply-chain issues in order to allow the economic recovery to continue."

Derived from a monthly survey that NAHB has been conducting among its home builder members for 35 years, the HMI gauges builder perceptions of current single-family home sales and sales expectations for the next six months as "good," "fair" or "poor." The survey also asks builders to rate traffic of prospective buyers as "high to very high," "average" or "low to very low." Scores for each component are then used to calculate a seasonally adjusted index where any number over 50 indicates that more builders view conditions as good than poor.

All three of the major HMI indices posted 2 point declines in June. The HMI indices gauging **current sales conditions and expectations for the next six months dropped to 86 and 79, respectively**. The component measuring traffic of prospective buyers was at 71. NAHB says, at the current scores of the index and its components, still well above the 50 benchmark, show builders still sending a signal that demand remains strong in a market with little existing inventory.

"While builders have adopted a variety of business strategies including price escalation clauses to deal with scarce building materials, labor and lots, **unavoidable increases for new home prices are pushing some buyers to the sidelines**," said NAHB Chief Economist Robert Dietz. "Moreover, these supply-constraints are resulting in insufficient appraisals and making it more difficult for builders to access construction loans."

Looking at the three-month moving averages for regional HMI scores, the South rose 1 point to 85, the West fell 1 point to 89, the Midwest dropped 3 points to 72 and the Northeast posted a 5-point decline to 78.



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