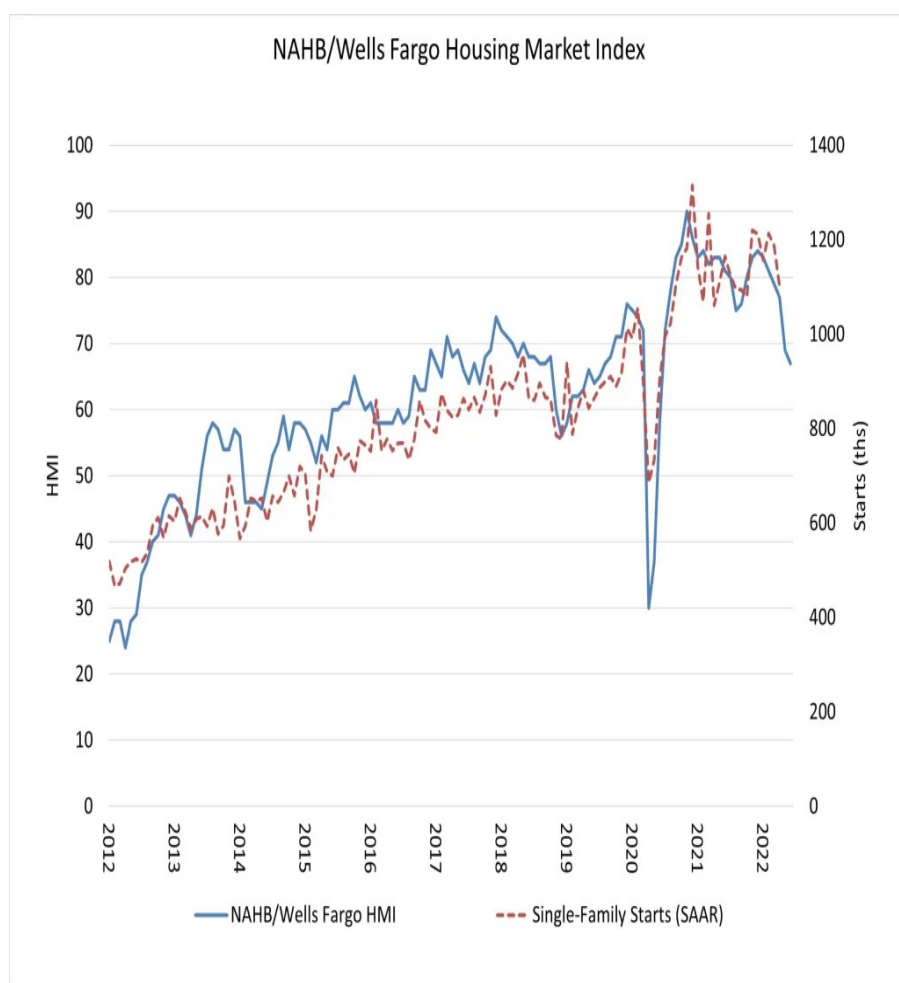




Builder Confidence Continues to Ebb as Home Buyers Feel Price Pinch

Builders are increasingly nervous about the impact inflation and higher interest rates might have on prospective home buyers in coming months. The National Association of Home Builders (NAHB) said on Wednesday that its Housing Market Index (HMI) which it co-sponsors with Wells Fargo, reflected this as it declined for the sixth straight month in June. The HMI, which measures new home builder confidence in the market for newly built single-family homes, fell 2 points month-over-month to 67. It was the lowest reading for the index since June 2020, at the height of the pandemic lockdown.



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Robert Dietz, NAHB's chief economist said the six months of negative changes are a clear sign that the housing market is slowing. "The entry-level market has been particularly affected by declines for housing affordability and builders are adopting a more cautious stance as demand softens with higher mortgage rates," he said.

The HMI is derived from a monthly survey that NAHB has been conducting for more than 35 years. Builders are asked to give their perceptions of current single-family home sales and their expectations for sales over 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 components fell this month. The index measuring current traffic of prospective buyers dropped 5 points to 48, the first time it has broken through the 50-point level in two years. The HMI index gauging current sales conditions dipped 1 point to 77 and the gauge measuring sales expectations in the next six months was down 2 points to 61.

Dietz said the housing market faces challenges on both sides of the supply/demand paradigm. “Residential construction material costs are up 19 percent year-over-year with cost increases for a variety of building inputs, except for lumber, which has experienced recent declines due to a housing slowdown,” he said. “On the demand-side of the market, the increase for mortgage rates for the first half of 2022 has priced out a significant number of prospective home buyers, as reflected by the decline for the traffic measure of the HMI.

Regional results from the survey are given as three-month moving averages. The Northeast’s HMI fell 1 point to 71, the Midwest dropped 6 points to 56, the South lost 2 points to 78 and the West posted a 9-point decline to 74.