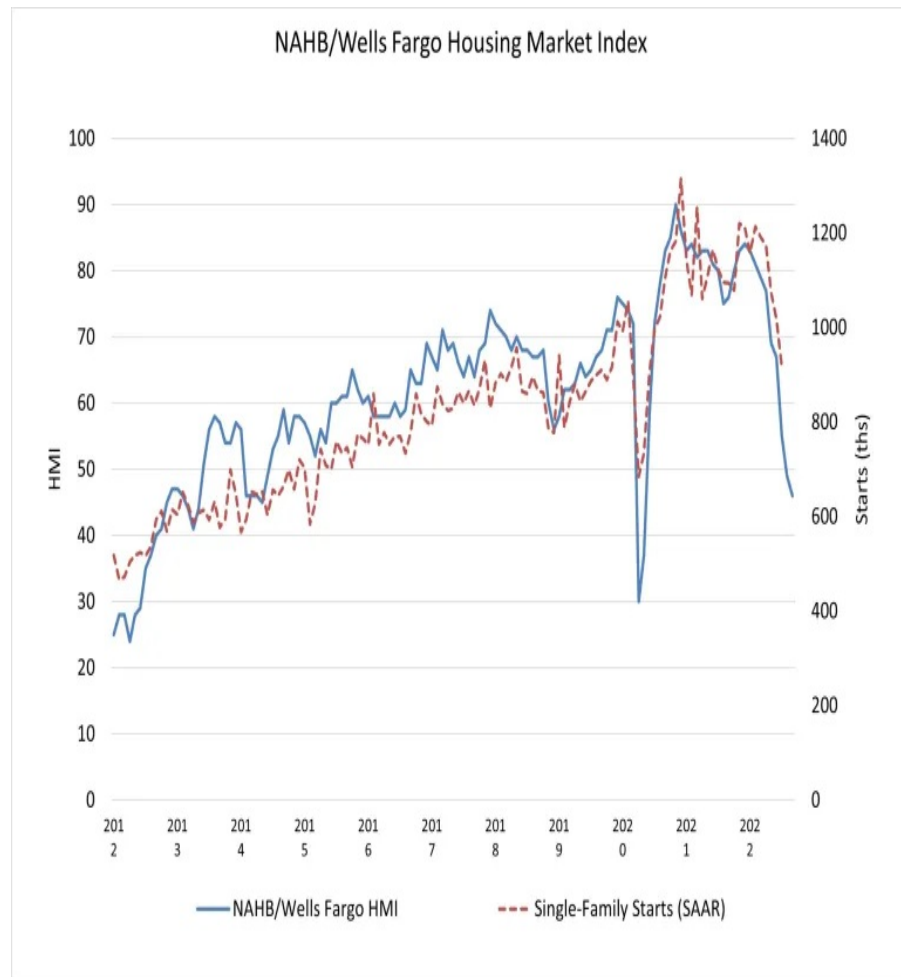




Builders are Cutting Prices, Adding Incentives as Confidence Wanes

The National Association of Home Builder's (NAHB's) index measuring the confidence of builders in the new home market has fallen for the ninth straight month. A 3-point month-over-month drop put the NAHB/Wells Fargo Housing Market Index (HMI) at 46 in September. NAHB's chief economist Robert Dietz said, with the exception of the period immediately after the onset of the 2020 pandemic, the index was at its lowest point since May 2014.

The continuing decline in the index is another sign that elevated interest rates, persistent building material supply chain disruptions and high home prices are combining to take a toll on affordability, Dietz said. The HMI is projecting an ongoing decline in the volume of single-family housing starts, as noted in the graph below.



The HMI is derived from a monthly survey that 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.



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All three of the index's components posted fell from their August levels. The component derived from questions about current sales conditions dropped 3 points to 54, while future sales expectations and perceptions of buyer traffic were each down 1 point to 46 and 31, respectively.

Dietz said the survey revealed other indicators of weakening market. Twenty-four percent of respondents said they had reduced home prices, a 5-point increase from August and more than half said they were using incentives to boost sales, including mortgage rate buydowns, free amenities and price reductions.

Looking at the three-month moving averages for regional HMI scores, the Northeast and Midwest indices fell 5 points to 51 and 55. The South's index lost 7 points, decreasing to 56 while the West posted a 10-point decline to 41.