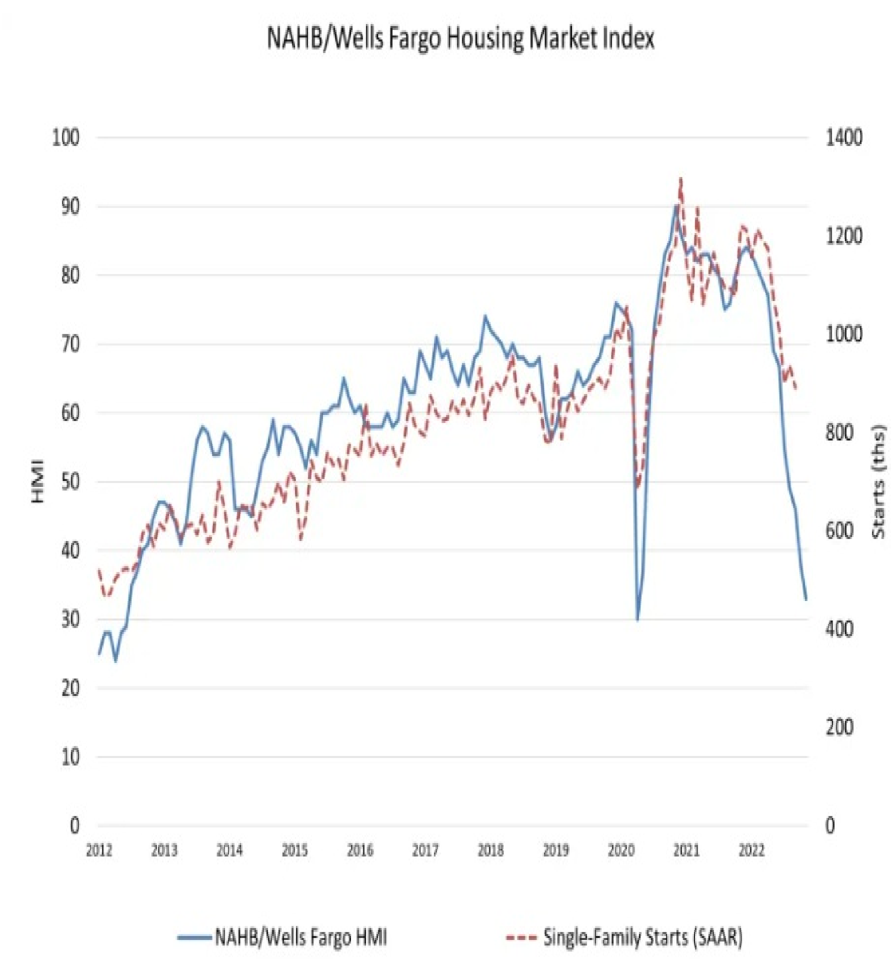
Construction Costs, Buyer Traffic Continue to Sap Builder Confidence

The National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) fell another 5 points in November. NAHB said this measure of builder confidence in the new home market is now at 33 after 11 straight months of decline. **The current reading is only 3 points higher than in April 2020 when the onset of the pandemic triggered a 42-point plunge.**

NAHB's chief economist Robert Dietz said it is "Elevated interest rates, stubbornly high building material costs and declining affordability conditions that are pushing more buyers to the sidelines (and) continue to drag down builder sentiment."



Derived from a monthly survey that NAHB has been conducting for more than 35 years, the NAHB/Wells Fargo HMI asks builders to describe their 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 HMI components posted declines in November. Current sales conditions fell 6 points to 39, sales expectations in the next six months declined 4 points to 31 and traffic of prospective buyers fell 5 points to 20.

Looking at the three-month moving averages for regional HMI scores, the Northeast was down 6 points to 41, the Midwest dropped 2 points to 38, the South declined from 49 to 42 and the West posted a 5-point decline to 29.

Dietz says buyer demand for new homes has weakened significantly as interest rates have risen. To bring more buyers into the marketplace, 59 percent of builders say they are using incentives, a big increase since September. For example, in the November survey, a quarter of builders reported paying points for buyers compared to 13 percent in September and mortgage rate buy-downs rose from 19 percent to 27 percent. The percentage of builders who have cut prices (an average reduction of 6 percent) has risen from 26 percent to 37 percent.

Even as home prices moderate, building costs, labor, and materials — particularly for concrete — have yet to follow. To ease the worsening housing affordability crisis, Dietz says **policymakers must seek solutions that create more affordable and attainable housing.** “With inflation showing signs of moderating, this includes a reduction in the pace of the Federal Reserve’s rate hikes and reducing regulatory costs associated with land development and home construction.”

In spite of the challenges, builder confidence is still more buoyant than during the housing crisis and Great Recession. In January 2009, the composite index stood at 8. Not until July 2012 did it climb back to its November 2022 level.