



Builders See a Turn-Around in Housing Starts on the Horizon

On top of the solid report on mortgage volume earlier today, comes another hopeful report from the construction industry. The National Association of Home Builders (NAHB) says builder confidence in the new home market has **improved for the first time in January after 12 straight months of declines**.

The NAHB/Wells Fargo Housing Market Index, a measure of builder confidence rose 4 points to 35, an increase which NAHB's chief economist Robert Dietz said was due in part to a modest drop in interest rates. He added, however, that **builder sentiment "remains in bearish territory"** as builders continue to grapple with elevated construction costs, building material supply chain disruptions, and challenging affordability conditions."



Ryan Skove

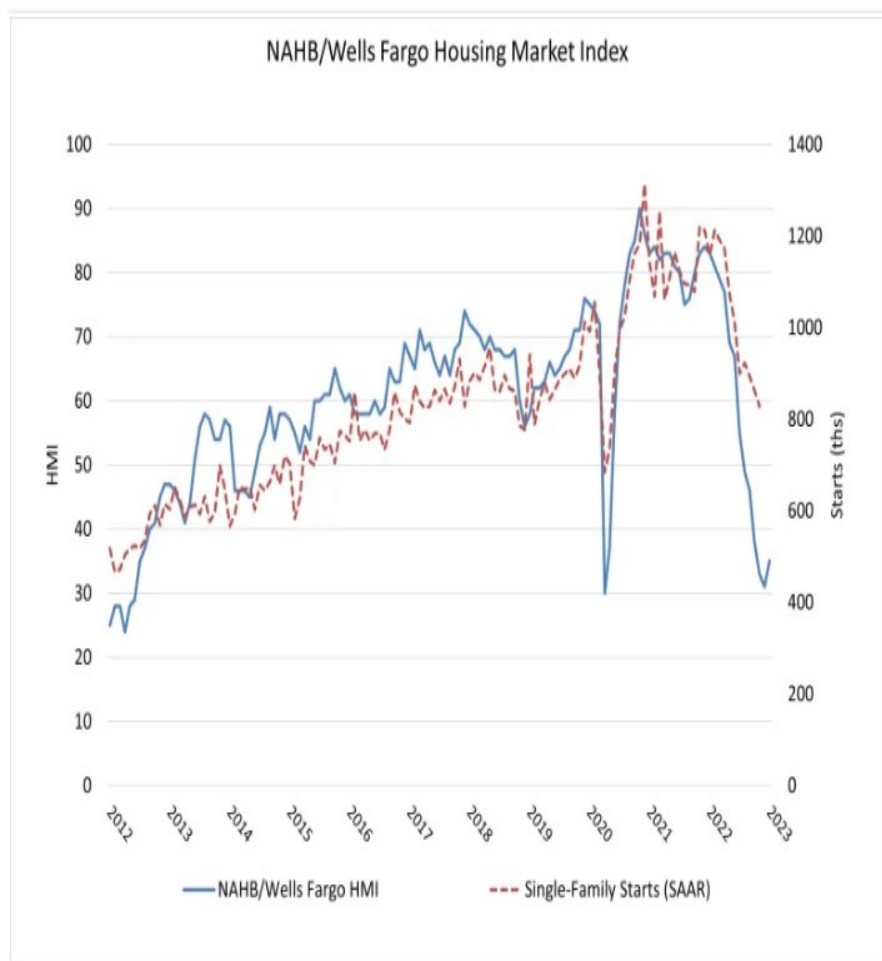
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Derived from a monthly survey that NAHB has been conducting for more than 35 years, the HMI gauges builder perceptions of current single-family home sales and sales expectations for the next six months as “good,” “fair” or “poor.” The survey also asks 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 HMI indices posted gains for the first time since December 2021. The HMI index gauging current sales conditions in January rose 4 points to 40, the component charting sales expectations in the next six months increased 2 points to 37 and the gauge measuring traffic of prospective buyers increased 3 points to 23.

Dietz said, “It is **possible that the low point for builder sentiment in this cycle was registered in December**, even as many builders continue to use a variety of incentives, including price reductions, to bolster sales. The rise in builder sentiment also means that cycle lows for permits and starts are likely near, and a rebound for home building could be underway later in 2023.”

NAHB forecasts that single-family starts in 2023 will still be lower than in 2022, but it appears a turning point for housing lies ahead. In the coming quarters, single-family home building will rise off of cycle lows as mortgage rates are expected to trend lower and boost housing affordability. Improved housing affordability will increase housing demand, as the nation grapples with a structural housing deficit of 1.5 million units.

Looking at the three-month moving averages for regional HMI scores, the **West** registered a 1-point gain to 27, the **South** held steady at 36, the **Northeast** fell 4 points to 33 and the **Midwest** dropped 2 points to 32.