



## Builder Confidence Sees Biggest Jump in 10 Years, But is Still in The Toilet

The National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) shot higher in February, achieving a second monthly gain. NAHB's chief economist Robert Dietz said the 7-point increase in the HMI brought it to 42, its highest level since September 2022. It was also the **largest single-month increase in the index since June 2013**, except for the craziness surrounding the onset of the pandemic.

The HMI measures the confidence of new single-family home builders in the health of their market. The current reading, Dietz says, **may signal the housing market is turning a corner even as builders continue to contend with high construction costs and building material supply chain logjams.**



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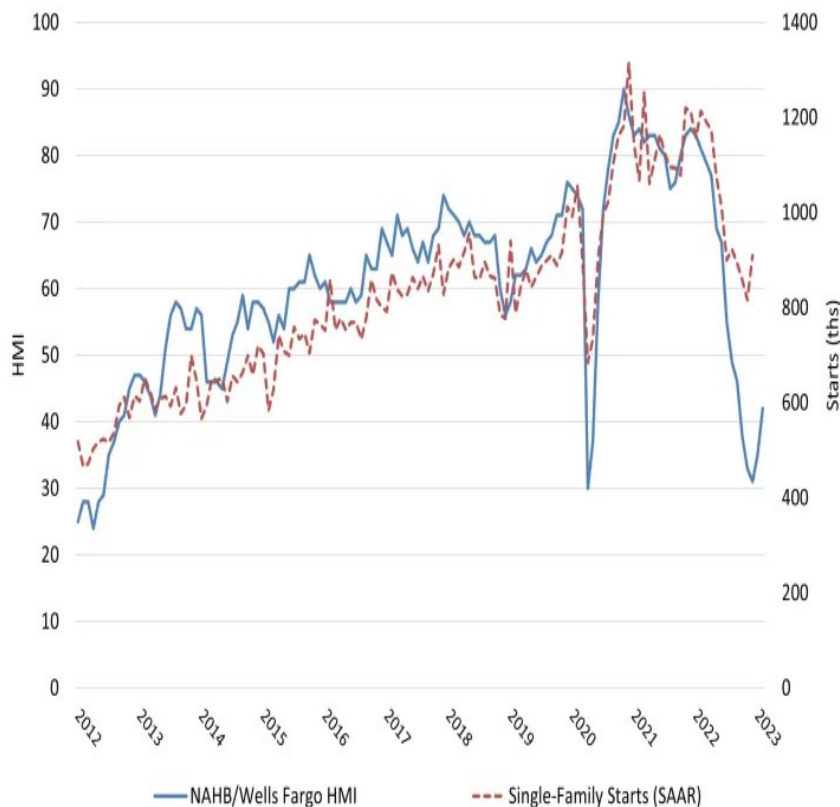
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NAHB/Wells Fargo Housing Market Index



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.

The three component indices also posted second-straight gains. The index gauging current sales conditions in February rose 6 points to 46, the component charting sales expectations in the next six months increased 11 points to 48 and the one measuring buyer traffic increased 6 points to 29.

“The increases indicate that **incremental gains for housing affordability have the ability to price-in buyers to the market**. The nation continues to face a sizeable housing shortage that can only be closed by building more affordable, attainable housing,” NHBA’s economist said. Still, he warned that recent declines in mortgage rates are not likely to continue. “The 10-year Treasury rate has moved up more than 30 basis points during the past two weeks, indicating an increase for mortgage rates lies ahead.”

While the HMI remains below the 50-point breakeven level, Dietz noted that the 11-point gain over the last two months is a positive sign for the market. “Even as the Federal Reserve continues to tighten monetary policy conditions, forecasts indicate that the housing market has passed peak mortgage rates for this cycle. And while we expect ongoing volatility for mortgage rates and housing costs, the building market should be able to achieve stability in the coming months, followed by a rebound back to trend home construction levels later in 2023 and the beginning of 2024.”

Builders continue to offer incentives to attract buyers, but the numbers are improving. Fifty-seven percent offered some type of incentive in February, down from 62 percent in December and 59 percent in November. Thirty-one percent reduced home prices in February, down from 35 percent in December. The average reduction dropped from 8 percent in December to 6 percent this month.

Regional HMI scores are also higher as a three-month moving average. The **Northeast** rose 4 points to 37, the **Midwest** edged up 1 point to 33, the **South** increased 4 points and the **West** 3 points to 40 and 30, respectively.