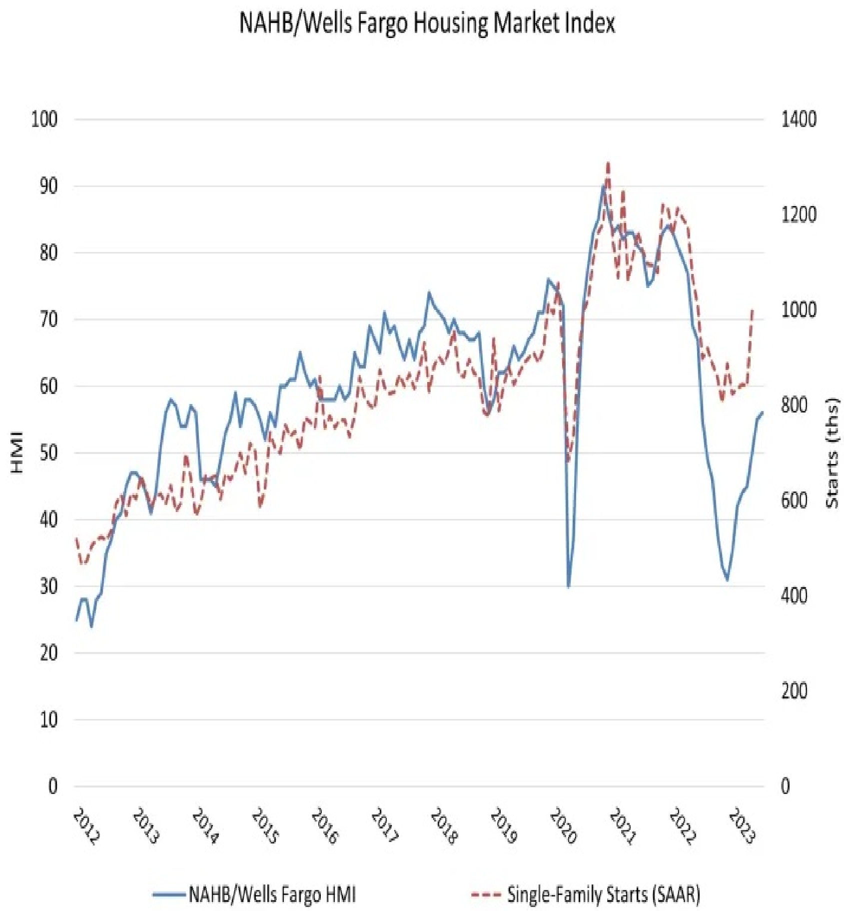
NAHB: Fed Has Housing Economics “Backwards”

Builder confidence in the market for newly constructed homes rose another point in July according to the National Association of Home Builders (NAHB). The NAHB/Wells Fargo Housing Market Index (HMI) hit 56 in its seventh straight month of improvement. This is a 25-point gain since its December 2022 low and its **highest level since June of last year.**



NAHB Chief Economist Robert Dietz said the low inventory of pre-owned homes is shoring up demand for new homes and is pushing builder confidence up, “even as the industry continues to grapple with rising mortgage rates, elevated construction costs and limited lot availability.”

“The lack of resale inventory means prospective home buyers who have not been priced out of the market **continue to seek out new construction in greater numbers.** At the same time, builders are troubled over rising mortgage rates approaching 7 percent and continue to grapple with supply-side challenges, including ongoing scarcity of electrical transformer equipment and growing concerns about lot availability.”

Dietz continued, “Although builders continue to remain cautiously optimistic about market conditions, the quarter-point rise in mortgage rates over the past month is a stark reminder of the stop and start process the market will experience as the Federal Reserve nears the end of the ongoing tightening cycle.

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“Given that shelter inflation accounts for roughly 40 percent of the Consumer Price Index, the best way to ease this largest source of inflationary pressure is to build additional for-rent and for-sale housing. There has been some commentary linking gains for housing construction with increased concerns for additional inflation, but this has the economics backwards. **More housing supply is good news for future shelter inflation readings in the market**. Furthermore, higher interest rates increase the cost of financing for building homes and developing lots.

Derived from a monthly survey that NAHB has been conducting for more than 35 years, the NAHB/Wells Fargo 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 the 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 component gauging current sales conditions rose 1 point in July to 62 while the one charting forward-looking expectations fell 2 points to 60. However, Dietz points out that this decline is a reminder that housing affordability continues to be challenged by elevated interest rates. Perceptions regarding the traffic of prospective buyers increased 3 points to 40, also a 13-month high.

The July HMI survey also shows a lessening in the use of builder sales incentives. **Only 22 percent of builders report cutting prices in July, down from 27 percent in May** and 25 percent in June.

The three-month moving averages for all regional HMI scores moved higher, The Northeast gained 5 points to 52, the Midwest edged up 2 points to 45, the South increased 3 points to 58, and the West posted a 5-point gain to 51.