



Shelter Inflation Pops Builder Confidence Balloon

Rising rates took a toll on builder confidence in August. The National Association of Home Builders (NAHB) said the NAHB/Wells Fargo Housing Market Index (HMI) dropped 6 points as rates neared 7 percent. The HMI, a measure of home builder confidence in the market for newly constructed homes, had risen for seven straight months but is now at 50.

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 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 major HMI indices posted declines in August. The HMI index gauging current sales conditions fell 5 points to 57, the component charting sales expectations over the next six months declined 4 points to 55, and the gauge measuring traffic of prospective dropped from 40 to 34.

Deitz said that declining customer traffic is likely a result of the 7.7 percent rise in shelter inflation over the last year. It accounted for a striking 90 percent of the July Consumer Price Index reading of 3.2 percent. “The best way to bring housing inflation down and ease the housing affordability crisis is to enact policies at all levels of government that will allow builders to construct more homes to address a nationwide shortfall of approximately 1.5 million housing units,” he said.

The NAHB monthly survey of its new home builders also shows that rising rates are again pushing the use of sales incentives. After dropping from 31 percent to 22 percent between March and July, the share of builders cutting prices to bolster sales ticked up to 25 percent in August although the average price decline remained at 6 percent. Overall, the use of sales incentives increased from 52 percent of builders in July to 55 percent this month.

Looking at the three-month moving averages for regional HMI scores, the Northeast increased 4 points to 56, the Midwest and South were both unchanged at 45 and 58, respectively, and the West edged down a single point to 50.



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