



## High Rates, Shortages Take Their Toll on Builder Sentiment

The National Association of Home Builders (NAHB) said on Monday that its index that measures home builder confidence in the new home market has fallen below the halfway mark for the first time since April. The NAHB/Wells Fargo Housing Market Index declined 5 points in December. Coupled with its 6-point drop in August, the index has **erased five months of gains**.



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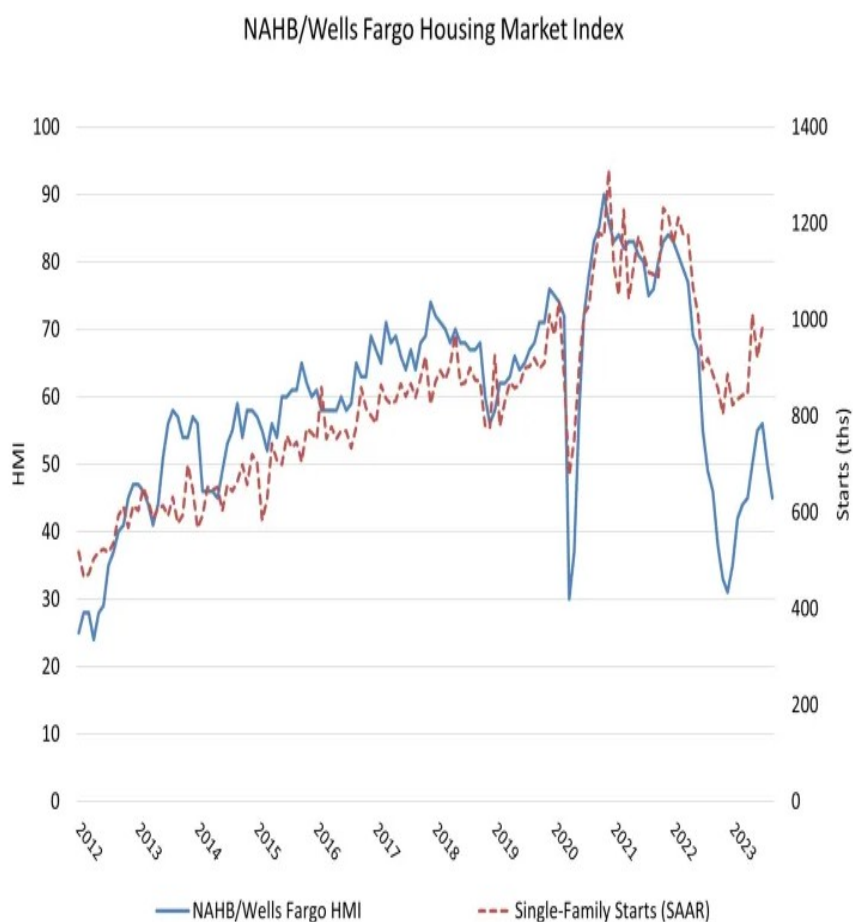
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NAHB chief economist Robert Dietz said, “The two-month decline in builder sentiment coincides with when mortgage rates jumped above 7 percent and significantly eroded buyer purchasing power. And on the supply-side front, **builders continue to grapple with shortages of construction workers, buildable lots and distribution transformers**, which is further adding to housing affordability woes. Insurance cost and availability is also a growing concern for the housing sector.”

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 September and two of the three are now below the break-even point. The HMI indices gauging current sales conditions and those over the next six months each fell 6 points to 51 and 49 respectively. The component measuring traffic prospective buyer traffic was down 5 points to 30.

The stickiness of **7 percent plus mortgage rates is pushing more builders to reduce home prices to bolster sales**, Dietz said. In September, 32 percent of builders reported cutting home prices, compared to 25 percent in August, the largest share since last December when 35 percent said they were doing so. The average price discount remains at 6 percent. Overall, 59 percent of builders reported providing some form of sales incentives this month, the largest share since April.

Dietz said the lack of resale inventory at the start of 2023 has shifted the new construction buyer mix. A special question in the September HMI survey revealed that 42 percent of new single-family home buyers have been first-time buyers thus far this year. This is significantly higher than the 27 percent reading from a more normalized market in 2018. It is also higher than the 30 to 33 percent monthly share that has been consistently captured by the existing home market for several years.

Dietz said that **shelter inflation posted a 7.3 percent annual increase in August, compared to an overall inflation rate of 3.7 percent**. “Putting into place policies that will allow builders to increase the housing supply is the best remedy to ease the nation’s housing affordability crisis and curb shelter inflation,” he said.

The three-month moving average for HMI scores in the Northeast was down 2 points to 54, The Midwest’s dropped 3 points to 42 and the South’s decreased 4 points to 54. The West posted a 3-point decline to 47.