



Persistently High Rates Quash Builder Confidence

Builders' confidence in the new home market retreated this month, the first decline since last November. The National Association of Home Builders (NAHB) reports that the NAHB/Wells Fargo Housing Market Index (HMI) lost 6 points from its April level, falling to 45.

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" and asks builders to rate traffic of prospective buyers as "high to very high," "average" or "low to very low." A score above 50 for the HMI or any of its components indicates that more builders view sales conditions as good than poor.

All three HMI component indices declined decisively in May. The HMI index charting current sales conditions in May fell 6 points to 51, the component measuring sales expectations in the next six months fell 9 points to 51 and the gauge charting traffic of prospective buyers declined 4 points to 30.

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NAHB economist Robert Dietz stated that the **reason for the decline is the persistently high mortgage interest rates which have remained above 7 percent for the last four weeks.** Dietz said, “The market has slowed since mortgage rates increased and this has pushed many potential buyers back to the sidelines. A lack of progress on reducing inflation pushed long-term interest rates higher in the first quarter and this is acting as a drag on builder sentiment. The last leg in the inflation fight is to reduce shelter inflation, and this can only occur if builders are able to construct more attainable, affordable housing.”



Dietz said that adding to builder concerns is the expanding scope of various regulatory burdens. For example, rules becoming effective later this year will allow HUD and USDA to insure new single-family mortgages only if the homes are built in conformance with the 2021 International Energy Conservation Code. **“This will further increase the cost of construction in a market that sorely needs more inventory for first-time and first-generation buyers.”**

The May builder survey also revealed that 25 percent of respondents cut home prices to bolster sales in May, ending four months of consecutive declines. However, the average price reduction in May held steady at 6 percent for the 11th straight month. **Fifty-nine percent of builders reported use of some form of sales incentives compared to 57 percent in April.**

The three-month moving averages for regional scores were mixed. The Midwest increased 3 points to 49; the Northeast and the South both fell 2 points, to 61, and 49, respectively. The West posted a 4-point decline to 43.