# HOUSING CONNECTION

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## Rates Continue to Depress Builders as Well as Sales


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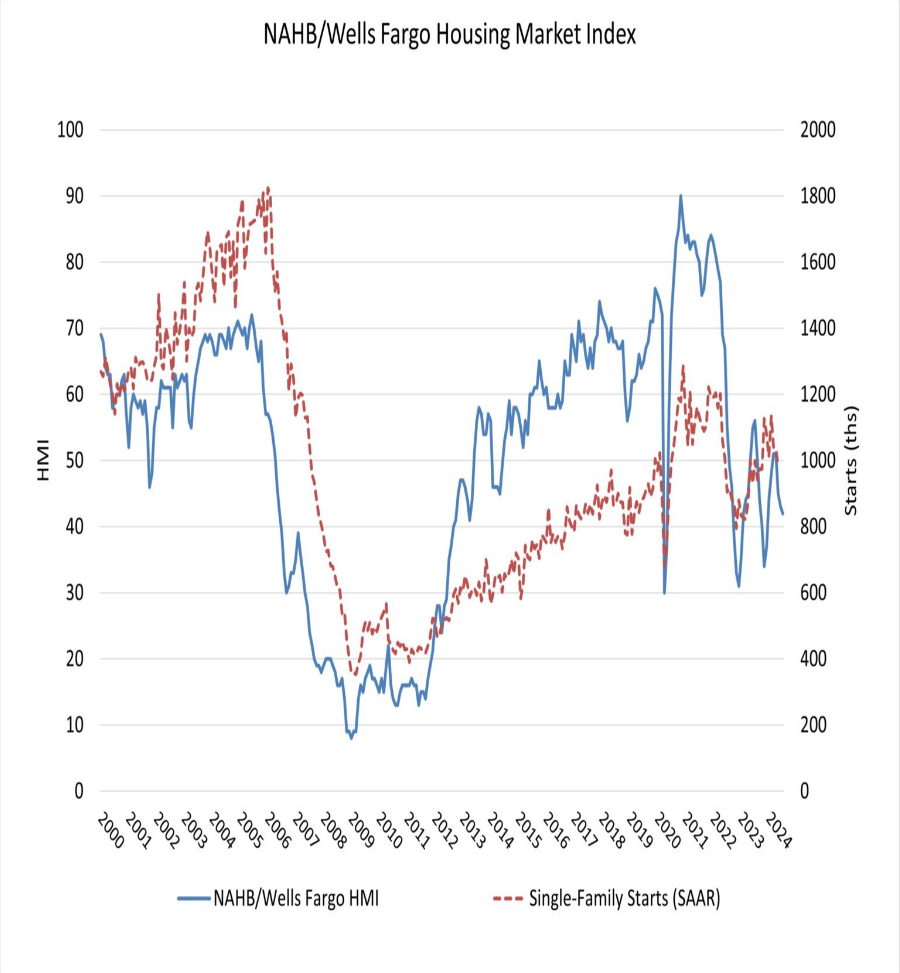
The National Association of Home Builders (NAHB) blamed high interest for lagging new home sales and the resulting dampened industry confidence in building them. NAHB chief economist Robert Deitz said mortgage rates averaged 6.92 percent last month and rates for construction and development loans were also elevated.

The NAHB/Wells Fargo Housing Market Index (HMI), an indicator of home builders' confidence in the market for newly constructed homes, was down 1 point in July to 42, the lowest reading since last December.




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 used to calculate a seasonally adjusted index where any number over 50 indicates that more builders view conditions as good than poor.

The HMI index charting current sales conditions in July fell 1 point to 47 and the gauge charting traffic of prospective buyers also declined by a single point to 27. The component measuring sales expectations in the next six months increased 1 point to 48.

Deitz said that, while buyers seem to be waiting for lower interest rates, the six-month sales expectation for builders moved higher, indicating that builders hope for lower rates later this year as inflation data are showing signs of easing.

Inflation, which was at a 3.0 percent annual rate in June and thus above the Federal Reserve's 2.0 percent target, appears to be back on a cooling trend after an uptick in the first quarter. NAHB is forecasting Fed rate reductions to begin at the end of this year, and this action will lower interest rates for home buyers, builders, and developers. While home inventory is increasing, total market inventory is still only at a 4.4-month supply. This, Deitz said, indicates a long-run need for more home construction.

The July HMI survey also revealed that builders continue to offer incentives to increase sales, Sixty-one percent said they did so in July, unchanged from June. Thirty-one percent said they cut home prices last month, a slight increase month-over-month. The average price reduction was 6.0 percent for the 13th straight month.

Regional HMI scores, presented as three-month moving averages, moved significantly lower. The Northeast fell 6 points to 56, the Midwest dropped 4 points to 43, the South decreased 2 points to 44 and the West posted a 4-point decline to 37.