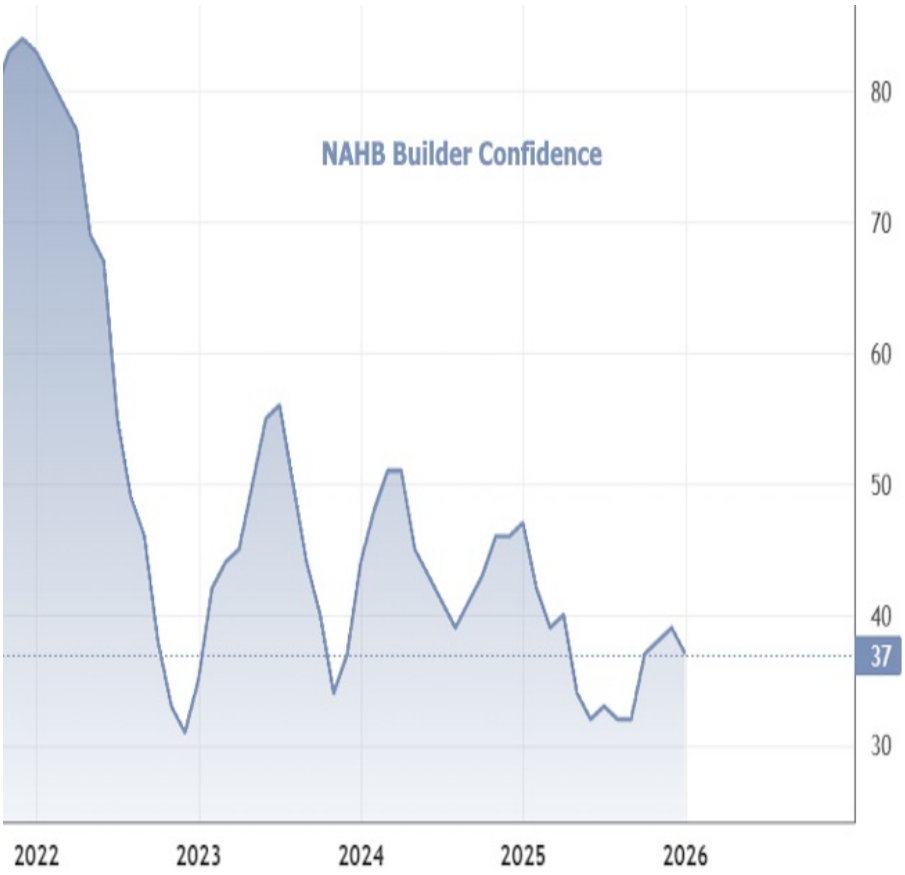
HOUSING CONNECTION
Mortgage and Real Estate News That Matters

Builder Sentiment Survey Not Yet Reflecting Recent Rate Changes

Builder confidence slipped to start the year, with the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) falling two points to 37 in January. The erasure of December's modest gains doesn't really do much to change the broader picture: builder sentiment remains stuck in a holding pattern near its lowest levels, weighed down by the usual suspects of persistent affordability challenges and rising construction costs.



The underlying components weakened across the board. The index measuring current sales conditions dipped one point to 41, while the gauge tracking prospective buyer traffic fell three points to 23—continuing to solidify its status in "low to very low" territory. Most notably, future sales expectations declined three points to 49, slipping below the breakeven level of 50 for the first time since September.

"While the upper end of the housing market is holding steady, affordability conditions are taking a toll on the lower and mid-range sectors," said NAHB Chairman Buddy Hughes. "Buyers are concerned about high home prices and mortgage rates, with down payments particularly challenging given elevated price-to-income ratios."

There was at least a partial offset on the rate front. NAHB Chief Economist Robert Dietz pointed to a recent decline in mortgage rates to the lowest level in three years. However, most survey responses were collected **before the announcement** that Fannie Mae and Freddie Mac would purchase $200 billion in mortgage-backed securities, meaning any benefit from that policy action was largely not reflected in January's results.

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Pricing pressure is once again in the spotlight, with NAHB reporting that 40% of builders cut home prices in January, unchanged from December and marking the third consecutive month at or above that level. The average price reduction increased to 6%, up from 5% previously, while the use of sales incentives eased slightly to 65% but remained above 60% for the tenth straight month.

Regional three-month moving averages continue to show uneven conditions. The Northeast fell two points to 45, the Midwest held steady at 43, the South slipped to 35, and the West edged higher to 35. Despite minor shifts, all regions remain constrained by affordability and cost pressures, leaving builder confidence firmly subdued as the new year begins.

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