The Mortgage Corner

BUILDER CONFIDENCE CONTINUES DECLINE

Reflecting increasing builder concerns about conditions in the market for new single-family homes, the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) declined for an eighth consecutive month to a level of 30 in September. This amounted to a three-point drop from an upwardly revised 33 reading in August, and is the lowest level the index has reached since February of 1991.

"Builders are adopting an increasingly cautious attitude in their near-term outlook for new-home sales," said NAHB Chief Economist David Seiders. "They're experiencing falling sales, rising sales cancellations, and increasing inventories of unsold units. And although many builders are offering substantial incentives to bolster sales and limit cancellations, many potential buyers now are waiting on the sidelines to see how the market shakes out before proceeding with a home purchase.

"We are in the midst of an anticipated adjustment period as the housing market subsides from the record-breaking and unsustainable highs of the past few years," Seiders noted. "Our forecast projects the numbers flattening out around the middle of next year and gradually moving back up towards trend in 2008.

"That said, long-term housing fundamentals will be very favorable," he added. "In fact, the housing market that emerges from this correction will have better balance between supply and demand and will be able to ride on excellent underlying fundamentals for years to come."

This will not happen until next year, because the 6.8-month supply of new homes must decline—through a combination of stabilizing sales and reduced housing starts. Housing starts declined 4 percent in July, and August's starts are anticipated to decline further when reported this Thursday. It will also depend on the direction of interest rates, which are anticipated to soften now that the Federal Reserve has halted its short-term rate hikes.

Derived from a monthly survey that NAHB has been conducting for 21 years, the NAHB/Wells Fargo HMI gauges builder perceptions of current single-family homes 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 either "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 sales conditions as good than poor.

Sales of existing homes are declining as well, even though the Mortgage Bankers Association predicts it will be the third-best year ever, after 2005's record-breaker. Existing-home sales are also is saddled with excess inventories that need to come down in order to equalize supply and demand. But the Office of Federal Housing Enterprise Oversight (OFHEO) reported that national same-home prices in the second quarter rose 10 percent in one year, so the housing boom is not over.

Two of the three HMI component indexes declined in August. The component that gauges current single-family home sales declined five points to 32, while the component gauging expected sales in the next six months fell four points to 37. The component gauging traffic of prospective buyers remained even from last month, at 22.

The HMI fell in three out of four regions in September. The largest decline was registered in the Northeast, where a six-point drop brought the HMI to 28. The HMI fell five points to 38 in the West and fell three points to 38 in the South. The HMI held steady at 16 in the Midwest, where fundamentally weak economic conditions continue to weigh on the market.