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Builder Confidence Declines In November

November 16, 2005 - Responding to sharply lower measures of consumer confidence as well as rising mortgage rates and other factors in recent months, single-family home builders are adjusting their market expectations downward to a still favorable perspective, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) for November, released today.

The index declined eight points to rest at 60, a level well above the midpoint that indicates the majority of builders still see conditions as positive in their markets.

"It's important to keep today's report in perspective," said NAHB President Dave Wilson, a custom home builder from Ketchum, Idaho. "Many builders still have substantial backlogs of unfilled orders and will remain quite busy in coming months. But we're well aware that some slowing of demand is inevitable following the record-breaking sales activity that has prevailed for some time."

"No huge drop is in the cards – the sharp decline in the HMI probably overstates the actual degree of deterioration in the single-family market, and it's most likely that we're engaged in an orderly cooling process that will lead to somewhat lower home sales and production in the future," added NAHB Chief Economist David Seiders. "We're looking for a 5 or 6 percent decline in home sales next year, compared to 2005."

Derived from a monthly survey that NAHB has been conducting for approximately 20 years, the NAHB/Wells Fargo HMI gauges builder perceptions of current single-family home sales and sales expectations for the next six months as either "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.

Each of the HMI's component indexes registered declines this time around. The index gauging current sales activity fell eight points to 66, while the index gauging sales expectations for the next six months dropped nine points to 64 and the index gauging traffic of prospective buyers fell five points to 46.

Seiders cited deterioration in consumer attitudes in recent months, spurred by the recent hurricanes and resulting higher energy prices, as a significant factor in November's builder confidence gauge. He also cited rising interest rates on both fixed- and adjustable-rate mortgages. Fixed rates averaged 6.35 percent in the survey period compared to 6 percent in the prior month and 5.7 percent in the month before that.

"In addition, affordability problems have arisen as house price gains have accumulated in many parts of the country," he said. "So while the balance of builder attitudes is still positive, most are less exuberant than at the HMI's last peak in the middle of this year" (the index hit 72 in June). The last time the HMI hit 60 was in May of 2003.

Though builder confidence was down across all regions of the country, ongoing trends prevailed to keep those in the West at the highest end of the confidence scale and those in the Midwest at the lower end. In the West, the HMI fell from a very high level of 91 in October to a still-impressive 78 in November, while in the South, it declined from 76 to 68. In the Northeast, the gauge slipped six points to 61, while continued job-market weakness in the Midwest brought that region's HMI down from 45 to 38.

EDITOR'S NOTE: The NAHB/Wells Fargo Housing Market Index is strictly the product of NAHB Economics, and is not seen or influenced by any outside party prior to being released to the public. HMI tables can be accessed online at: **www.nahb.org/hmi**. More information regarding housing statistics is also available at **www.housingeconomics.com**

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