

Economics

U.S. Homebuilder Sentiment Gauge Rises From a Three-Year Low

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January 16, 2019, 10:00 AM EST Updated on January 16, 2019, 2:32 PM EST

Sentiment among U.S. homebuilders rose for the first time in three months amid a decline in borrowing costs, a sign that housing may stabilize in the year ahead even as the industry remains in a broad slowdown.

The National Association of Home Builders/Wells Fargo Housing Market Index increased to 58 in January from a three-year low of 56 in the prior month, according to a report Wednesday. The median estimate of economists called for the gauge to be unchanged.

Key Insights

- The latest results provide some respite after a steep drop in the prior two months intensified concern about a more serious slowdown in housing, an industry that's sensitive to higher borrowing costs. Mortgage rates have fallen to the lowest since April, and loan applications have surged over the past two weeks.
- All three index components rose, including a gauge of the six-month sales outlook and a measure of current sales for single-family homes. That suggests builders see some potential for demand to stabilize as a pickup in housing inventory and cooling home-price growth make purchases more affordable.
- While the overall index fell in eight of the past 12 months, developers' confidence is still getting support from a strong job market and last year's tax cuts.

Official's View

"Low unemployment, solid job growth and favorable demographics should support housing demand in the coming months," NAHB Chairman Randy Noel, a custom-home builder from Louisiana, said in a statement. "The



gradual decline in mortgage rates in recent weeks helped to sustain builder sentiment."

WHAT OUR ECONOMISTS SAY...

The rise in mortgage rates in the second half of 2018 appears to have squeezed housing affordability to such a degree that it resulted in falling home sales. However, the recent pickup in mortgage applications suggests that there is plenty of demand at lower costs. Improved affordability on the back of higher wage gains and lower housing prices will support housing demand later this year and give the sector a second wind.

-- Yelena Shulyatyeva and Carl Riccadonna, Bloomberg Economics

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- A gauge of prospective buyer traffic increased to 44 from 43. Readings above 50 for the indexes indicate more builders view conditions as good than poor.
- Builder sentiment in the Northeast jumped the most in four months, and increased in the West. The South was unchanged while the Midwest slipped to a three-year low.
- The partial U.S. government shutdown will delay the December housing-starts data, which would have been released Thursday. The November report on new home sales, scheduled for release late last month, has also been postponed.

(Updates to add chart and Bloomberg Economics box.)