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Homebuilder confidence improves for the fourth straight month

But builders face supply challenges, including a lack of

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Strong demand, coupled with a lack of existing housing inventory and comparatively lower mortgage rates continue to drive buyers to new home construction, Homebuilder confidence continued its upward trajectory for the fourth straight month in March as builders await future rate cuts by the Federal Reserve.

The **National Association of Home Builders** (NAHB)/**Wells Fargo Housing Market Index (HMI)** climbed three points to 51 in March, its highest level since July 2023.

The HMI is a monthly survey that gauges NAHB members' perceptions of newly built single-family home sales, expected sales for the next six months and potential homebuyer traffic. An index of 50 is neutral. Anything higher than 50 indicates

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that builders view conditions as favorable, while readings lower than 50 indicate that builders view conditions as unfavorable.

“Buyer demand remains brisk and we expect more consumers to jump off the sidelines and into the marketplace if mortgage rates continue to fall later this year,” NAHB Chairman Carl Harris, a custom home builder from Wichita, Kansas, said in a statement. “But even though there is strong pent-up demand, builders continue to face several supply-side challenges, including a scarcity of buildable lots and skilled labor, and new restrictive codes that continue to increase the cost of building homes.”

While financing costs are expected to decline due to the Federal Reserve’s future rate cuts, material prices are likely to rise, especially for lumber, warns NAHB chief economist Robert Dietz.

The survey also showed that homebuilders are hitting the brakes on price reductions. In March, 24% of builders reported applying price cuts, down from 25% in February, the lowest share since July 2023. The average price reduction stayed steady at 6% for the ninth straight month. Meanwhile, the use of sales incentives still shows some momentum as 60% of respondents reported using them, up from 58% in February.

Additionally, the NAHB reported that all three major HMI indices posted increases in March. Homebuilders’ gauge of current sales conditions rose four points to 56. The gauge measuring the traffic of prospective buyers increased by two points to 34. And the component charting sales expectations over the next six months inched up two points to 62.

The three-month moving averages for the HMI increased across each of the four major regions. The reading in the Northeast rose 2 points to 59, the Midwest gained 5 points to 41, the South increased 4 points to 50 and the West posted a 5-point increase to 43.

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