

Datanote: US NAHB Index, June

In one line: High mortgage rates are continuing to crush demand.

- The NAHB Index fell to 43 in June, from 45 in May, below the consensus, 46.

The prolonged run of 30-year mortgage rates at 7%-plus is increasingly weighing on the flow of prospective new home-buyers. The

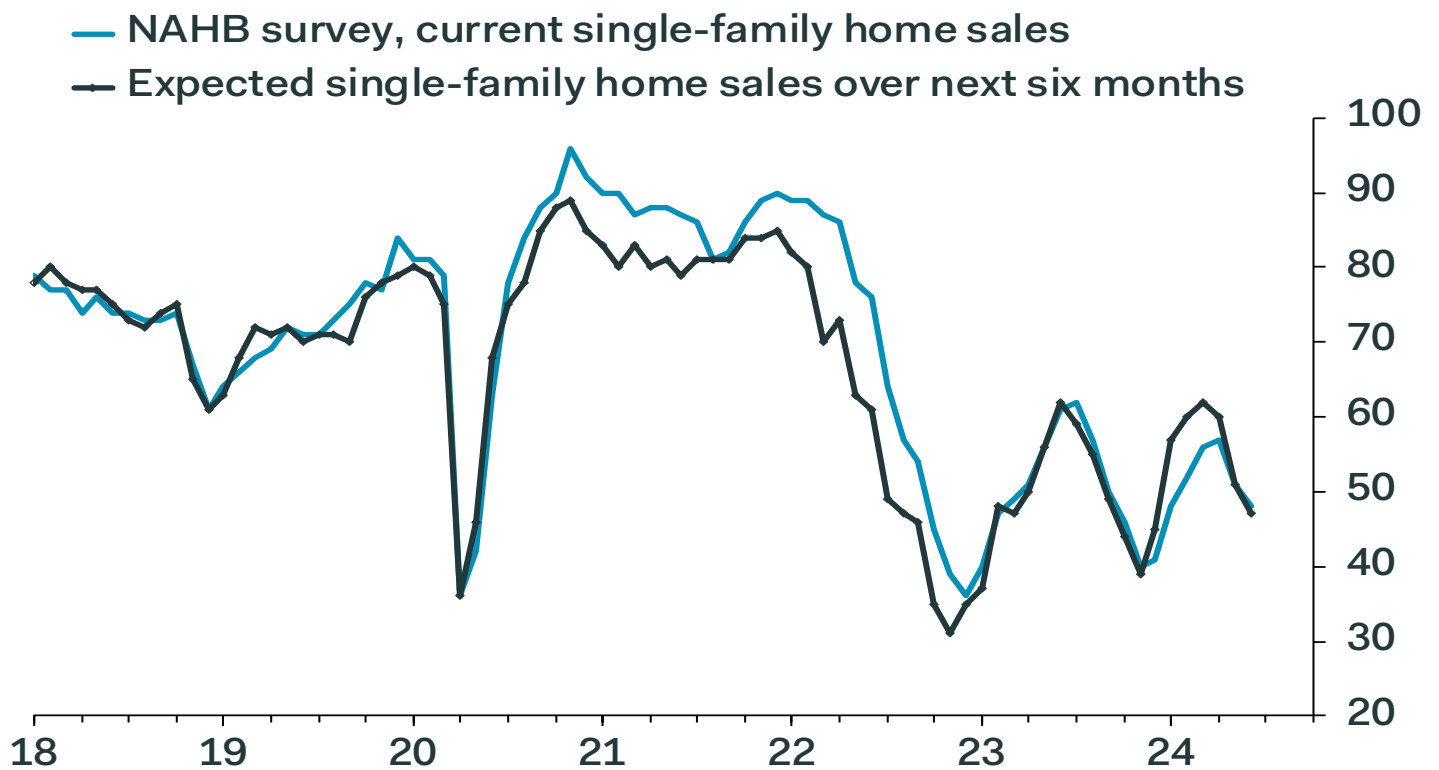
fall in the headline NAHB index to its lowest level since December was driven by three-point drops in both the current and expected single-family home sales indexes, to 48 and 47 respectively. The traffic of prospective buyers index also fell, to 28 from 30. The eight-point decline in the headline index between April and June is roughly consistent with a 10% drop in new home sales over the same period. That said, homebuilders have substantially increased their share of the overall housing market over the last year or

so. Our third chart below shows that the MBA purchase applications index is well below its 2022 levels, whereas the NAHB index remains above its late 2022 levels, despite its recent decline. At the margin, last week's 8bp fall in the average 30-year mortgage rate, to a 11-week low of 6.94%, is a step in the right direction, but rates need to fall much further in order to foster a tangible recovery.

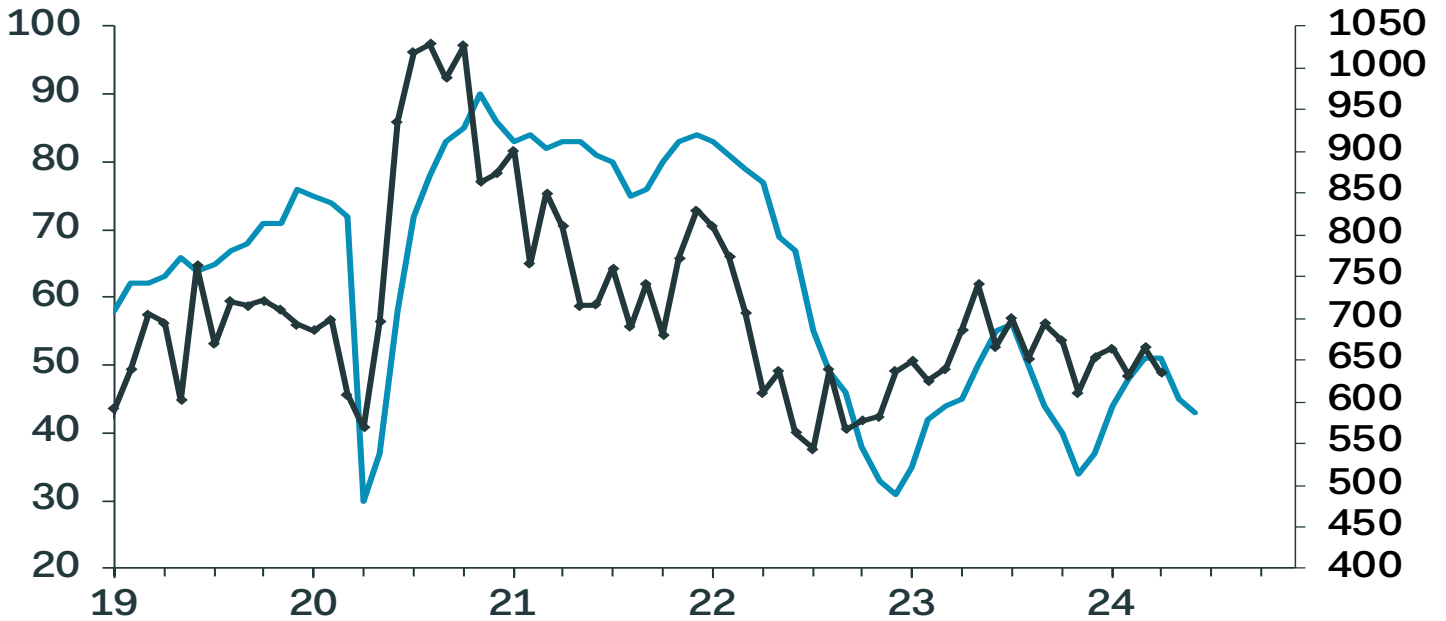
Looking ahead, we think long rates will fall sharply in the second half of

this year. This should bring down new mortgage rates to a favorable range for homebuilders, where they are low enough to entice current renters to buy their first home, but still too high for existing homeowners to give up the 3% rates they locked-in in 2021, limiting the flow of existing homes being listed for sale. The catch is that we expect the Fed to cut rates quickly in response to a weakening labor market, as well as much lower inflation, and the growing risk of being laid off likely will persuade many prospective homebuyers to

continue renting until the outlook has improved. Accordingly, we expect demand for new homes by the end of the year to be only slightly higher than now.



— NAHB survey, headline index (Left)
 — New home sales, thousands annualized (Right)



— MBA purchase apps, re-adjusted by PM, adv. one month (Left)
 — NAHB survey, headline index (Right)

