

BUSINESS & FINANCIAL OVERVIEW

Home-builder confidence rebounds from 3-year low as housing market catches a break

The January increase reversed two months of declines and beat the Econoday forecast of a 1-point increase. The builder lobby group said falling mortgage rates were buoying sentiment among their members, though there have been other signals that housing may enjoy a rebound in 2019.

The index component that tracks current sales conditions rose 2 points to 63 while the tracker of expected conditions over the coming six months was up 3 points to 64. The gauge of buyer traffic ticked up 1 point to 44.

Any reading over 50 signals improvement.

Big picture: The reprieve in mortgage rates is certainly helping the housing market. The Mortgage Bankers Association said Wednesday that mortgage purchase applications were at the highest level since 2010.

Higher borrowing costs aren't housing's only headwind, however. Homes — whether newly-constructed or previously-owned — are still too pricey for buyers trying to crack this market. In its release, NAHB acknowledged that. "Builders need to continue to manage rising construction costs to keep home prices affordable, particularly for young buyers at the entry-level of the market," NAHB Chief Economist Robert Dietz said.

But builders may also need to consider steps that cut into their margins, like deeper discounts and incentives: NAHB also commented that "the slowdown in sales during the fourth quarter of 2018 has left new home inventories elevated in some markets."

Also see: Home builders see rebound after housing market 'pause'

What they're saying: "Has the weakening in housing run its course?" asked Jim O'Sullivan, chief U.S. economist for High Frequency Economics, in a note out ahead of the NAHB release. Homebuilder stocks, "which tend to correlate with the index, have bounced a little," O'Sullivan said. "The mortgage applications purchase index has also show signs of improvement, likely helped by the recent decline in mortgage rates."

Market reaction: Home-builder stocks have indeed rallied since the start of the new year. Shares of D.R. Horton, Inc. DHI, -1.14% and Meritage Homes Corp. MTH, -0.45% are both up about 11% since the start of the year, while Lennar Corp. shares have gained 17%. That's beating the 3% gain for the Dow Jones Industrial Average DJIA, +1.38% .

