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Construction workers begin building a new home in Springfield, Ill. Builders are pessimistic about the housing market, but are seeing a little more foot traffic.

Construction gains ground with small steps

Housing market flooded with existing homes

By Alan Zibel
THE ASSOCIATED PRESS

WASHINGTON — Builders are pessimistic about the housing market, but are seeing a little more foot traffic after the worst summer for home sales in a decade.

The National Association of Home Builders said Monday its monthly index of builders' sentiment rose in October to 16, the first increase in five months. The index had been at 13 for the past two months, the lowest level since March 2009.

Readings below 50 indicate negative sentiment about the market. The last time the index was above 50 was in April 2006. October's reading was equal to June's.

The index is broken into three separate readings. All of them increased in October. Expectations rose by five points, the outlook for sales conditions improved by three points and builders' view of foot traffic increased by two points.

"Builders are starting to see some flickers of interest among potential buyers, and are hopeful that this interest will translate to more sales in the coming months," said Bob Jones, a home builder from Bloomfield Hills, Mich., and the trade group's chairman.

The housing market suffered its worst summer in more than 10 years, despite the lowest mortgage rates in five decades.

This fall's home sales may improve, but not by much. A huge backlog of foreclosed properties is dominating the market and providing competition for builders.

"Unfortunately for builders, there is a massive supply overhang of existing homes which will present brutal competition to the new home market in the foreseeable future," said Joshua Shapiro, chief U.S. economist at MFR Inc. in New York.

Plus, many of the foreclosures could be challenged in court because of revelations banks evicted people without reading the necessary paperwork. The foreclosure-document scandal could make consumers skeptical about purchasing foreclosed homes if many buyers fear that they could be sued. As a result, prices for foreclosed properties might drop.

Weak sales mean fewer jobs in the construction industry, which normally helps power economic recoveries. Each new home built creates, on average, the equivalent of three jobs for a year and generates about $90,000 in taxes, according to the builders' trade group.

A slew of reports are expected during the next two weeks that should give a clearer picture of how the housing market is faring. The Commerce Department reports today on home construction and building permits requested during September.