

## Homebuilder Confidence Improves Slightly but Remains in Negative Territory

- Homebuilder confidence rose one point in April to 40.
- Two of the three indexes improved led by a two-point jump in the present sales of single-family homes index.
- Homebuilder confidence dropped in two of the four regions and fell in all four regions on a three-month moving average basis.
- Tariffs on metals and a possible increase in the lumber tariff will likely raise input costs for homebuilders and reduce the demand for new homes.
- 60% of builders reported their suppliers have already increased or announced increases of material prices due to tariffs.

The seasonally adjusted Housing Market Index (HMI) edged up to 40 in April from 39 in March according to the National Association of Home Builders (NAHB) and Wells Fargo. After improving in late 2024 and January 2025, homebuilder confidence is now down sharply over the past year and remains below its long-run average of 52 from 1985-2024. Growing economic uncertainty from tariff concerns and elevated building material costs kept builder sentiment in negative territory in April. According to the survey, 60% of builders reported their suppliers have already increased or announced increases of material prices because of tariffs. The HMI tracks sentiment among single-family homebuilders with a reading of above 50 indicating expansion in homebuilding.

The slight improvement in confidence was driven by the present sales of single-family homes and traffic of prospective buyers' components, which rose two points and one point, respectively. The single-family sales over the next six months index slid four points to 43 – the lowest since November 2023.

Homebuilder confidence dropped in two of the four regions, led by the Northeast (-5 points). Confidence slipped one point in the South and increased five points in the Midwest and one point in the West. Confidence is highest in the Northeast and the Midwest at 43, with the lowest reading in the West at 35. After removing the volatility in the monthly readings, confidence dropped in all four regions on a three-month moving average basis in April, with the largest decline in the Northeast (-7 points).

Policy uncertainty has weighed on consumer sentiment over the past several months, according to a survey from the University of Michigan. The inconsistency between low consumer confidence and a still-solid labor market and continued (yet slowing) economic growth in the U.S. reflects consumers' worries over policy uncertainties, likely weighing on potential homebuyers as well.

Monetary policy is currently restrictive for homebuyers, even with fed funds rate cuts last year. PNC's current baseline forecast calls for moderating economic growth and further fed funds rate cuts in 2025 that should help bring down mortgage rates this year. However, tariffs on metals and a possible increase in the lumber tariff will likely raise input costs for builders, reducing demand for new construction. Consumer uncertainty has increased this year with federal government job cuts and changes in trade policy. This uncertainty could further weigh on new home demand in the near term, particularly as job growth gradually slows.

**PNC Economics**

**Jay Hawkins, Senior Economist**

[economics@pnc.com](mailto:economics@pnc.com)

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