

U.S. Homebuilder Confidence Picked Up Slightly in September After Falling for Four Straight Months, But Remains in Contraction

- Homebuilder confidence rose in September with mortgage rates down, but remains in contraction.
- Homebuilder confidence increased in all four regions, led by a big jump from the Northeast.
- The optimism on sales over the next six months has improved in recent months, but is still at a low level.
- PNC expects a gradual recovery in the housing market when mortgage rates fall later this year and in 2025.

The seasonally-adjusted Housing Market Index (HMI) rose to 41 in September from 39 in August, after falling for four straight months, according to the National Association of Home Builders (NAHB) and Wells Fargo. The HMI tracks sentiments among single-family homebuilders. A reading of above 50 indicates that most builders are confident about the housing market. The HMI in August dipped to its lowest level since last December and below where it was through most of 2023. Homebuilder confidence recovered somewhat in September as the 30-year fixed mortgage rate fell in early September to the lowest level since February last year, according to Freddie Mac.

Homebuilder confidence increased in all four regions, led by a big jump from the Northeast. The HMI in the Northeast rose to 55 in September from 46 in August. The HMI in the Northeast is the highest among all four regions, and is above its long-run average. The HMI in the South increased the least, up one point to 40. Over the past year homebuilder confidence is down in the South, while it is up in other three regions. The index rose to 42 from 37 in the West, and to 42 from 38 in the Midwest.

The present sales conditions, expected single-family home sales in the next six months, and traffic of prospective buyers components of the index all increased in September. Weakness in the housing market still exists as current sales conditions (45 in September, up from 44 in August) and traffic of prospective buyers (27, up from 25) components are below the 50 expansion level and are down from last year, near their lowest levels over the past 12 years. However, expectations for single-family new home sales over the next six months increased for a third straight month in September, to 53 from 49 in August, as the Fed is expected to lower its policy interest rate this month, with additional rate cuts coming later this year and in 2025.

PNC expects a gradual recovery in the housing market following continued easing in monetary policy; declining 30-year fixed mortgage rates will help restore housing affordability and increase the traffic of prospective buyers later this year. A further softening in the U.S. labor market will also help tame shelter inflation. The current housing market weakness is only temporary, and the U.S. labor market will remain solid

with the unemployment rate to stay near its current level at slightly above 4%, supporting demand for new single-family homes.

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