Economic Update

March 25, 2025

Single-Family Home Price Growth Picked Up Slightly at the Start of 2025 While Uncertainty Has Increased

- The Case-Shiller national home price index rose 0.6% in January to a new high.
- Home prices were up in 19 out of 20 metro areas covered for the month after seasonal adjustment. Price in Tampa fell again on the month and year-over-year.
- PNC expects positive home price growth in 2025, but uncertainty has increased.

The S&P CoreLogic Case-Shiller U.S. National Home Price Index rose 0.6% in January after seasonal adjustment, slightly larger than the 0.5% increase in December. On a year-over-year basis the index was up 4.1% in January, after 4.0% growth in December. Single-family home prices after seasonal adjustment have risen for 24 straight months and have been setting record highs since December 2023, despite low housing affordability and elevated 30-year fixed mortgage rates.

Prices were up on the month in 19 of the 20 metro areas covered in the release after seasonal adjustment, with the biggest increases in Chicago and Detroit (both up 1.0%) and Cleveland (up 0.8%). Prices fell again in Tampa, down 0.1% on the month after falling 0.3% in December. Tampa was also the only metro area covered with house prices down in January on a year-ago basis, a drop of 1.5%, as the area continues to deal with the fallout from Hurricane Milton in the fall. Prices were up firmly in January on a year-ago basis in the remaining 19 metro areas covered, led by New York (7.8%), Chicago (7.5%), and Boston (6.6%).

House price growth has slowed from earlier last year. With strong cumulative house price growth since the pandemic and the 30-year fixed mortgage rate close to 7%, housing affordability is near a record low. Even so, house price growth has been in the low single digits since mid-2023, supported by low inventories.

Home prices will continue to increase in 2025 as mortgage rates fall and the labor market remains in solid shape, even as job growth eases somewhat. Demand for new homes cooled off in February according to a survey of homebuilders, while existing home sales came in at 4.26 million at an annualized rate, much stronger than the consensus expectation of below 4 million. Proposed tariff hikes on timber and lumber would make single-family homebuilding more expensive, favoring existing home sales.

PNC's baseline calls for moderating economic growth this year, with the labor market remaining solid, albeit easing somewhat, and the unemployment rate to remain slightly above 4%. However, recession risk has increased with uncertainty around tariff measures, posing downside risks to home price growth as well. PNC expects the Federal Open Market Committee to further reduce the fed funds rate by a cumulative 50 basis points later this year. Continued monetary policy easing and slowing inflation should reduce mortgage rates and support a gradual recovery in housing demand later this year. But risks to inflation and interest rates are to the upside; higher mortgage rates would create additional drag on the housing market. Federal government

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job cuts could weigh on house prices in areas with high concentrations of federal employees, particularly the greater Washington DC area.

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