Economic Update

February 18, 2025

Single-Family Housing Demand and Homebuilder Expectations Cooled in February

- **Homebuilder confidence fell in February from January and from February 2024.**
- **Homebuilder confidence dropped in all four regions over the month.**
- **Housing demand retreated in February with all three components falling in the HMI.**
- **Monetary policy is currently weighing on the housing market, but conditions should improve in mid-2025.**

The seasonally-adjusted Housing Market Index (HMI) dropped sharply to 42 in February from 47 in January, according to the National Association of Home Builders (NAHB) and Wells Fargo. This was the first decline in the index since August 2024; a reading below 50 means that homebuilding is contracting. Homebuilder confidence was also down from February 2024 after improving in the second half of 2024 following Federal Open Market Committee federal funds rate cuts in September, November, and December. The HMI tracks sentiment among single-family homebuilders. The HMI remained below its long-run average in February, but was slightly up from the 2024 low of 39 in August.

Homebuilder confidence fell in all four regions, with the seasonally-adjusted HMI dropping sharply in the Northeast to 48 in February from 65 from January, and in the West to 35 from 42. Confidence also fell in the Midwest (to 43 from 44) and the South (to 42 from 47). Over the past year the HMI was up in the Midwest, while confidence dropped in the other three regions. On a three-month moving average basis confidence fell slightly in the Northeast, Midwest, and West, in February, but was flat in the South.

Housing demand retreated in February along with a fallback in homebuilders' expectations for future sales. The present single-family sales conditions component of the index decreased from 50 to 46, the lowest level in five months. The traffic of prospective buyers component also dipped to 29 from 32, slightly down from a year ago. The expected single-family sales over the next six months component tumbled to 46 from 59, given expectations for fewer and later fed funds rate cuts.

Despite a cumulative one percentage point drop in the fed funds rate in the second half of 2024, the fed funds rate and monetary policy remain restrictive in early 2025. The 30-year fixed mortgage rate is up by about a percentage point from September 2024, contributing to reduced housing affordability and lower demand for new homes. Expectations for tariff increases, less progress on inflation, and larger federal government budget deficits have contributed to higher mortgage rates in recent months.

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Monetary policy is currently restrictive for homebuyers, even with fed funds rate cuts since September, although less so that it was last year. Conditions should improve in mid-2025. PNC's current baseline forecast calls for moderating economic growth and further fed funds rate cuts in mid-2025. Good productivity growth and rising real wages should continue to support economic expansion and US consumers in 2025.

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