

Homebuilder Confidence Falls for Second Straight Month in March on Weak Demand

- **Homebuilder confidence fell in both February and March.**
- **Housing demand further retreated in March.**
- **Homebuilder confidence dropped in all four regions.**
- **PNC expects moderating growth and lower mortgage rates this year, but uncertainty is elevated.**

The seasonally-adjusted Housing Market Index (HMI) fell to 39 in March from 42 in February and 47 in January, according to the National Association of Home Builders (NAHB) and Wells Fargo. After improving in late 2024, homebuilder confidence is now down deeply over the past year, and remains below its long-run average. The reading of 39 is tied with the lowest level since January 2024. The HMI tracks sentiment among single-family homebuilders, and a reading of above 50 indicates expansion in homebuilding.

The large fallback in homebuilder confidence since January came from reduced demand for single-family homes, especially in March. The present sales conditions of single-family homes component (down to 43 from 46) and the traffic of prospective buyers component (down to 24 from 34) both dropped on the month, while the homebuilders' expectations for future sales component remained stable at 47. Specifically, demand pulled back to the lowest level in over a year in March, with both the present sales conditions and traffic of prospective buyers components at their lowest levels since January 2024.

Homebuilder confidence dropped the most in the Midwest (down to 38 from 43), followed by the Northeast (down to 47 from 50), the South (down to 39 from 41), and the West (down one point to 34). Over the past year the HMI has fallen the most in the Northeast, down from 61. Despite the large pullback, the HMI in the Northeast is still the highest among all four regions. After taking out volatility in the HMI, confidence increased in the Midwest on a three-month moving average basis in March, while it fell in others.

President Trump's foreign trade policies have weighed on consumer sentiment over the past two months, according to a survey from the University of Michigan. The inconsistency between low consumer confidence (below the average level during the Global Financial Crisis) and a still-solid labor market and sturdy economic growth in the US 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 since September, although less so than it was last year. PNC's current baseline forecast calls for moderating economic growth and further fed funds rate cuts in mid-2025 that should help bring down mortgage rates this year. But tariffs on metals and a proposed 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 as job growth gradually eases.

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