

## Homebuilder Confidence Fell Again in June as Demand Pulled Back and Expectations Further Retreated

- **Homebuilder confidence fell for a second straight month in June, coming in below expectations.**
- **Housing demand further retreated and expectations of future sales also declined.**
- **Uncertainty is weighing on consumer sentiment and homebuying.**
- **PNC expects slower economic growth in 2025 with lower interest rates later this year; near-term risks to homebuilding are tilted to the downside.**

The seasonally-adjusted Housing Market Index (HMI) fell for a second straight month in June to the lowest level since January 2023, to 32 in June from 34 in May, according to the National Association of Home Builders (NAHB) and Wells Fargo. The HMI tracks sentiment among single-family homebuilders, and the reading below 50 indicates contraction in homebuilding. After improving in the second half of 2024 homebuilder confidence has fallen steadily in 2025; it is down deeply over the past year and remains below its long-run average. The large drop in homebuilder confidence since January has come from weakness in both demand for single-family homes and expectations for future activity.

Housing demand further retreated in June. The present sales conditions of single-family homes component fell to the lowest level since February 2012, down sharply over the past two months to 35 in June 2025. The traffic of prospective buyers component also continued to decrease, down to 21 from 23 last month. The homebuilders' expectations for future sales component fell for a third straight month in June to 40, from 42 in May.

The 12-year low in present sales conditions and lower traffic of prospective buyers components of the HMI indicate very weak housing demand in mid-2025, as potential homebuyers remain cautious in the current environment and are preparing for potential economic shocks in the second half of 2025. More precautionary consumer behavior is also evident in the increase in the personal saving rate this year as consumers respond to higher tariffs. Retail sales also fell in May, down almost 1%, although the details were better.

Homebuilder confidence tumbled five points in the West in June, down to 22 from 27 in May, followed by the South (down to 30 from 32) and the Midwest (down to 39 from 40). Homebuilder confidence in the Northeast increased slightly, to 44 from 42, but still indicates contraction. Despite the monthly gain in sentiment the three-month moving average in the Northeast fell in June. The national index is down 11 points over the past year, falling the most in the Northeast (down 17 points).

Conditions for homebuyers remain unfavorable in mid-2025, with the 30-year fixed mortgage rate close to 7%, even with fed funds rate cuts at the end of 2024. Meanwhile the US labor market is looking softer in mid-2025, with initial claims for unemployment insurance up to their highest level since October 2024. Housing affordability will remain a significant problem this year with high mortgage rates and continued price gains, weighing on housing demand and homebuilding. PNC's current baseline forecast calls for slower economic growth in 2025 with a drag from much higher tariffs. Fed funds rate cuts in late 2025 and early 2026 should support lower mortgage rates and support a modest turnaround in homebuilding. However, uncertainties around consumers have increased recently with slower job and wage growth and weak consumer confidence. This could weigh on new home demand over the near term as the labor market cools further.

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