



Homebuilder Confidence Improved Near the End of 2025

Headlines

- **Homebuilder confidence rose for a third straight month in December, but the index continues to indicate contraction.** Two of the three components of the index rose over the month.
- **Homebuilder confidence jumped in the Midwest over the month but was down in all four regions from last year.**
- **PNC expects an improvement in housing affordability in 2026 with weak house price growth and lower mortgage rates.**

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Details

The seasonally-adjusted Housing Market Index (HMI) rose for a third straight month to 39 in December, according to the National Association of Home Builders (NAHB) and Wells Fargo. This is up somewhat from earlier in the year, when housing affordability was near its lowest since the pandemic in the spring of 2020, but the overall index remains well below the 46 in December of last year. The HMI tracks sentiment among single-family homebuilders, with a reading below 50 indicating contraction. Except for this month's rebound homebuilder confidence has fallen steadily in 2025 after improving in the second half of 2024; it remains well below its long-run average of 46.

Two components of the HMI increased in December, with both current new single-family sales and expectations for single-family sales over the next six months up by one point, to 42 and 52, respectively. The expectations component was down from last year (66 in December 2024), but was close to its long-term average, showing near-neutral

expectations for future single-family sales. The traffic of prospective homebuyers remained unchanged from last month at a very weak 26. Both new single-family sales and the traffic of potential buyers components were down deeply from last year and their long-run averages, showing weak housing demand at the end of 2025.

Homebuilder confidence jumped in the Midwest (up seven points to 47), followed by the West (up two points to 36). Confidence fell in the Northeast (down four points to 41) and the South (down two points to 35). On a year-over-year basis homebuilder confidence was down in all four regions, led by the Northeast (down 16 points).

The U.S. government shutdown that lasted over a month is in the rear mirror now, but it caused interruptions in several housing publications. A separate survey from the Mortgage Bankers Association (MBA) reported mortgage applications for home purchases jumped in December, showing



improved housing demand near the end of 2025. Notably, the 30-year fixed mortgage rate has fallen from 7% in January to 6.2% in mid-December, according to Freddie Mac. Housing affordability has improved in 2025 with lower rates, but is still much lower than it has been over most of the last 20 years.

PNC’s December baseline forecast calls for another 25-basis point cut in the fed funds rate in early 2026, and mortgage rates should move gradually lower next year. U.S. employers remain reluctant to lay off workers and job growth, although slowing, remains positive. With lower mortgage rates, continued income gains, and slower house price growth, housing affordability should continue to improve over the near term.

Figure 1: The NAHB Housing Market Index



Source: NAHB

— Average



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