Economic Update

July 16, 2024

U.S. Homebuilder Confidence Falls for Third Straight Month in July as High Mortgage Rates Remain a Drag

- **Homebuilder confidence fell for a third straight month in July, and is below the level that indicates expansion.**
- **The three-month moving average of the HMI dropped in all four regions.**
- **Two components of the HMI fell on the month while one improved.**
- **High mortgage rates remain a drag on homebuilding.**
- **PNC expects housing market activity to soften in the near term, but to gradually recover in late 2024 and 2025 as mortgage rates fall.**

The seasonally adjusted Housing Market Index (HMI) fell to 42 in July from 43 in June, according to the National Association of Home Builders (NAHB) and Wells Fargo. A reading of above 50 indicates that a majority of builders are confident about the housing market. This is the third straight monthly decline in the index, and it has dipped since hitting 51 in March and April of this year. Homebuilder confidence is down sharply from its post-pandemic peak in late 2020 as high mortgage rates have been a drag on residential construction.

The three-month moving average of the HMI dropped in all four regions in July. There was a noticeable drop in homebuilder confidence in the Northeast, from 62 in June to 47 in July. Despite this drop, the HMI in the Northeast is still higher than its long-run average of 43. The HMIs in the other three regions were below 45 on the month. Over the past year homebuilder confidence is down in all regions except the Northeast.

The present sales conditions and traffic of prospective buyers components both fell one point each in July, to 47 and 27, respectively. The 30-year fixed mortgage rate has risen from below 3% in 2021 to around 7% currently, although it is down slightly from close to 8% in the fall of 2023. High mortgage rates continue to weigh on single-family housing demand and especially on prospective buyer traffic, and the declines in these components in recent months point to near-term softness in single-family housing starts. The six-month expected sales component increased one point in July to 48.

Despite the current weakness the outlook for the housing market is modestly positive. The 30-year fixed mortgage rate, despite rising in early 2024, is still down from its peak in October 2023. Material cost pressures from supply chain disruptions have also eased this year. The U.S. labor market will continue to soften in the near term, but will remain solid, with the unemployment rate expected to peak slightly above 4%, well below its levels during the COVID-19 recession and the Great Recession from 2007 to 2009.

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Mortgage rates are expected to fall later this year and in 2025 as economic growth slows, inflation cools, and the Federal Reserve starts to cut the federal funds rate over the next few months. This will bring slight improvements in housing inventory and homebuying affordability, supporting an uptick in building toward the end of the year.

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