

U.S. Homebuilder Confidence Drops for Fourth Straight Month in August, Remains in Contraction; Falling Mortgage Rates Over the Next Several Months Will Support Housing Demand

- Homebuilder confidence fell for a fourth straight month in August and has also been below the 50 level that indicates expansion for the past four months.
- Homebuilder confidence dropped in the Northeast and South in August and was flat in the Midwest and West.
- Homebuilders were pessimistic about current sales and traffic of potential buyers, but the sales expectations component rose slightly.
- PNC expects housing market activity to soften further in the near term, but gradually recover in late 2024 and 2025 as mortgage rates fall.

The seasonally-adjusted Housing Market Index (HMI) fell for a fourth straight month in August to 39 from 41 in July, according to the National Association of Home Builders (NAHB) and Wells Fargo. The HMI tracks sentiments among single-family homebuilders. A reading of above 50 indicates that a majority of builders are confident about the housing market. The HMI in August dipped to its lowest level since last December, is lower than it was through most of 2023, and has been below 50 for four consecutive months. Homebuilder confidence is down sharply from its post-pandemic peak in late 2020. High mortgage rates have been a drag on residential construction. The typical 30-year mortgage rate remains elevated at around 6.5% currently, although it is down from a peak of almost 8% in the fall of 2023.

Homebuilder confidence dropped in the Northeast and South in August. The HMI in the Northeast dropped to 46 in August from 47 in July and 62 in June. Despite the drop the HMI in the Northeast is still the highest among all four regions, and is above its long-run average of 43. The HMI in the South dropped four points in August to 39. The HMI in the Midwest was flat at 39 in August, and in the West was flat at 37. Over the past year homebuilder confidence is down in all four regions.

The present sales conditions and traffic of prospective buyers components continued to fall in August following their declines in July; both fell two points each in August, to 44 and 25, respectively. Expectations for single-family new home sales over the next six months increased for a second straight month in August, however, as homebuilders expect lower mortgage rates and an easing in

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Federal monetary policy will bring some relief to homebuyers. The expectations component is just barely in contraction at 49.

PNC expects the Federal Reserve to cut the federal funds rate in September and then again at each of its next few meetings. Easing mortgage rates over the next year will support housing demand, leading to better affordability and alleviating stresses over short single-family inventories by late 2024. PNC also expects the labor market to remain solid with the unemployment rate to stay near its current level at slightly above 4%, supporting demand for new single-family homes.

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