

Homebuilder Confidence Continued to Rise in November With All Components Up

- Homebuilder confidence rose in November on the month and the year.
- All three components of the HMI rose, led by a jump in expectations over the next six months.
- Homebuilder confidence increased in the Northeast and the Midwest while it fell in the South and the West.
- PNC expects a gradual recovery in the housing market when mortgage rates fall later this year and in 2025, while risks are elevated.

The seasonally-adjusted Housing Market Index (HMI) rose to 46 in November from 42 in October, the fourth straight month of increase, according to the index from the National Association of Home Builders (NAHB) and Wells Fargo. The HMI tracks sentiment among single-family homebuilders, and a reading of above 50 indicates expansion. After dipping to its lowest level in 2024 in August, the HMI has recovered somewhat in recent months following the Federal Open Market Committee's federal funds rate cuts in September and November. Homebuilder confidence was up from last year, moving close to its long-run average in November.

The present sales conditions, expected single-family home sales in the next six months, and traffic of prospective buyers components of the index all increased in November. Weakness in the housing market still exists but has improved from last month: the current sales conditions (49 in November, up from 47 in October) and traffic of prospective buyers (32, up from 29) components are below the 50 expansion level, but are rising. Moreover, expectations for single-family new home sales over the next six months rose to 64 from 57 in October, the highest level in the past two years, and is above its long-run average.

Homebuilder confidence increased in the Northeast and the Midwest in November while it fell in the South and the West. The HMI in the Northeast jumped to 59 from 52 in October, and is the highest among all four regions, followed by the Midwest (rising to 49 from 43). The HMI fell in the West in November (to 39 from 44 in October) and was the lowest among all four regions. The index fell in the South to 42 from 43. Over the past year homebuilder confidence is up in all four regions.

Expectations of additional rate cuts coming later this year and in 2025 have supported homebuilder confidence. The 30-year fixed mortgage rates rose over 70 basis points from late September to early November, according to Freddie Mac. PNC expects homebuilder confidence to increase following continued easing in monetary policy; declining 30-year fixed mortgage rates will help restore housing affordability and increase the traffic of prospective buyers in 2025. PNC's current baseline forecast calls for moderating economic growth and further fed funds rate cuts later this year and in the first half of 2025. A softening but still-solid U.S. labor market should support continued business expansion, job gains, and housing demand.

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

The election of former President Trump may have also boosted homebuilder confidence. However, risks are elevated following the election, with the potential for higher inflation and higher interest rates under a second Trump term.

PNC Economics

economics@pnc.com

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