

## US Homebuilding and Consumer Confidence Fell in Early 2025

**UNITED STATES:** The Conference Board's Consumer Confidence Index dropped 7 points to 98.3 in February. This was below PNC's forecast of 100.0 and the lowest level since June 2024. The largest monthly decline since August 2021 was broad-based with the Expectations Index – which is based on consumers' outlook for income, business, and labor market conditions – plunging 9.3 points to 72.9, also the lowest since mid-2024. The Present Situation Index fell a more modest 3.4 points to 136.5.

Total privately-owned U.S. housing starts tumbled 10% in January 2025 to 1.366 million units at a seasonally adjusted annualized rate from a 10-month high of 1.515 million (revised upward from 1.499 million) in December 2024. On a year-ago basis total housing starts were down about 0.7% in January, narrowing from December. Single-family starts were down 8% monthly and 2% from a year earlier. Multifamily (apartment and condominium) starts, which are more volatile, fell more than 13% over the month, but were still up 2% over the year. Total housing construction permits remained flat in January from last month, up by 0.1% to 1.483 million. On a year-over-year basis, permits were down 2% in January 2025. Permits increased in the Midwest and the West but fell in the Northeast and the South.

Total existing home sales dipped 5% month-on-month in January to 4.08 million at a seasonally adjusted annualized rate from 4.29 million, according to the National Association of Realtors (NAR). Despite the monthly retreat, the three-month moving average of total existing home sales still increased in January. There has been a noticeable pickup in monthly existing home sales since September 2024. On a year-ago basis, total existing home sales turned positive in October after contracting for more than three years. Year-over-year sales were up 2% in January, 10% in December, and 7% in October. Total existing home sales in 2024 still rested near decade-low levels regardless of home type, weighed down by the elevated 30-year fixed mortgage rate.

Despite a cumulative one percentage point drop in the fed funds rate in the second half of 2024, the fed funds rate and monetary policy remain restrictive in early 2025. The 30-year fixed mortgage rate is up by about a percentage point from September 2024, contributing to reduced housing affordability and lower demand for new homes. Expectations for tariff increases, less progress on inflation, and larger federal government budget deficits have contributed to higher mortgage rates in recent months. Monetary policy is currently restrictive for homebuyers, even with fed funds rate cuts since September, although less so that it was last year. Conditions should improve in mid-2025. PNC's current baseline forecast calls for moderating economic growth and further fed funds rate cuts in mid-2025. Solid productivity growth and rising real wages should continue to support economic expansion and US consumers in 2025.

First-time claims for unemployment insurance claims rose by 22,000 to 242,000 in the week ending February 21, 2025, the highest level since early December 2024 and modestly above the same week a year earlier. There was no discernible impact from the Department of Government Efficiency's layoffs of Federal government employees with initial jobless claims (not seasonally adjusted) in D.C. little changed from the previous week and up only slightly from the same week in 2024. Continuing unemployment insurance claims decreased by 5,000 to 1.862 million in the week ending February 14, 2025. The four-week moving average of continuing claims edged up by 3,000 to 1.865 million. Both levels, however, are well above the same period last year, suggesting it is taking unemployed workers somewhat longer to find a new job. The

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insured unemployment rate was 1.2% in the week ending February 14, unchanged from last week and equal to the rate one year ago.

**UK:** CPI inflation came in slightly stronger than the consensus, contracting 0.1% on the month but still up 3% from a year ago. Hospital services, recreation and cultural services, communication services, and education costs were firmly up from last year by at least 5% in January. Core inflation jumped to 3.7% in January from 3.2% in December despite a monthly drop of 0.4%. January's retail sales came in stronger than expected and grew 1.7% on the month after contracting for the fourth consecutive month in December. From a year-ago, retail sales increased 1%, down from 2.8% in December but up from -0.2% in November according to the UK Office of National Statistics (ONS). There was a strong rebound in sales from food stores, rising 5.6% after seasonal adjustment. Non-store retailing also increased a strong 2.4% on the month, ending its weakness over the past four months.

UK's Flash Manufacturing Purchasing Managers' Index (PMI) came in below the consensus, and fell to 46.4 in February, a deeper reach in contractionary territory. This is the lowest Manufacturing PMI in over a year, signaling a further cut in manufacturing production in early 2025. According to S&P Global, firms in the private sector reduced employment by the most since late 2020. And higher input costs and labor wage growth have contributed to producers' cost burden at a fast pace while both domestic and overseas demand remained soft. Business services activity continued to expand and improved on the month. The two together resulted in a net expansionary overall reading at 50.5, but down from 50.6 in January 2025.

**EUROZONE:** The Consumer Price Index (CPI) declined 0.3% in January in the eurozone according to Eurostat. On a year ago basis the CPI grew 2.5% in January, up from 2.4% in December 2024. Housing and utilities, health services and autos inflation picked up while prices of food and beverages, restaurants and hotels, clothing, transport services, and furnishings increased at a slower pace in early 2025. Core inflation, headline CPI year-over-year excluding volatile food and energy, remained the same from last month, at 2.7%. In January, overall goods inflation picked up slightly from 1.2% to 1.4%, while services inflation eased marginally from 4% to 3.9%. The Consumer Confidence Indicator retreated in late 2024 but improved in February to a four-month high in the eurozone. The Composite PMI remained above the contractionary threshold in February and unchanged from last month at 50.2 according to S&P Global's flash PMI report. The Manufacturing PMI increased to 47.3 from 46.6 but remained in contractionary territory on the month. Unlike an improvement in factory activity, business services activity expanded at a slower pace, with the Services PMI falling to 50.7 from 51.3. Output growth was uneven in the eurozone, with Germany, eurozone's largest economy, expanding on the month with France contracting at a faster pace according to the report.

**JAPAN:** The CPI continued to rise rapidly in January, jumping 4% year-over-year, up from 3.6% in December 2024. There has been a rapid increase in Japan's overall price level over the past three months. The year-over-year pace of the total CPI was 2.9% in November, up from 2.3% in October. Core CPI, total less fresh food and energy, increased a strong 2.5% in January, the fastest pace over the past nine months. The rising inflation came from a fast increase in food prices (1.8% monthly and 7.8% yearly). Prices of furniture and household equipment also increased in January after contracting for two months, rising 0.4% monthly and 3.4% over the past year. Prices for transport and communications increased 2% on a year-over-year basis in January, up from 1.1% in December. The persistent pickup in inflation in Japan will allow for more interest rate hikes in the first half of 2025 from the Bank of Japan. Private sector activity expanded at a faster pace in early 2025. The Composite PMI rose to 51.6 in February from 51.1 according to S&P Global, the fourth consecutive increase. Improved factory output and expanding private business services all contributed to the better overall reading on the month.

**INDIA:** CPI inflation continued to slow in early 2025 and came in weaker than the consensus expected. The CPI grew 4.3% on a year-over-year basis in January, down from 5.2% in December, 5.5% in November, and 6.2% in October according to India's Central Statistics Office. The Reserve Bank of India cut the policy rate to 6.25% from 6.5% on February 6 as inflation has moved steadily close to its target of 4% over the past several months. The Composite PMI jumped by 2.9 point to 60.6 according to a flash PMI report, the best reading in six months through February. The overall PMI fell to a one-year low in January 2025, but has quickly bounced back upon a sharp improvement in services output. Factory output continued to increase but at a slower pace on the month.

**CHILE:** Chile's economic activity expanded strongly in the last quarter of 2024. The Economic Activity Indicator, which mirrors the Central Bank of Chile's real GDP, grew 0.9% in December and 6.6% on a year-ago basis. Growth of economic output picked up ending last year. The CPI also came in slightly stronger than expected, increasing 1.1% in January, and climbed at the fastest pace since March 2023. On a year-over-year basis, the CPI rose 4.9% in January, the strongest year-over-year pace since late 2023. The Central Bank of Chile maintained its monetary policy interest rate at 5% in January after reducing it six times (a total of 625 bps) in 2024. The pickup in inflation will likely continue to put Chile's central bank on hold. Total employment contracted in the third quarter according to Chile's Labor Force Survey and improved slightly toward the end of 2024. The largest employment sector, wholesale and retail trade including repair of autos, lost almost 100,000 jobs from February to November 2024. Wholesale and retail trade including repair of autos added 21,400 jobs in December, but its total level was still down from last year.

**BRAZIL:** Real retail sales fell for the second straight month in December 2024, down 0.1% on the month according to the Brazilian Institute of Geography and Statistics (IBGE). From a year-ago, sales were up by 2% in December, the weakest year-over-year growth in 2024. Economic activity contracted in December 2024 according to a coincident indicator of output growth from the Central Bank of Brazil (BCB). Its Economic Activity Index (IBC-Br) fell 0.7% on the month after seasonal adjustment, the largest drop in a year and half.

**NEW ZEALAND:** The Reserve Bank of New Zealand reduced its Cash Rate by 50 bps from 4.25% to 3.75% on February 18. The Manufacturing PMI in January rose to the highest level in over two years to 51.4 according to Business New Zealand. This is also the first time since February 2023 that it jumped to expansionary territory, albeit it is still below its long-run average.

**CANADA:** Headline CPI inflation increased to 1.9% in January from 1.8% in December according to Statistics Canada. Overall inflation has consistently fallen within the Bank of Canada's inflation target range of 1% to 3% in 2024. Seasonally adjusted retail sales came in stronger than the consensus in December, growing 2.5% on the month and 3.9% over the past year.

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