



Construction Starts Continued to Improve in December After Weakness Earlier in 2025

Headlines

- **Total housing starts rose for a second straight month in December, reversing weakness in October. However, starts were still down 7% from a year earlier.**
- **Single-family housing starts increased in December, while multifamily starts rose more sharply;** both categories remained below their levels from a year earlier.
- **The West saw a strong increase in housing starts** in December. Starts were up in the West and the Northeast on a year-over-year basis.
- **The Northeast should continue to outperform other regions, supported by a tight supply of homes. Permits surged in the Northeast in December.**
- **Total housing completions rose 2.3% in December, but they remain on a downward trend after peaking last year.**
- **PNC expects homebuilding to remain soft in the near term.**

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Details

Total privately-owned U.S. housing starts came in better than the consensus expectation and jumped 6.2% in December, to 1.404 million units at a seasonally adjusted annualized rate, from 1.322 million in November. **This marks the second consecutive monthly improvement following a drop to an almost five-year low in October 2025.** In the recovery following the pandemic starts rose to a peak of 1.8 million units in December 2022 but have declined since then as the typical 30-year fixed mortgage rate has gone from below 3% to close to 7%. Starts have been volatile in 2025 with uncertainty surrounding tariffs; the three-month moving average of housing starts, which smooths out some of the monthly volatility, is down from the

beginning of the year (Figure 1). **On a year-over-year basis starts were down 7.3% in December 2025.**

Even with a modest rebound **in single-family starts in December (up 4.1%), they remained 9% below their year earlier level.** More volatile multifamily starts jumped 11% on the month and were down 3% year-over-year. **Housing starts in the West surged 37.4% in December and 19.7% from a year ago.** They increased 5.6% in the Northeast and 2.3% in the Midwest on the month, while they fell 2.8% in the South. From a year ago housing starts increased 2.7% in the Northeast and tumbled 13.2% in the Midwest and 16.1% in the South.



Going forward, the South will likely continue to see falling starts, as permits and new residential construction authorized fell for a third straight month. Permits surged 44% in the Northeast and rose 8% in the West and 7% in the Midwest. The Northeast should continue to outperform other regions, supported by a tight supply of homes. On a year-ago basis housing permits rose 17% in the Northeast and 13% in the West, while they declined 5% in the Midwest and 11% in the South. The three-month moving average of multifamily permits climbed to a two-year high in December, while single-family permitting fell 10% from January 2025.

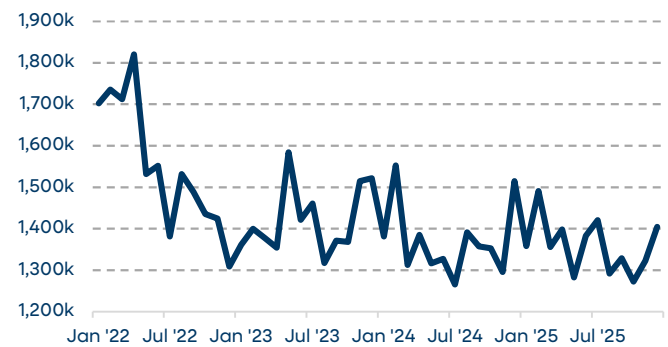
Total housing completions rose 2.3% in December, but they remain on a downward trajectory after peaking in August of last year. Completions had increased steadily from 2011 through the first half of 2024 before beginning to soften. Housing completions will likely remain on this trajectory as housing units under construction continued to fall in December, but a slight rebound in housing starts and permits should provide support over the next few months.

Single-family housing construction remains weak and has continued its downward trajectory since late 2024. The National Association of Home Builders' Housing Market Index points to **slightly weaker demand for single-family homebuilding in early 2026 after a modest rebound in late 2025,** with the present single-family sales component improving from mid-2025 yet still falling short of its year earlier level. Although tariff volatility has eased somewhat compared to early 2025, it continues to pose uncertainty for prospective buyers. Credit conditions for home purchases also remain tight; while the 30-year fixed mortgage rate dipped slightly in December to around 6.1%, it remains well above levels seen just a couple of years ago.

PNC expects homebuilding to remain soft in the near term. Elevated mortgage rates are likely to persist

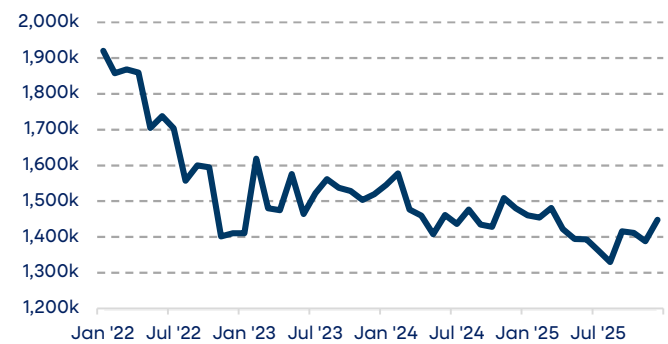
amid ongoing inflationary pressures and sizable federal budget deficits, limiting the potential for a strong rebound in construction activity. Improvements in nonfarm payrolls in early 2026 should offer some support to near-term homebuilding as labor market conditions stabilize. Even so, risks to housing construction remain tilted to the downside, given high inflation, tight borrowing conditions, and the weaker labor market in 2025. Housing affordability is expected to improve gradually this year, aided by potential price declines in certain regions and continued wage growth. Overall, homebuilding should continue to expand, but only at a modest pace.

Figure 1: Total Housing Starts (Thousands, SAAR)



Source: Census

Figure 2: Total Building Permits (Thousands, SAAR)



Source: Census



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