

## U.S. Homebuilding Down in October and From Last Year With Mortgage Rates Rising Over the Past Month

- **Total housing starts in October fell over the month and the past year.**
- **Starts were mixed across regions in October. On a year-ago basis starts were up only in the Northeast.**
- **Total residential construction permits also fell on the month and from a year ago, suggesting further near-term weakness in homebuilding.**
- **Homebuilding will be a drag on GDP growth in the fourth quarter.**
- **PNC expects more fed funds rate cuts into 2025, but risks to the fed funds rate outlook are tilted to the upside.**

Total privately-owned U.S. housing starts fell 3% in October to 1.311 million units at a seasonally-adjusted annualized rate, after falling 2% in September to 1.353 million (revised downward from 1.354 million). On a year-ago basis total housing starts were down 4% in October. Single-family starts fell 7% in October from September and 4% from a year ago. Single-family starts lost momentum in 2024 after rising in 2023. Multifamily starts (apartment and condominiums), which are more volatile, increased 10% over the month, but fell 13% over the past year. Multifamily starts have been falling since early 2023 as the market works to absorb an increase in supply following the pandemic.

On a monthly basis housing starts fell in the Northeast and the South and increased in the Midwest and the West. Over the past year starts were up in the Northeast while starts in the other regions dropped. Homebuilder confidence was up in all regions except the Northeast in October, according to the National Association of Homebuilders' housing market index, but the level of confidence is still highest in the Northeast.

Total housing construction permits also fell on the month and from a year ago in October. Total permits fell a narrow 0.6% to 1.416 million units in October from 1.425 million in September. On a year-ago basis total housing permits were down 8% in October. Total housing permits hovered above 1.5 million in 2023 and have been consistently below that level in 2024. Single-family construction permits increased by a small 0.5% in October while multifamily permits fell 3%. Permits rose 13% in the Northeast on the month but were down in the other three regions. The decline in permits in October suggests further softness in starts in the near term.

**Gus Faucher**  
Chief Economist

**Jay Hawkins**  
Senior Economist

**Stuart Hoffman**  
Senior Economic Advisor

**Kurt Rankin**  
Senior Economist

**Ershang Liang**  
Economist

Total housing completions fell 5% in October from September but were up 17% from last year. Completions have been rising over the past several years despite some recent softness. With starts, permits, and housing units under construction all down in October, completions will remain weak in the near term and homebuilding will be a drag on GDP growth in the fourth quarter.

Housing market weakness still exists with starts, permits, and completions all falling on the month. The 30-year fixed mortgage rates rose over 70 basis points from late September to early November, according to Freddie Mac, weighing on residential construction activity. Still, homebuilder confidence improved in November, led by a jump in expectations for single-family new home sales over the next six months. PNC expects the Federal Open Market Committee to further reduce the fed funds rate by 25 basis points in December, after a 25-basis point rate cut in November. Continued monetary policy easing will help lower mortgage rates and support a gradual recovery in the housing market. Housing demand and homebuilding will also get supports from slower inflation and declining prices for building materials and household furnishings. However, inflation risks have increased following the presidential election with the potential for tariffs and more expansionary fiscal policy, meaning that there could be less monetary easing than expected, which would keep mortgage rates elevated.

#### **PNC Economics**

[economics@pnc.com](mailto:economics@pnc.com)

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