

Economic Indicator — June 18, 2025

Housing Starts and Permits Plunge in May Drop in Permits Points to Slowing Activity Ahead

Summary

Residential Construction is Downshifting

Residential construction continues to pull back as builders and developers deal with high financing costs, elevated economic uncertainty and unfavorable supply conditions. Total housing starts fell 9.8% in May. Much of May's plunge can be owed to a significant decline in the volatile multifamily series, while single-family projects edged up slightly. Still, the sharp drop put the pace of overall starts at 1.26 million units, the slowest since 2020 during the worst of the pandemic. What's more, another decline in total permits and downdraft in builder sentiment suggests further weakening is on the way. All told, residential construction has been relatively resilient to restrictive monetary policy over the past several years. However, the high interest rate environment now looks to be exerting greater downward pressure on activity, a topic we explored in our latest [Housing Wrap Up](#).

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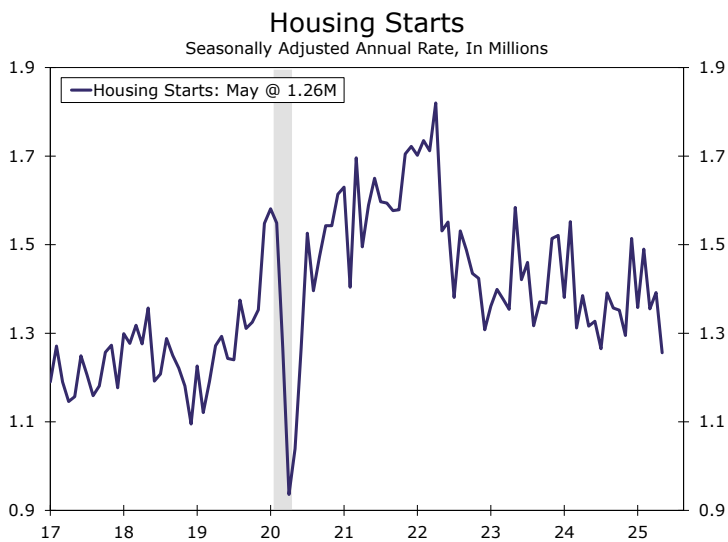
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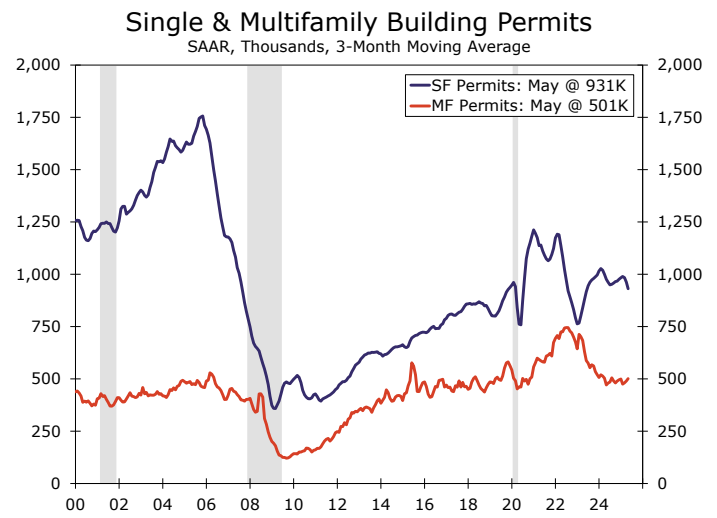
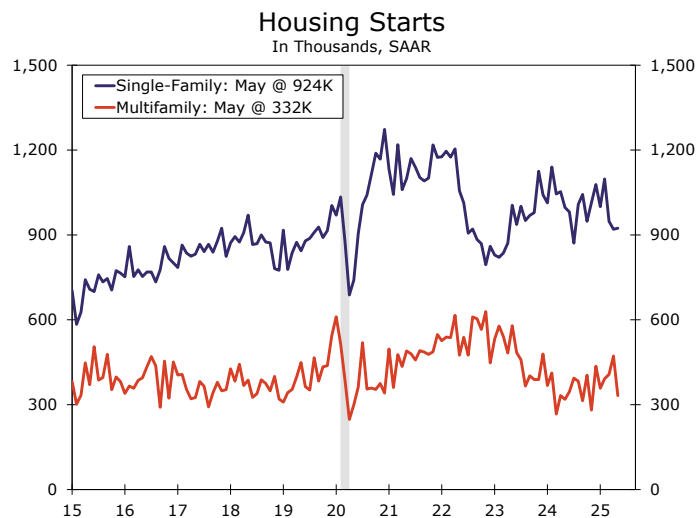
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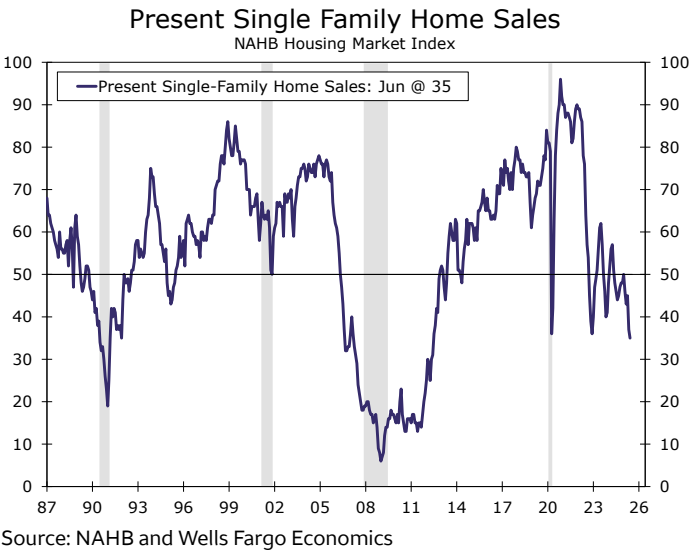
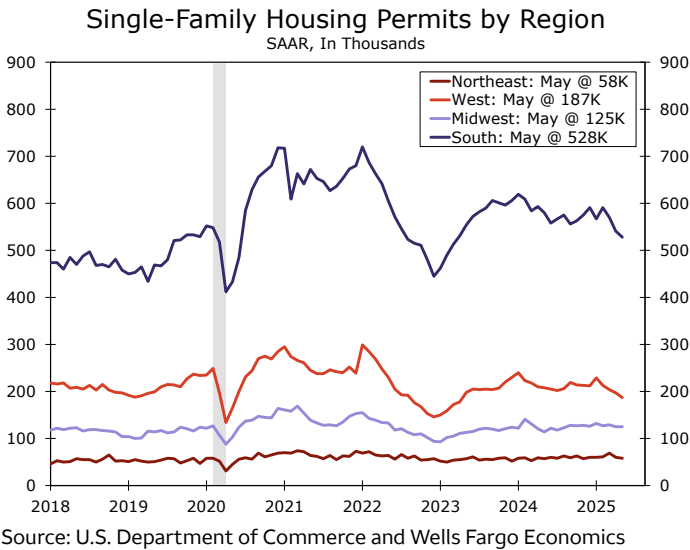


Source: U.S. Department of Commerce and Wells Fargo Economics

Residential Construction Under Pressure

- May's 9.8% decline in housing starts provides the latest evidence that the residential construction sector is softening. Although the downshift in May was mainly caused by a 29.7% drop in multifamily groundbreakings, single-family starts were also weak, edging out only a 0.4% uptick.
- The slight improvement in single-family starts follows back-to-back declines in March and April. Through the noise, single-family starts are down 7.1% year-to-date.
- A downtrend in single-family permits is more indicative of the trajectory of new home construction. Permits slipped 2.7% in May and have tumbled 9.5% over the past three months. The pullback in permits is likely owed to rising resale inventory, elevated new home supply and high mortgage rates.
- The West saw the largest decline in single-family permits in May (-5.1%). However, permits also moved lower in the South and Northeast and were flat in the Midwest.
- The single-family construction pipeline has lessened somewhat but remains elevated. Following a 7.6% annual decline, the 623K single-family homes under construction in May was still 19% above the count in January 2020.
- Meanwhile, the collapse in multifamily starts completely erased the improvement registered so far this year, bringing multifamily groundbreakings to its weakest level since last November. Multifamily permits have held up, however, suggesting that May's deterioration in multifamily construction was more noise than signal.
- Multifamily permits softened by 0.8% in May. Although this marks the second straight slip, the pace of permits has essentially moved sideways over the past year.
- The downshift in single-family construction corresponds with dimming builder confidence. The NAHB Housing Market Index (HMI) declined to 32 in June, signifying a deterioration in single-family home builder sentiment. This marked the fourth drop over the past five months.
- June's weakness in builder confidence was widespread. The HMI subindexes gauging current sales, expected sales and buyer traffic each slipped by two points. Although all of the components have trended lower in recent months, perceptions of current sales conditions have weakened the most, plummeting to its lowest mark since June 2012. As a result, the share of builders cutting prices reached its highest level since 2022 when the survey began (37%).





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