

Housing starts forecast: Slump likely to continue through 2026



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Yet again, a long-awaited recovery in the residential construction sector failed to materialize in 2025. Based on prevailing macroeconomic and demographic trends, I do not expect a recovery in 2026.

Many variables factor into this outlook, and there is still time for trends to change. My forecast will likely undergo revisions by this time next year. But despite recent economic uncertainty, it is not too early for businesses involved in the construction sector to start planning.

With half of 2025 complete and only a year and a half until the end of 2026, my latest forecast calls for a decrease of 4 percent in new housing starts this year compared with 2024. Another 4 percent decline is likely in 2026.

This means the three-year downtrend that began in the second half of 2022 will persist until at least early 2027. I do not expect any precipitous drops like those in the third and fourth quarters of 2022, but rather a continuation of the gradual slippage seen over the past 18 months. This would put total housing starts for 2026 between 1.2 million and 1.3 million, after finishing just above 1.3 million this year.

This forecast assumes continued pressure from inflation, interest rates and immigration trends.

A few years ago, all the talk was about the possibility of a "soft landing" for the economy — reducing inflation to around 2 percent without triggering a recession. Under that plan, the Federal Reserve would lower its interest rate to a neutral level, encouraging growth and making housing more affordable.

But inflation never fell to 2 percent and now appears to be rising again. This outcome should humble even the most confident policymakers. For now, it

seems unlikely that the Federal Reserve will lower interest rates soon, given that the risks to future inflation remain tilted to the upside.

These risks include a continuing decline in the value of the dollar. A weaker dollar tends to be inflationary by raising the price of imported goods, which also pushes up prices for domestic products. Higher prices for imports — especially those subject to tariffs — translate into higher construction costs. Many building materials used in new homes are imported and face tariffs, which means higher prices for new housing.

[A Flourish chart](#)

Tariffs, import costs add to builders' burden

The Federal Reserve has delayed rate changes while assessing how proposed tariffs might affect inflation. Few expect inflation to ease once tariffs are in place.

In anticipation of higher inflation, bond markets have driven yields on 30-year Treasury bonds above 5 percent, with 10-year Treasury notes near 4.5 percent. These benchmarks heavily influence mortgage rates — and they are rising. If housing starts are to increase, then we will need a sustained trend of lower interest rates.

Another factor is immigration. Labor shortages persist in many regions, especially in the building trades, where many jobs have been filled by noncitizens. Regardless of policy debates, the number of immigrants entering the United States is declining, limiting the construction labor pool and, in turn, housing starts.

To summarize: Tariffs, a weaker dollar and labor shortages are pushing prices higher. Higher prices, combined with higher interest rates, are suppressing new housing starts.

No quick turnaround in sight

It is possible the U.S. economy will navigate these challenges and emerge stronger, allowing pent-up demand and reduced regulatory burdens to fuel a

housing recovery. But it is also possible conditions will worsen, even to the point of recession within the next 18 months.

I need more data before concluding which forces will dominate. Until then, the base case remains a gradual decline in housing starts of about 4 percent per year.

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