



**U.S. economic growth and job gains have slowed while inflation remains elevated.** There are significant upside risks to inflation in the March reports due to the recent rise in oil prices following the war with Iran, and the associated disruption and damage to oil and gas infrastructure.

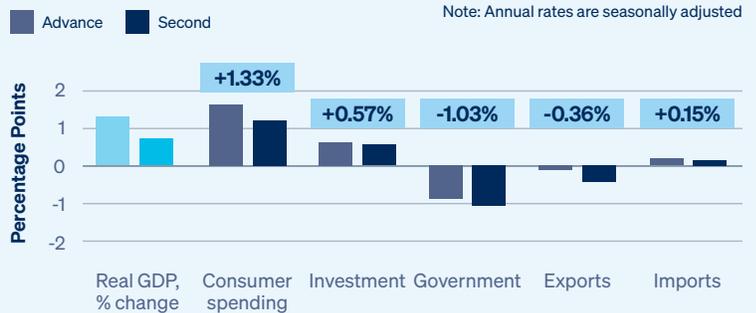
**U.S. Real GDP growth expanded in Q4 2025 by 0.7% in the revised report, following a strong 4.4% growth rate in Q3 2025.** The weakness in Q4 GDP was largely engendered by a drop in federal government spending associated with the U.S. government shutdown, which pulled GDP down by 1.16 percentage points. State and local government spending contributed positively to GDP, but only added 0.13 percentage points. Consumption added 1.33 percentage points to GDP, and it was almost 69.3% of the level of Q4 2025 GDP, making the labor market critical for growth. Unfortunately, nonfarm payrolls have slowed, contracting in five of the nine months through February 2026.

On the upside, wages have been strong and were up \$8.89 per hour between January 2020 and February 2026. The unemployment rate has risen, but was still at a low 4.4% in February. Plus, there were almost 7 million open jobs in January. U.S. consumer debt delinquencies rose to 4.8% in Q4 2025, which was the highest percentage since Q3 2017. However, it is still a relatively low percentage—and it was mostly due to student loan debt delinquencies. In other words, consumer health still seems relatively solid.

**Year-on-year consumer inflation eased in 2025, falling to 2.6% from 3.0% in 2024.** Nevertheless, inflation remains above the Fed's 2% target, with February 2026 year-on-year inflation rates at 2.4% for Total CPI and 2.5% for Core CPI. Plus, there are upside risks to consumer inflation from the recent rise in oil and gasoline prices due to the war with Iran. With low payroll gains and elevated inflation, the Fed may keep interest rate policies unchanged to balance the two-sided risks of the Fed's dual mandate to support full employment as well as low, stable prices. The median March 2026 FOMC member projections imply one 0.25% interest rate cut in 2026 and one 0.25% interest rate cut in 2027.

### Q4 2025 U.S. Real GDP Components – Revised GDP

Contributions to the percent change in Real GDP, 2025:Q4, Real GDP increased 0.7%



Note: Imports are a subtraction in the calculation of GDP; thus, a decrease in imports results in a positive contribution to GDP. Sources: Bureau of Economic Analysis, Prestige Economics

### Economic data and Prestige Economics forecasts

	Quarterly Historical Data				Quarterly Forecasts				Annual Historical Data					Annual Forecasts				
	25 Q1	25 Q2	25 Q3	25 Q4	26 Q1	26 Q2	26 Q3	26 Q4	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Real GDP (Year-on-Year)	2.0	2.1	2.3	2.0	2.5	1.8	1.1	1.5	2.6	-2.2	6.1	2.5	2.9	2.8	2.1	1.7	2.3	2.4
Real GDP (Quarter-on-Quarter)	-0.6	3.8	4.4	0.7	1.0	1.3	1.6	2.0										
Unemployment Rate	4.1	4.2	4.3	4.5	4.5	4.7	4.7	4.6	3.7	8.1	5.4	3.7	3.6	4.0	4.3	4.6	4.5	4.4
Consumer Price Index	2.7	2.4	2.9	2.8	2.8	3.7	3.6	3.9	1.8	1.3	4.7	8.0	4.1	3.0	2.6	3.5	2.6	2.2
Core Consumer Price Index	3.1	2.8	3.1	2.8	2.5	2.8	2.6	2.8	2.2	1.7	3.6	6.2	4.8	3.4	2.8	2.7	2.3	2.0
Fed Funds Rate (Upper Limit)	4.50	4.50	4.25	3.75	3.75	3.50	3.25	3.25	1.75	0.25	0.25	4.50	5.50	4.50	3.75	3.25	3.00	3.00



## Housing overview

**Relatively high interest rates continue to hold back the housing sector.** The recent decline in interest rates is supportive of home sales and prices. If interest rates fall further, it could bolster sales and prices further. However, due to the upside risks to consumer inflation from the spike in energy prices following the war with Iran, interest rates may struggle to fall significantly further.

**Total housing starts fell in Q4 2025 to a seasonally adjusted annual rate of 1.328 million.** The annual pace of total housing starts in 2025 fell to an average of 1.357 million, which is the lowest rate since 2019. Meanwhile, multifamily housing starts fell in Q4 2025 to 379,000, although the annual average was at 396,000, which was higher than the 2024 rate of 337,000.

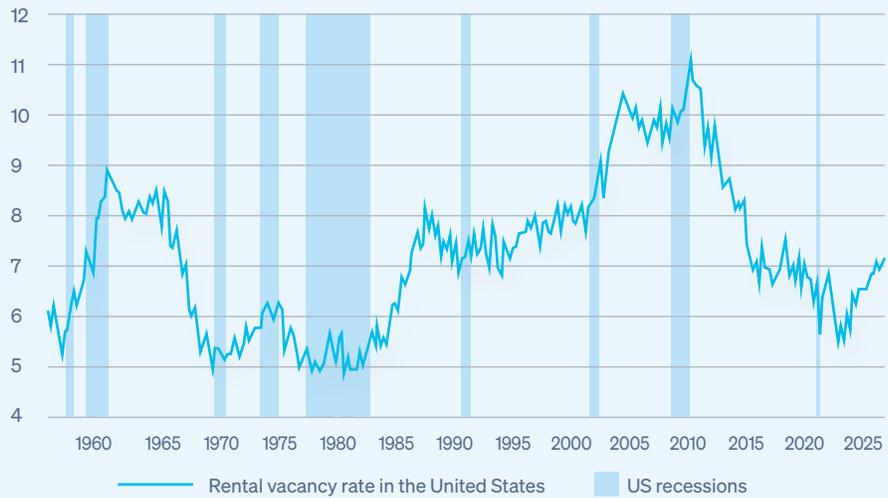
**Building permits were more positive than housing starts, with total permits rising in Q4 2025 to 1.418 million and multifamily permits rising in Q4 2025 to 479,000.** Total permits were still down for the year in 2025 at 1.414 million, which was the slowest pace since 2019. Multifamily permits (with 5 or more units) rose in 2025 to 450,000, which was higher than in 2024.

**New single-family home sales rose in Q4 2025 to 720,000, which was the highest level since Q1 2022,** and the monthly supply of new single-family homes in inventories fell from 8.6 months to 8.1 months — the lowest level since Q3 2024.



**The rental vacancy rate for Q4 2025 rose to 7.2% from 7.1% in Q3 2025.** Rental vacancy rates have been on the rise over the past few years, including the annual vacancy rate in 2025 of 7.1%, the highest since 2017. The rise in vacancy rates suggests a softening for rental markets after a period of low vacancies in the post-pandemic housing boom. If rental vacancies rise further, rents are likely to come under additional pressure.

### U.S. Rental Vacancies at 7.2% in Q4 2025



Source: US Census Bureau via FRED®

## Housing data

### Quarterly Historical Data

### Annual Historical Data

	25 Q1	25 Q2	25 Q3	25 Q4	2019	2020	2021	2022	2023	2024	2025
<b>Rental Vacancies</b> Percentage vacant	7.1%	7.0%	7.1%	7.2%	6.8%	6.3%	6.1%	5.8%	6.5%	6.8%	7.1%
<b>Total Housing Starts</b> Thousands, seasonally adjusted annual rate	1401	1354	1346	1328	1292	1394	1603	1552	1421	1371	1357
<b>Housing Starts, 5 Units or More</b> Thousands, seasonally adjusted annual rate	364	393	447	379	390	381	462	531	460	337	396
<b>Total Building Permits</b> Thousands, seasonally adjusted annual rate	1465	1403	1369	1418	1386	1478	1735	1684	1516	1474	1414
<b>Building Permits, 5 Units or More</b> Thousands, seasonally adjusted annual rate	424	452	444	479	480	442	564	655	539	441	450
<b>New Single-Family Home Sales</b> Thousands, seasonally adjusted annual rate	655	665	688	720	685	830	769	637	665	685	682
<b>New Single-Family Home Sales Inventories</b> Monthly supply	9.2	9.1	8.6	8.1	5.8	4.6	5.5	8.5	7.9	8.3	8.7

Sources: U.S. Census Bureau, Prestige Economics

## Spending & cost overview

**Personal spending was up in Q4 2025 by 5.0% year on year**, which slowed from 5.4% in Q3 2025. The quarterly rate was the slowest since Q4 2020. The annual personal spending rate of growth also slowed, falling to 5.3% in 2025, which was the slowest annual pace since 2020. Despite a slower spending pace, consumer demand is likely to support growth, even if labor market data remain mixed and payrolls slow further.

**Personal Income was up in Q4 2025 by 4.7% year on year**, although this was the slowest quarterly pace of year-on-year growth since Q2 2022. The annual pace of personal income also slowed to 4.9%, which was the slowest annual pace since 2022.

**Average hourly wages continued rising in Q4 2025 to \$36.96 per hour for all private sector workers**. Despite the continued rise in absolute wages, there was an unchanged year-on-year pace of wage growth, which remained at 3.9% year on year for a third consecutive quarter.

**Construction materials costs (PPI) rose by 4.8% year on year in Q4 2025 for a second consecutive quarter**. Construction cost pressures continue to reflect rising pressures, with the PPI up 2.9% year on year in 2025, which was the first positive rate of price increases since 2022. There are additional upside price risks due to tariffs and potentially lower interest rates.

**Construction spending was at an annualized \$2.17 billion in Q4 2025 for a second consecutive quarter**. Nevertheless, construction spending was down 1.0% year in year in Q4 2025, and it was down 1.3% year on year in 2025. Total construction spending in 2025 was at \$2.16 billion, which would be the second highest annual spending on record, following only 2024.

**30-year fixed mortgage rates have dropped recently**, falling in Q4 2025 to 6.23%, which is the lowest quarterly average since Q3 2022. Mortgage rates have fallen further since the beginning of 2026, and additional declines in interest and mortgage rates would be supportive for housing demand and prices. However, elevated consumer inflation and high fuel prices due to the war in Iran could delay or inhibit significant interest rate declines.



## Spending and cost data

### Quarterly Historical Data

### Annual Historical Data

	25 Q1	25 Q2	25 Q3	25 Q4	2019	2020	2021	2022	2023	2024	2025
<b>Personal Spending</b> Year-on-year percent change	5.7%	5.2%	5.4%	5.0%	3.6%	-1.4%	13.3%	9.7%	6.5%	5.6%	5.3%
<b>Personal Income</b> Year-on-year percent change	5.1%	4.8%	5.0%	4.7%	4.8%	6.9%	9.5%	3.0%	6.4%	5.6%	4.9%
<b>Average Hourly Wages, Total Private</b> US Dollars	\$35.96	\$36.25	\$36.60	\$36.96	\$28.00	\$29.36	\$30.61	\$32.26	\$33.70	\$35.06	\$36.44
<b>Average Hourly Wages, Total Private</b> Year-on-year percent change	4.1%	3.9%	3.9%	3.9%	3.3%	4.9%	4.3%	5.4%	4.5%	4.0%	4.0%
<b>Construction Spending</b> Billions, seasonally adjusted annual rate	\$2.16	\$2.15	\$2.17	\$2.17	\$1.39	\$1.50	\$1.65	\$1.90	\$2.07	\$2.19	\$2.16
<b>Construction Spending</b> Year-on-year percent change	-0.5%	-2.4%	-1.3%	-1.0%	4.2%	7.9%	10.2%	14.9%	9.1%	5.7%	-1.3%
<b>30-Year Mortgage Fixed Rates</b> Average percent	6.83%	6.79%	6.57%	6.23%	3.94%	3.11%	2.96%	5.34%	6.81%	6.72%	6.60%
<b>Construction Materials Costs (PPI)</b> Year-on-year percent change	-1.3%	3.2%	4.8%	4.8%	0.0%	1.5%	26.9%	12.6%	-2.9%	-1.0%	2.9%

Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau, U.S. Bureau of Labor Statistics, Prestige Economics



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### Insights provided by:

#### **Jason Schenker**

President of Prestige Economics

4412 City Park Road #4 Austin, Texas 78730

[www.prestigeconomics.com](http://www.prestigeconomics.com)

[www.jasonschenker.com](http://www.jasonschenker.com)

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