

# Eye on the Economy



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## Housing Affordability Weighs on 2026 Outlook

Persistent affordability challenges, including high housing price-to-income ratios and elevated land and construction costs, helped push builder confidence lower for the second straight month to start the year. [Builder confidence](#) in the market for newly built single-family homes fell one point to 36 in February, according to the NAHB/Wells Fargo Housing Market Index (HMI). On the positive side, easing inflation should continue to allow lower interest rates for mortgages and builder loans.

The latest HMI survey also revealed that 36% of builders cut prices in February, down from 40% in January. While this marks the lowest incidence of price-cutting since last May (34%), the average price reduction remains at 6%. The use of sales incentives was 65% in February, unchanged from January, and marking the 11th consecutive month this share has exceeded 60%.

January economic data offered good news for interest rates, as [inflation cooled](#) to a 2.4% rate (down from 2.7% in December), albeit with some technical cautions regarding the measurement of shelter inflation. As a result of the relatively benign inflation report, the 10-year Treasury rate moved to just above 4%, after several weeks near 4.2%. Rates are still higher than the 3.7% yield recorded right before the 2024 election, but the trend is promising and in-line with the NAHB forecast of gradually improving [affordability conditions](#).

The [30-year fixed-rate for mortgages](#) averaged 6.09% last week, and it is possible we could see a sub-6% rate next week. Keep in mind, however, that the binding

constraint for many frustrated, prospective home buyers is the downpayment requirement, given the average home price-to-income ratio is near 5, compared to the historical average of 3.

The January [employment report](#) was positive for the month but revealed a weaker labor market for 2025. Total employment growth for 2025 was close to 180,000 (for the entire year) after a significant downward revision. This means 2025 was the weakest non-recession year since 2003 for job gains, with the annual total near the monthly average of some recent years. Manufacturing employment, as an example, fell almost 90,000 during the year, as raw material prices moved higher due to tariffs — aluminum pricing is 60% higher in the U.S. than the global market. National job openings fell to a five-year low, as construction job openings increased slightly in December. This is a clear sign of a deceleration of the labor market.

[Existing home sales](#) plunged in January, as housing affordability conditions (and possibly weather) held back the market. Sales declined 8.4% to a 3.9 million seasonally adjusted annual rate, 4.4% lower than a year ago. Inventory increased, but is still at a lean 3.7 months' supply. Pricing was effectively flat.

Finally, new NAHB research provides a new — and smaller — estimate of the structural [housing deficit](#), which is the mismatch between the size of the housing stock, the size of the population and the number of potential households for the economy. The new research estimates that the housing deficit declined from a 1.5 million shortfall just after Covid to 1.2 million in 2024 (which utilizes the most recent Census data available). Declining household formations, and a demographic profile that switches from a headwind to a tailwind in the years ahead, implies the deficit will continue to close through the end of this decade.

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