



A Spring Thaw Is Unlikely in the Housing Market

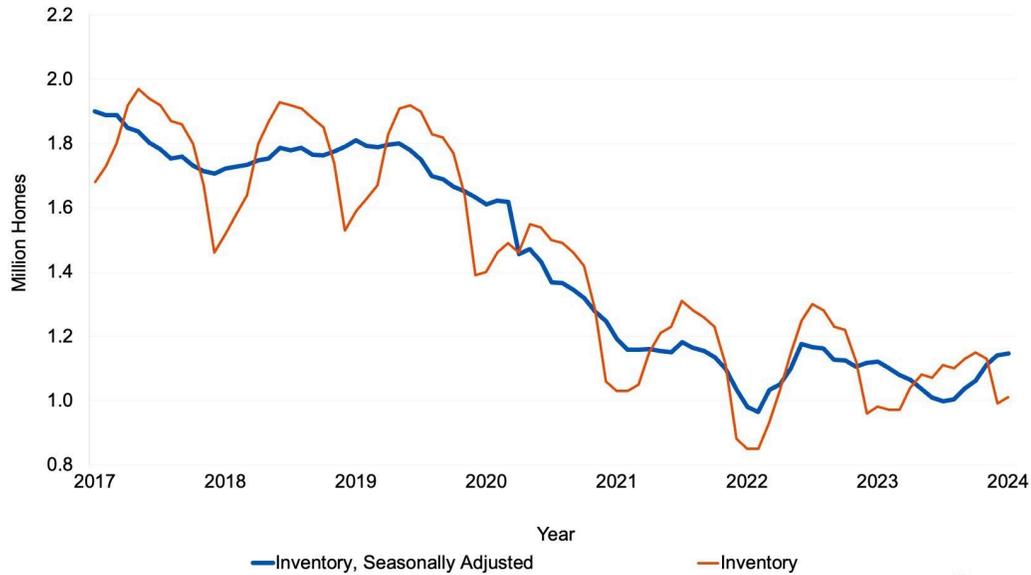
As this year's spring home-buying season approaches, homeowners and renters remain reluctant to move due largely to the rise in interest and mortgage rates over the past two years.

Despite hopes of rates easing late last year, recent data shows that little has changed in this frozen market. According to the [National Association of Realtors](#), or NAR, existing home sales in January were 1.7% lower than a year ago, while the median home price rose by 5.1% over the same period.

Home buyers face a shortage of existing home inventory, which could be why sales have been so low. Seasonal factors generally impact the ability or desire of homeowners to list their houses during the winter months. But even after accounting for seasonality, existing home inventory remains about 35% below the 2017-2019 average, according to NAR.

However, inventory levels could be bottoming out as last year's spring season never fully materialized, and winter sales improved in the previous two years.

For-Sale Existing Home Inventory May Be Bottoming



Source: National Association of Realtors, January 2024



Newly built homes can offer an option to frustrated buyers who are finding few existing homes available for purchase. Sales of new homes now account for about 15% of all home sales, a larger share than before the pandemic.

Builders of new homes, who tend to be acutely attuned to housing market trends, have had good and bad days in the frozen housing market but have become more upbeat recently.

The [National Association of Home Builders](#) reports its index of homebuilder sentiment rose to 48 in February, six points higher than a year ago. The index fell to a low of 34 last November after reaching a recent high of 56 in July, showing more volatility than during any 12 months outside the early months of the pandemic when nobody was happy about anything.

Home Builder Sentiment Experiences Whiplash



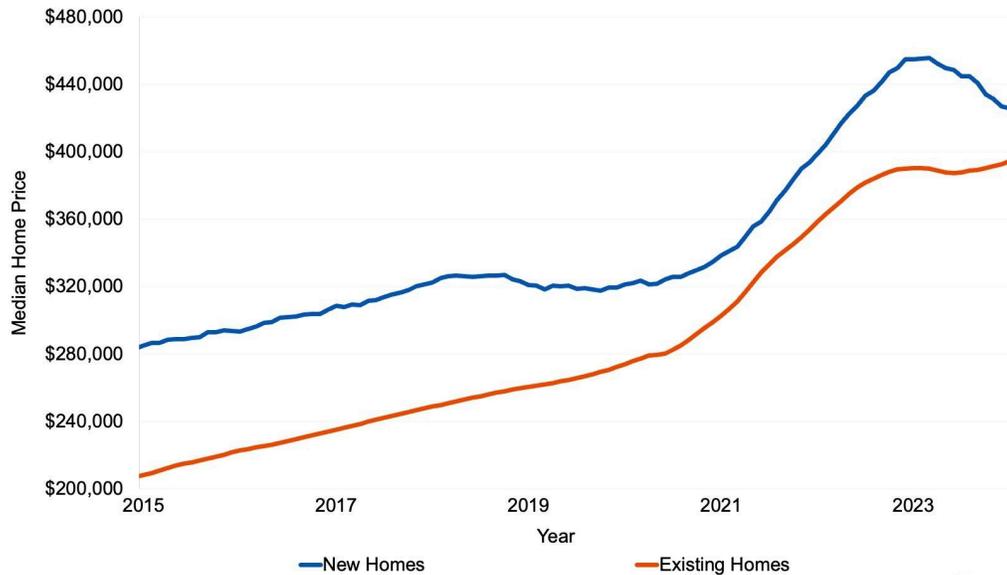
Source: National Association of Home Builders/Wells Fargo, February 2024



Builders have cited improved housing market conditions for the recent uptick in their sentiment, but these have come at a cost to them. In February, 25% of home builders reported price cuts in their for-sale inventory, following 31% reporting price cuts in January and 36% in December.

The median new home sale price was 2.6% lower in January than a year earlier, and median prices have been declining month to month since last April after accounting for seasonality and smoothing.

New Home Prices Are Trending Lower



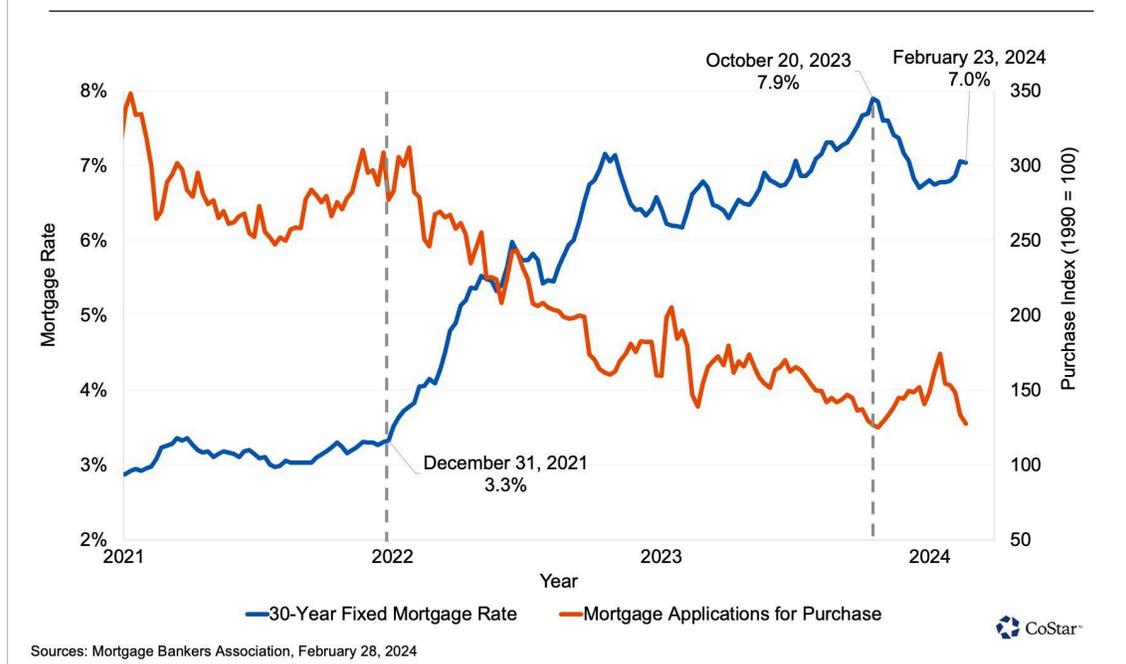
Sources: U.S. Census Bureau and National Association of Realtors, January 2024
Note: Figures are seasonally adjusted and smoothed over 12 months.



But the most significant change in home builder sentiment was due to their view of the housing market over the next six months. Their rosier outlook is mainly tied to expectations of lower interest rates, which they believe will unlock significant pent-up demand for homes once mortgage rates fall.

They may need to wait for that to happen, though. The [Mortgage Bankers Association](#) reported that interest rates averaged 7.04% during the week ending Feb. 23, compared to 6.71% during the last week of December, moving in the wrong direction for home buyers. When mortgage rates reached 7.9% last October, mortgage loan applications fell to a 28-year low. Applications during this latest week were only 1.9% higher than that recent low.

Buyers Remain Sensitive to Mortgage Rates



What We're Watching ...

The wait for mortgage rates to fall might be longer than anticipated. Recent inflation readings, both the [Consumer Price Index from the Bureau of Labor Statistics](#) and the [Personal Consumption Expenditures price index from the Bureau of Economic Analysis](#), came in stronger than expected. This suggests that the road to taming inflation will be bumpier than hoped, leaving the Federal Reserve on heightened watch and in no hurry to cut rates.

Just a few months ago, market watchers were expecting the Fed's policy-making committee to cut rates at its March meeting, but those expectations have now moved to June, with some wondering if it might be autumn before rates are cut, [according to the CME FedWatch Tool](#). [Recent speeches](#) by Fed governors have revealed a more hawkish approach, which will not help thaw the housing market.

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