

# SLOWED GROWTH

## REPORTS ON HOUSING ECONOMICS EXPLAINED

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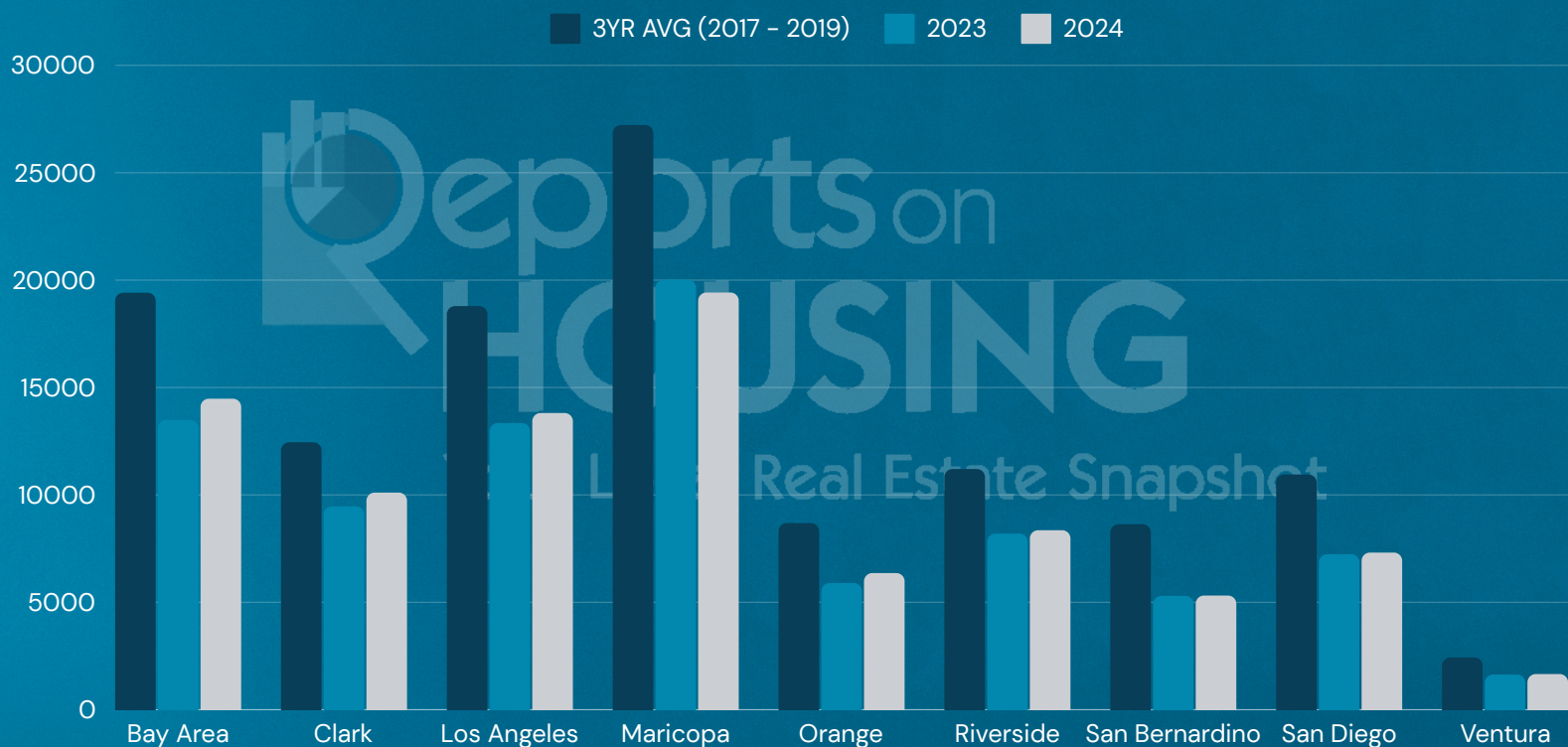


## THE DYNAMICS OF HOUSING INFLATION IN 2024

Inflation, characterized by a gradual loss of purchasing power and a general rise in prices, has profound implications for the housing market. Understanding these effects is crucial, especially in light of the recent economic trends developing thus far in 2024. Businesses, workers, and consumers must all account for the impact of rising prices in their buying, selling, and planning decisions. An optimum level of inflation is promoted to encourage spending to a certain extent instead of saving. If the purchasing power of money falls over time, there may be a greater incentive to spend now instead of saving and spending later. It may increase spending, which may boost economic activities in a country. A balanced approach is to keep the inflation value in a desirable range, which for the Federal Reserve is typically targeted around 2% inflation.

Housing costs are a significant component of the Consumer Price Index (CPI), which measures inflation. As inflation rises, so do building materials, labor, and land costs, contributing to higher home prices. This relationship creates a feedback loop: higher housing costs contribute to inflation, which can drive further increases in housing prices. In April 2024, the CPI rose by 0.4%, reflecting persistent inflationary pressures. The employment cost index also indicated a 4.2% increase in compensation costs over the past year, further adding to the inflationary environment. This persistent inflation affects housing in several ways.

Mortgage rates are closely tied to inflation. Higher inflation often leads to higher interest rates as lenders seek to maintain their real returns. After a period of stable mortgage rates early in 2024, rates rebounded in March, leading to a slowdown in the housing market. Total home sales in March fell by 2.7% from February and were down 2.1% year-over-year, primarily due to the rising rates. With mortgage rates above 7%, many prospective homebuyers are priced out of the market. Higher borrowing costs mean monthly mortgage payments increase, making homes less affordable. Consequently, sellers are less incentivized to sell, further tightening the housing inventory.



## CLOSED SALES BY COUNTY : JANUARY - APRIL

The supply side of the housing market has also been affected. New residential construction fell significantly in March 2024, with total starts decreasing by 14.7%, the largest monthly decline since May 2022. Multifamily starts dropped by 21%, while single-family housing starts fell by 12%. Despite these declines, the demand for new homes remains relatively robust due to the low supply of existing homes. Homebuilder confidence, as indicated by the National Association of Homebuilders Housing Market Index, remained steady at 51 in March, above the 50-point threshold, signaling favorable building conditions. However, the overall moderation in the construction sector points to potential future constraints in housing supply, which could exacerbate inflationary pressures.

The broader economic environment also influences the housing market. At the beginning of 2024, the U.S. economy experienced slowed growth, with the Real Gross Domestic Product (GDP) growing at a seasonally adjusted annual rate of 1.3% in Q1, down from 3.4% in Q4 2023. Less consumption spending, net exports, and government consumption expenditures primarily drove this slowdown.

The labor market also showed signs of cooling, with nonfarm payroll employment increasing by 175,000 in April, down from 315,000 in March. The unemployment rate inched up to 3.9%. Slower economic growth and a weaker labor market can help rein in inflation but may also reduce overall economic activity, including in the housing sector. Given the persistent inflation, the likelihood of multiple Federal Reserve rate cuts in 2024 has diminished. High and sustained inflation elevates interest rates, negatively impacting consumer spending and borrowing behavior. This environment could lead to a prolonged period of subdued housing market activity.

### Conclusion:

Inflation's impact on housing is multifaceted, influencing mortgage rates, construction costs, and overall economic conditions. As housing costs continue to drive a significant portion of inflation, understanding and addressing these dynamics is essential for economic stability. The current trends suggest that a delicate balance is needed to manage inflation without severely hampering housing market activity and broader economic growth.