First Trust
Monday Morning OUTLOOK

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Housing Update

Two reports on home prices arrived this morning, one for the Case-Shiller index and another from the FHFA (a government agency that regulates Fannie Mae and Freddie Mac). Both rose in March, and housing prices are up 6.5% and 6.8%, respectively, in the past year.

We think price gains will continue in the year ahead, although not every month, and probably at a slower pace than seen over the past year. Just like very loose monetary policy back in 2020-21 permanently lifted the general price level for goods and services – most of the home price gains during that period will likewise end up being permanent. Some regions around the country (for example Naples, FL) exceeded those gains because of the peculiar dynamics of COVID. They are therefore vulnerable to some pullback, but we are not in a bubble like we saw prior to the financial crisis of 2008-09.

Through March, the Case-Shiller index is up 47.4% and the FHFA index is up 50.2% compared to February 2020 (pre-COVID). Meanwhile, the Consumer Price Index through March was up 20.4% vs February 2020 levels. But other factors are at work in the housing market. For example, over the same period the price index specific to constructing new single-family homes was up 37.9% as commodity and labor costs rose, outstripping general inflation.

Just as important is the lack of supply in the housing market. Homebuilders haven't been making enough homes since the bursting of the housing bubble. Back in 2009-2015, this made sense: the best way to clear out the excess inventory of homes was to build fewer homes than would normally be needed to meet population growth and scrappage (fires, floods, knockdowns…etc.). But that excess supply was absorbed almost a decade before COVID, and yet builders kept underbuilding.

Don't get us wrong, we're not blaming the builders themselves or capitalism. Governments – federal, state, and local – have created extensive regulations on home construction, making it harder and more expensive to build. Environmental rules, zoning limits, historical preservation, the promotion of "smart growth" or "affordable housing" all impede a free market. On top of this, small businesses (which include many home builders) face incredibly complex and burdensome hurdles in managing payrolls, including taxes, rules, and regulations. COVID era policies widened the performance gap between small and big business.

Meanwhile the construction process itself is taking longer. Prior to COVID, the average time from permit to start for single-family homes was 1.1 months; in 2023 (the latest available) it was 1.5 months. This increase was led by the Northeast, where the average time went from 0.9 months prior to COVID to 2.1 months in 2023. For multi-family homes, it used to take 1.9 months from permit to breaking ground, now it's 2.8 months.

Finishing a home that's been started is also taking longer, now 8.6 months for single-family homes versus 7.0 months pre-COVID. Multi-family construction was taking 15.4 months pre-COVID, now it's 17.1 months.

No wonder new home sales continue to languish below where they were in 2019. Existing home sales are far below the 2019 pace, too, although much of that is due to "mortgage lock-in," where homeowners borrowed at very low rates during COVID and now don't want to move come hell or high water.

Making the housing situation even worse is that government policies that limit home construction are happening at the same time as a massive surge in immigration in the past few years. Whatever you think about our current border situation, the greater the flow of immigration, the more you should support looser restrictions on building homes. If we're going to have an open border, a free market in housing is more essential than ever.

To summarize, housing prices may rise a little slower, and if we do see a recession, sales will slow as well, but because of underbuilding the housing market overall will likely remain more resilient in any downturn than it has in the past.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-30 / 7:30 am	Initial Claims – May 29	217K	**217K**		215K
7:30 am	Q1 GDP Preliminary Report	+1.3%	**+1.5%**		+1.6%
7:30 am	Q1 GDP Chain Price Index	+3.1%	**+3.1%**		+3.1%
5-31 / 7:30 am	Personal Income – Apr	+0.3%	**+0.2%**		+0.5%
7:30 am	Personal Spending – Apr	+0.3%	**+0.4%**		+0.8%
8:45 am	Chicago PMI	41.0	**38.3**		37.9