



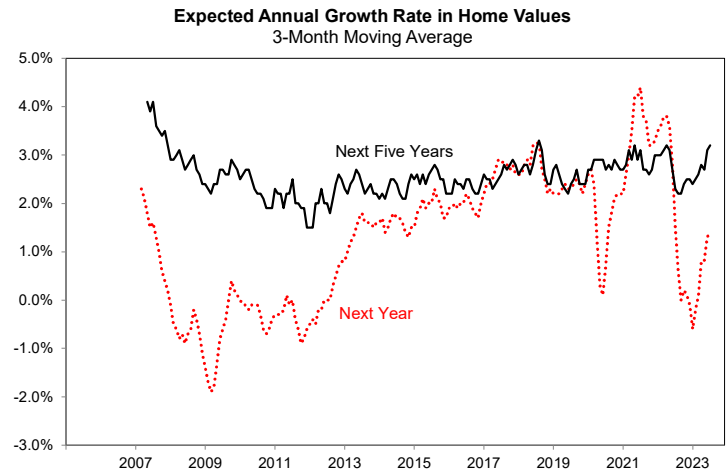
Post-Pandemic Views on the Housing Market, Summer 2023

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Over the past three years, the progression of the pandemic, supply chain constraints, and high inflation have all generated tremendous upheaval in housing markets. Meanwhile, interest rate increases over the past year have led average 30-year fixed-rate mortgage rates to rise to nearly seven percent at the end of July 2023, adding to already high costs for prospective buyers as the Federal Reserve works to slow down inflation. The Surveys of Consumers collect consumers' views of housing markets, including buying and selling conditions, recent changes in home values, and expected future changes in home values in the year ahead. The relative influence of home prices and borrowing costs will affect the decisions of prospective buyers and sellers alike.

When questions on expected house price growth were added to the survey in 2007, about two years after the peak in home sales, expected long-run growth (black line) exceeded expected year-ahead growth (red dotted line), and this gap widened over the course of the Great Recession. In the expansion that followed, however, the gap narrowed; by 2018 and 2019 the two measures were nearly identical. With the onset of the pandemic, short-run expected growth plummeted, then soared steeply reaching a peak of 5.2% in May of 2021. Thereafter, short-run expected appreciation fell to zero growth in July 2022, reaching a 1% *expected decline* in January of 2023. Since then, however, consumer expectations recovered to 1.4% in July 2023, though they remain below the pre-pandemic average and are exceeded by expected inflation. Meanwhile, long-run expected house price growth has been remarkably stable with little variation over the last three years.



Substantial heterogeneity underlie these trends, with strong regional variation in the expected trajectory of home values (see table). While western states had strongest year-ahead house price expectations in 2021 compared with other areas of the country, the region now exhibits the weakest expectations for future growth. Homes in the top tercile of home values had the strongest prospects both in the short and long run. Given the importance of homeownership for wealth accumulation, if

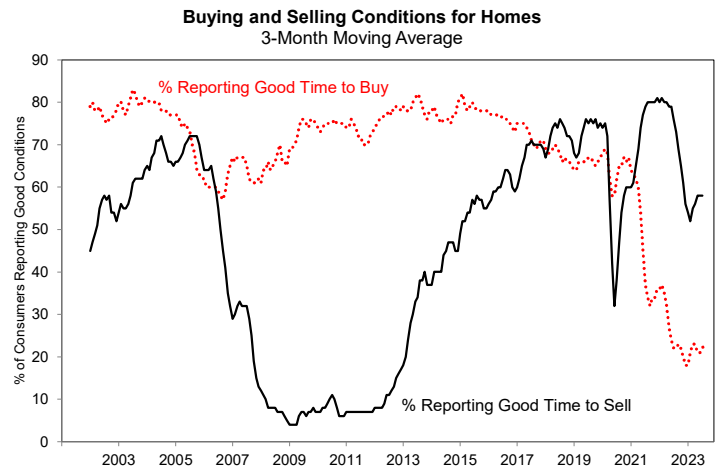
Evaluations of Trends in Home Prices Among Homeowners

	Change in Home Value During Past Year						Expected Annual Change in Home Values During ...																	
	% of Consumers Specifying Home Values ...						Year Ahead						Next Five Years											
							Decrease			Increase			Mean Expected % Change			Decrease			Increase			Mean Expected % Change		
	2021 Q2	2022 Q2	2023 Q2	2021 Q2	2022 Q2	2023 Q2	2021 Q2	2022 Q2	2023 Q2	2021 Q2	2022 Q2	2023 Q2	2021 Q2	2022 Q2	2023 Q2	2021 Q2	2022 Q2	2023 Q2	2021 Q2	2022 Q2	2023 Q2			
All Consumers	4	3	15	78	81	57	8	14	16	62	49	40	4.2	2.8	1.3	13	17	11	64	58	63	2.9	2.7	3.1
Region																								
West	3	1	26	84	86	46	8	12	21	72	56	38	5.3	4.4	0.5	15	19	11	62	58	63	3.3	3.1	2.8
Midwest	5	4	11	74	75	59	8	13	15	58	43	37	3.3	2.0	0.9	14	16	11	61	57	57	2.0	2.3	2.4
Northeast	4	2	8	82	83	61	10	15	13	54	43	40	2.9	1.9	1.7	14	19	9	64	57	65	2.4	1.7	2.9
South	4	2	12	74	81	59	8	16	15	63	50	43	4.6	2.7	1.8	12	15	12	68	58	66	3.4	3.1	3.7
Home Value																								
Bottom Third	9	6	11	61	68	54	11	12	17	52	45	39	2.9	2.8	0.9	14	16	16	59	54	51	2.8	2.7	2.1
Middle Third	2	1	13	85	87	62	8	13	18	68	53	40	4.6	3.1	1.0	12	16	11	65	59	66	3.0	3.0	3.1
Top Third	2	1	20	89	89	56	6	17	14	67	53	41	4.9	2.4	1.9	13	18	7	70	62	74	2.9	2.4	4.0
Past Change Home Value																								
Declined	--	--	--	--	--	--	33	40	36	29	20	19	-2.0	-1.9	-1.9	27	26	19	44	40	61	1.1	-0.1	1.9
Unchanged	--	--	--	--	--	--	8	14	19	41	31	21	2.4	0.8	-0.4	9	14	10	58	49	56	2.8	2.1	2.1
Increased	--	--	--	--	--	--	7	14	10	69	53	54	4.9	3.3	2.9	14	17	10	67	60	67	3.0	2.9	3.8

Note: "Same" and "Don't Know" responses omitted from table.

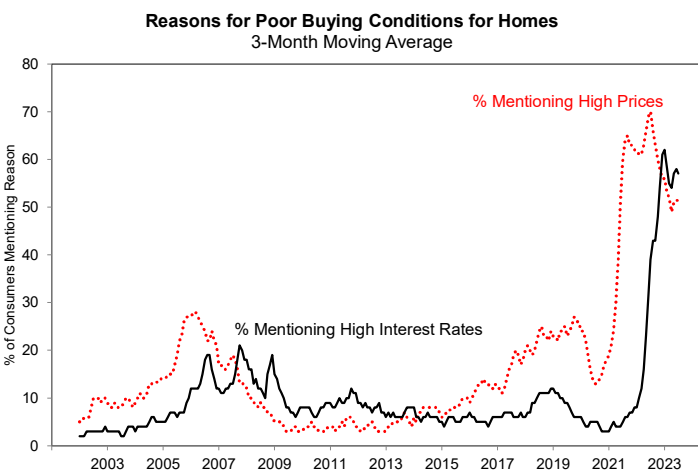
these expected trends bear out, wealth inequality may widen. Indeed, consumers with homes valued in the bottom tercile have had declining expectations over the last few years, indicating that affordability of these lower-valued homes may remain stable but that the wealth-building prospects of homeownership for lower-income families may not be strong. Consumers who perceived declines in home values over the last year expected, on average, further declines in the year ahead and weaker growth in the long run. Those who perceived growth over the last year expect that growth to continue.

The figure to the right displays the shares of consumers reporting that it is a good time to buy a home (red dotted line) or sell a home (black solid line). After over a decade of relative stability, buying conditions for homes declined just slightly as the pandemic started but plunged throughout 2021 and 2022 as high prices dominated and policymakers began fighting inflation with higher interest rates. Over the course of 2023, buying conditions for homes remained dismal, comparable to levels last seen in the 1980s recession. Still, strong labor markets and income expectations have enabled robust consumer spending, but if consumer expectations for continued house price growth bear out along with continued high interest rates, a rising number of prospective buyers will be priced out of the housing market.



Selling conditions exhibited a brief but sharp decline in 2020 when many parts of the economy were closed down due to the pandemic. Conditions recovered quickly and soon exceeded their pre-pandemic level—an all-time high of 83% of consumers reported favorable selling conditions in August 2021—primarily on the basis of high prices and low competition as inventory remained limited. In spite of this, inventory did not increase, in part because most prospective sellers would also be on the buying side for their next homes; these pressures sent home prices even higher. In 2022, with inflationary pressures across the economy eating into consumers’ budgets and rising interest rates further eroding consumers’ purchasing power, selling conditions fell through February 2023, with 50% reporting it is a good time to sell. Since then, selling conditions have edged up and stabilized, with about 58% of consumers perceiving favorable selling conditions throughout this summer.

At the root of these post-pandemic housing market developments have been high home prices, high inflation, as well as rising interest rates. In July of 2020, only 12% of consumers spontaneously cited high prices as a reason for poor buying conditions for homes (red dotted line in the figure to the left), as adjusting to the pandemic was top of mind. The share of consumers concerned about high prices surged thereafter



along with the desire for homes more amenable to remote work or schooling, reaching an all-time historic high of 73% in May 2022. Meanwhile, spontaneous mentions of high interest rates for poor buying conditions began to climb in 2022 (black solid line), overtaking high prices as the top concern by the end of the year. In 2023, high interest rates remain the primary factor of concern regarding buying conditions, though high prices remain close. Given that over 60% of consumers expect interest rates to continue rising in the year ahead (as of July 2023), these concerns are likely to continue.