

The Housing Outlook: 2024

Just because we still think the economy is headed for a recession, doesn't mean we think the housing market is going to get killed.

The housing market was a mixed bag in 2023: housing starts and existing home sales were weak, while new home sales and home prices rose, in spite of the highest mortgage rates in twenty years. This year we expect modest gains almost all around: modest gains in housing starts, modest gains in sales, and modest gains in prices.

A recession, by itself, would have a negative effect on housing. But there are so many other factors affecting housing that we think the sector would weather the economic storm.

In terms of construction, builders started fewer homes in 2023 than in 2022, which was already down from the COVID peak in 2021. But builders have been consistently building too few homes since the bursting of the housing bubble about fifteen years ago. As a result, we expect a turnaround in 2024. However, the gains should be concentrated in single-family homes; the number of multi-family homes (think apartments and condos) under construction is at an all-time high already.

In terms of sales, it would be hard for the existing home market to get any worse in 2024. Sales have been handcuffed in 2022-23, for two reasons. First, temporary indigestion as mortgage rates rose. Second, homeowners who borrowed money at rock-bottom mortgage rates in 2020-21 have been very reluctant to sell. Who in their right mind would give up a mortgage with a fixed rate of something like 2.75% locked in for fifteen or even thirty years?

But with each passing year a gradually smaller share of homeowners will be locked in with those rock-bottom mortgage rates. Some of them will move anyhow, for one reason or another. In addition, mortgage rates should be lower this year than in 2023, helping boost sales among some prospective buyers and sellers.

Meanwhile, new home sales were up in 2023 and should continue to grow in 2024. Lower mortgage rates should help a little, as will the construction of more single-family homes.

The biggest surprise in the housing market last year was that prices increased consistently after falling in the second half of 2022. Through the first ten months of 2023, the national Case-Shiller index and the FHFA index were both up roughly 6.0%. We think the continued resilience of home prices largely reflects a lack of supply. However, a faster pace of construction in 2024 should put a ceiling on price gains in the year ahead.

The business cycle hasn't been normal since COVID hit in 2020. COVID led to a massive surge in government stimulus, both monetary and fiscal, to fight widespread and overly draconian shutdowns. That was followed by tighter money in 2022-23, although government spending has continued to gush. Meanwhile, in certain ways, housing is still recovering from the housing bust that followed the bubble that peaked before the Financial Crisis in 2008-09.

Put it all together and we have a recipe for general improvement in housing even as the rest of the US economy slows down.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-2 / 9:00 am	Construction Spending – Nov	+0.6%	+0.9%	+0.4%	+0.6%
1-3 / 9:00 am	ISM Index – Dec	47.2	47.1		46.7
<i>afternoon</i>	Total Car/Truck Sales – Nov	15.5 Mil	15.3 Mil		15.3 Mil
<i>afternoon</i>	Domestic Car/Truck Sales – Nov	12.1 Mil	11.9 Mil		11.8 Mil
1-4 / 7:30 am	Initial Claims – Dec 30	215K	215K		218K
1-5 / 7:30 am	Non-Farm Payrolls – Dec	170K	150K		199K
7:30 am	Private Payrolls – Dec	130K	105K		150K
7:30 am	Manufacturing Payrolls – Dec	5K	2K		28K
7:30 am	Unemployment Rate – Dec	3.8%	3.8%		3.7%
7:30 am	Average Hourly Earnings – Dec	+0.3%	+0.3%		+0.4%
7:30 am	Average Weekly Hours – Dec	34.4	34.3		34.4
9:00 am	ISM Non Mfg Index – Dec	52.5	52.7		52.7
9:00 am	Factory Orders – Nov	+2.2%	+2.1%		-3.5%