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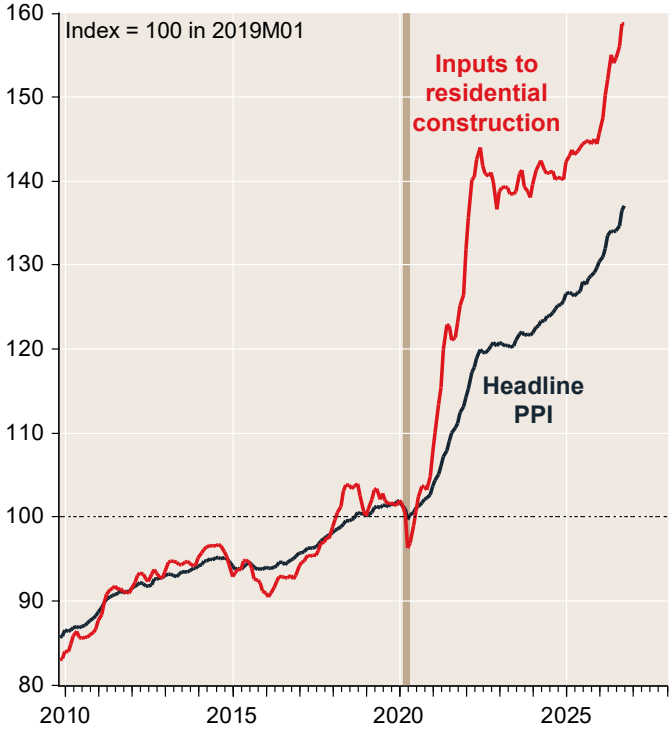
U.S. Watch

By Jocelyn Paquet

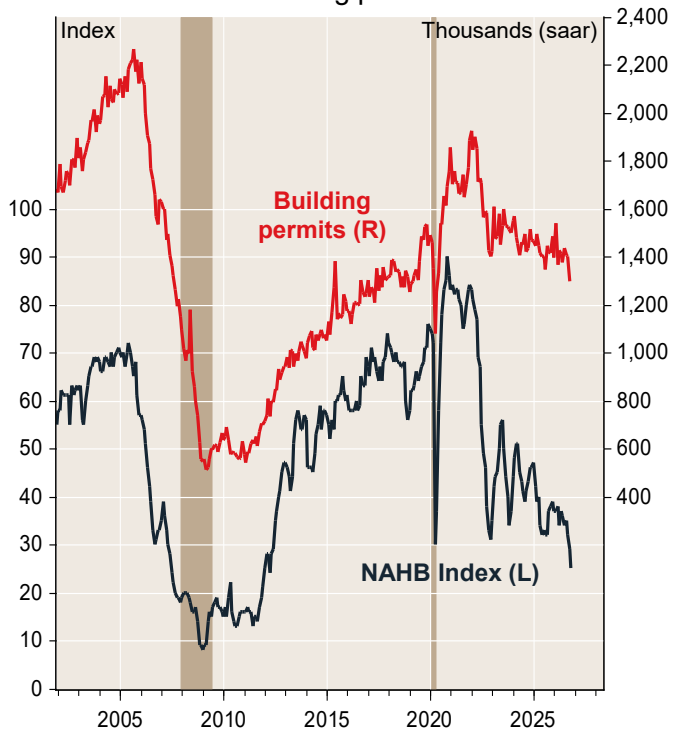
The U.S. real estate market could be described as being in a deep freeze right now, and the main cause of this slump is not hard to pinpoint. It is the sharp rise in borrowing costs since the pandemic, which has led to a significant decline in affordability, that is keeping potential buyers on the sidelines. Unfortunately, things appear to have deteriorated further recently, with the pending home sales index showing the lowest level of transactions in the resale market in its history in October. The situation remains slightly more encouraging in the new-home market, although there, too, the decline in demand has led to a significant increase in inventory, which is now near its highest level since the Great Recession. This is hardly encouraging for homebuilders who, in addition to sluggish demand and high financing costs, must also contend with higher prices for building materials. As today's Hot Chart shows, the cost of residential construction inputs has indeed risen by nearly 60% since the pandemic began, i.e. much faster than overall prices. When all these factors are taken together, it becomes clearer why homebuilder sentiment, as reported by the NAHB, was at its lowest level since 2012 in November and why building permits fell to their lowest level since the pandemic in October. What these data show is that, outside of AI-related sectors, rising interest rates are having a real impact. It is simply being overshadowed by what is one of the biggest investment booms in history.

U.S.: Homebuilders face many challenges

Producer Price Index, selected categories



National Association of Home Builders Housing Market Index vs. residential building permits



NBC Economics and Strategy (data via Bloomberg and Fred St. Louis)

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