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Housing Market's Good News Was Short-Lived for American Homebuyers

Story by Omar Mohammed 1/4/2024

A view of houses in a neighborhood in Los Angeles, California, on July 5, 2022. Mortgage rates ticked up towards the end of 2023 after weeks of declines, dampening the optimism that the housing market may have begun to rebound. (Photo by FREDERIC J. BROWN/AFP via Getty Images)

Mortgage rates ticked up last week after weeks of declines while applications for home loans dropped in a sign that the housing market continues to struggle despite some recent signs of optimism.

The 30-year fixed rate inched closer to 7 percent for the week ending December 29, according to the Mortgage Bankers Association (MBA). Meanwhile, mortgage applications tumbled by more than 9 percent from two weeks earlier, lenders said.

"Markets continued to digest the impact of slowing inflation and potential rate cuts from the Federal Reserve, helping mortgage rates to stay at levels close to the lowest since mid-2023," Joel Kan, MBA's deputy chief economist, said in a statement shared with *Newsweek* on Wednesday.

The 30-year fixed mortgage ended 2023 at 6.76 percent, more than a percentage point lower than the peak of nearly 8 percent in October, he said.

"The recent decline in rates has given the housing market some cause for optimism going into 2024, but purchase applications have not yet picked up in response, with the overall level of purchase activity 12 percent lower than a year ago," Kan said.

Economists say that activity in the housing market will ramp up if prices decline, which at the moment are elevated partly due to low supply. The existing homes market is still in the doldrums as sellers are reluctant to give up their low rates for new home loans that could cost them close to 7 percent in interest.

"The housing market has been hampered by a limited supply of homes for sale, but the recent strength in new residential construction will continue to help ease inventory shortages in the months in come," Kan said.

Recent data shows that private residential construction moved up, according to the U.S. Census Bureau, to nearly $900 billion in November—a jump of more than a percent from the previous month, helped by spending on single-family home building.

"November was the first month in over a year when single-family construction spending rose compared to the year prior," Yelena Maleyev, KPMG's senior economist, said in a note shared with *Newsweek* on Tuesday. "Builders have become more positive about the single-family market as mortgage rates have come down from recent peaks and revived buyers' interests."

In a sign that rates may be entering some level of uncertainty, as the market looks to see how many rate cuts the Fed will institute in 2024, the average contract interest rate for 15-year fixed-rate mortgages decreased to 6.26 percent from 6.41 percent in the week ending December 29.

Fed policymakers held rates at 5.25 to 5.5 percent last month for the third time in a row and have suggested that they may cut rates to a possible 4.6 percent in 2024. It's unclear yet when such cuts could come.

But declining mortgage rates could give a boost to the housing market, with builders feeling optimistic in the new year.

"Construction activity remains robust as strong demand for housing and infrastructure remain a tailwind for builders," Maleyev said, noting that elevated rates could be a challenge for the sector in 2024. "Spending is expected to end the year on a high, with lower mortgage rates helping revive activity in the housing market."