



Ask an Economist: Housing services prices

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Jordan Rappaport explains why the pace of the decline in U.S. housing services inflation bears watching.

Although the inflation rate for housing services has declined from its peak in early 2023, the price of housing services continues to rise briskly. According to the official measure of housing services inflation, reported by the Bureau of Economic Analysis (BEA), annualized inflation for housing services declined from 9.0 percent in early 2023 to 5.5 percent by April 2024. Even so, the housing inflation rate remains about 2 percentage points above its 2019 level.

These are among the topics examined in a June 2024 *Economic Bulletin* by [Senior Economist Jordan Rappaport](#).

Which dynamics have contributed to the slowing decline in housing service inflation?

Multiple sectoral factors are likely slowing the decline in housing services inflation. One is that home construction never fully recovered from the Great Recession, meaning the supply of housing was already low going into the pandemic. Even after steadily climbing for more than a decade, the rate of single-family construction in late 2019 remained 25 percent below its 1998 level, equivalent to adding 300,000 fewer units per year.

Relative to the number of U.S. households, single-family construction in late 2019 was even further below its 1998 level. As a result, the number of occupied single-family homes in 2019 was more than 3 million below what its demographic trend in the early 2000s would imply.

Another reason that housing services inflation likely will decline only gradually is that even vigorous construction can only slowly increase the nation's housing stock. Since the onset of the pandemic, single-family and multifamily home construction have surged. However, the surge has allowed housing services consumption to increase by only 7 percent from its level in late 2019. For comparison, the consumption of goods increased by more than 18 percent over the same period.

How have mortgage rates been a factor?

There was a sharp increase in mortgage rates during 2022, meaning that most owners with a mortgage would have faced a considerable increase in their monthly payment if they were to sell their current home and purchase another at a similar price. The resulting interest rate “lock-in” is significantly depressing the number of homes for sale. Mortgage interest rates hovered near historical lows during 2020 and 2021, inducing a large share of homeowners to refinance their mortgages. Since the start of 2022, however, the benchmark mortgage rate on a conventional mortgage has moved up by more than 4 percentage points.

Among borrowers with a government-guaranteed mortgage, 69 percent would face a more than 3 percentage point increase in their mortgage rate if they were to purchase a different home today, while 83 percent would face an increase of more than 2 percentage points. For comparison, hardly any borrowers faced an increase of more than 2 percentage points over the two decades prior to 2022. Unsurprisingly, the extreme degree of mortgage lock-in is dissuading many homeowners from selling.

How has the rental market been affected?

High monthly payments have displaced many potential first-time home buyers into the rental market, representing another reason that home services inflation is likely to decline only gradually. Although the inflation rate for rents also has been high over the last few years, it has cumulatively increased by far less than monthly mortgage payments. Rents on single-family homes have increased by about 40 percent since late 2019; those on multifamily units have increased by about 25 percent.

This large gap between the increase in mortgage payments and the increase in rents likely will take many years to unwind, keeping strong upward pressure on rents. Indeed, continuing elevated rent inflation will play a significant role in closing the gap.

Why are these trends important for the overall economy?

The pace of the decline in home services inflation has implications for headline inflation, as housing services is one of the largest components of the price index for personal consumption expenditures (PCE). Specifically, the gradual decline in home services inflation is likely to slow the return of topline PCE inflation to the Federal Open Market Committee’s target rate of 2 percent. As topline inflation was running below target before the pandemic, housing services inflation need not decline all the way to its pre-pandemic level for topline inflation to hit 2 percent. However, housing services inflation does need to significantly dissipate, which will take time.