Written by David Kelly on November 29, 2022

# Are We Headed for Another Housing Crash?

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With a reported record-breaking Cyber Monday in the rear view mirror, the overall U.S. economy is still suffering a combination of high inflation and rapidly rising interest rates, and some experts suggest a housing market crash is on the horizon. Together, this paints a picture of an economy that has a nearly 100-percent chance of an economic recession beginning in early 2023.

Since the Covid pandemic began, many people have been priced out of the housing market due to a low inventory of available homes, high interest rates, and home prices that rose nearly 18 percent in just 2021 alone. But now all of that seems to be behind us.

Currently, the supply of single-family homes is growing. And with mortgage rates near seven percent, experts say a large-scale housing slowdown is becoming increasingly likely.

Axios reported:

> 'In one line: Collapse in prices is coming,' wrote Kieran Clancy, senior U.S. economist at Pantheon Macroeconomics. Pantheon estimates that existing home prices will keep falling, ultimately dropping by about 20% from their June peak of around $414,000.
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> Goldman Sachs analysts also recently cut their outlook for home prices, from roughly flat next year to down 4%, noting that 'unsustainable levels of housing affordability … continue weighing on housing demand.'

The National Association of Realtors (NAR) shared "a summary of existing-home sales data showing that housing market activity this October faded 5.9% from September 2022. October's existing home sales reached a 4.43 million seasonally adjusted annual rate. October's sales of existing homes declined 28.4% from October 2021."

The NAR broke down home sales further, reporting, "From a year ago, all four regions had double-digit declines in sales in October. The West had the most significant dip at 37.5%, followed by the South, which fell 27.2%. The Midwest decreased by 25.5%, followed by the Northeast, down 23.0%."

Even with the decline in home sales, the housing market is trying to hang on as inventory remains low, giving hope that there are still enough buyers for the relatively small number of houses for sale, keeping prices from a free-fall.

It's the 40-year-high inflation levels, coupled with the Fed's ongoing interest-rate increases intended to curb inflation, that are causing some analysts to be uncomfortable with the housing market. This may lead to home prices seeing a correction, although hopefully not as much as we saw in the 2008 housing crash.

Part of the optimism that there could be a “softer” or “slower” fall in housing prices is because home sellers don’t have to sell right away, especially since the vast majority have mortgages with lower rates than they could get now.

This has led to a drop in listings. As Axios shared, “There are 14% fewer new listings coming onto the market now compared to this time last year, according to Redfin data. The real estate company’s ‘demand index’ — a measure of the number of buyers touring houses and making offers — is down 13%.”

Analysts remain cautiously optimistic, as a limited supply of houses for sale has long been one of the strongest points against a housing crash. They know that prices typically won’t drop with so few homes available on the market. However, as the inventory of homes returns, with all the buyers having vanished, a correction in prices is all but a certainty.

Investor Place reported,

> Places like Boise, Idaho and Tampa, Florida — which saw home prices skyrocket in the past few years — are currently seeing an inventory-fueled reversal. Properties are being listed en masse, except no one’s buying them.
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> As of July 2022, the U.S. has a 10.4 month supply of new houses for sale. That’s the highest level since the 2008 housing crash. As housing demand surged in the past few years, home builders did what they do best: build homes. They assumed prices would continue going up as low mortgage rates entice an ever-growing number of potential acquirers. In reality, these properties are going to enter, what is essentially, a buyer-less market.

Sumit Handa, partner, managing director, and co-head of the investment committee at Pennington Partners, shared his concerns with Investor Place, saying, “Our expectations are that over the next few months, the U.S. is likely to enter into recession and it’s going to be driven by this deteriorating housing market.”

The question now is whether the housing market will drop off by 20 percent as Clancy from Pantheon Macroeconomics predicts, or prices will slowly drop and then stabilize as a recession sets in. No one knows for certain how low home prices will go, but if you’re looking to buy soon and you have the means to do so, your next home may be available at a bargain price.