



The Daily Dish

# Housing Challenge

DOUGLAS HOLTZ-EAKIN | APRIL 17, 2024

Federal Reserve Chairman Jerome Powell [made news](#) yesterday with the announcement at a question-and-answer session in Washington that “the recent data have clearly not given us greater confidence and instead indicate that it is likely to take longer than expected to achieve that confidence.”

Powell’s remarks arrived on the heels of a third straight Consumer Price Index (CPI) inflation report that came in hotter than anticipated. Shelter price inflation is central to those reports, with this inflation at 7.9, 6.3, and 7.1 percent (annual rate) in January, February, and March, respectively. Year-over-year shelter inflation stood at 5.7 percent, so the most recent readings are going the wrong direction.

Ironically, earlier in the day the Census Bureau [reported](#) that housing starts had plummeted 14.7 percent from February to March, with single-family starts down 12.4 percent and multifamily starts off 20.8 percent. The chart (below) shows the recent data for single-family starts and starts with five or more units. While the former have exceeded pre-pandemic levels and show recovery from the 2022 slump, large building starts are falling sharply.

This presents the Fed with a conundrum. The supply of new housing is very limited, and the sale of existing homes is reduced by the unwillingness of owners with older (low-rate) mortgages to put their homes on the market. The resulting tight rental and owner-occupied markets keeps shelter inflation elevated. As a result, the Fed is forced to keep monetary policy quite restrictive, which – evidently – deterred the builders from starting homes in March.

There will now be a great focus on the data for the Personal Consumption Expenditures (PCE) price index that arrives a week from Friday. Shelter has a smaller weight in the PCE index; it will be pivotal that there be further progress toward 2 percent inflation in that measure.

## Housing Starts (3-month moving average)

