

MACRO STRATEGY | Economic Monthly

The Long Road to a U.S. Housing Recovery

March 2026

Key Takeaways

- U.S. residential housing inventory for sale has declined almost every month since May 2025.
- Housing affordability has improved since late 2023 but homes remain far less affordable than before the pandemic.
- MetLife Investment Management (MIM) believes that lower rates will only partly address the undersupply of housing caused by a decade of underinvestment.

Despite the Federal Reserve (Fed) cutting interest rates and the average 30-year fixed mortgage rate falling from its high of 8% in 2023 to just over 6%,¹ the U.S. housing market continues to face challenges. Sellers are facing tepid demand and seeing potential buyers back out. Affordability, despite recent improvements, remains far below pre-pandemic levels. Residential investment per household has not improved, and structural factors mean supply constraints and price pressures could continue even if the Fed lowers rates further.

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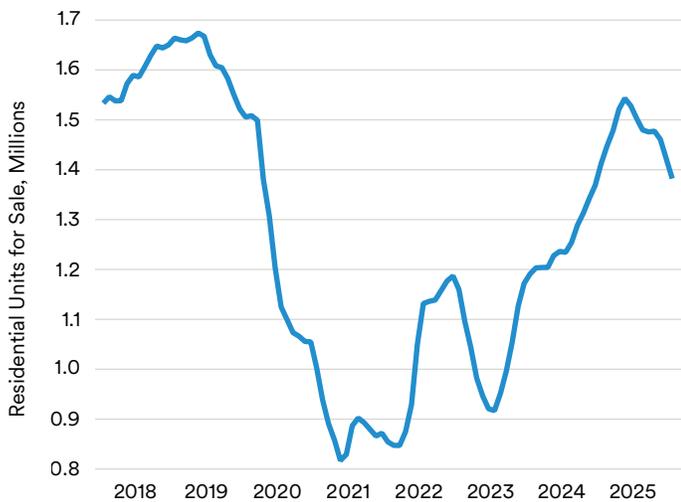


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Inventory for Sale Has Been Steadily Declining

Recent data from Redfin show that residential inventory of homes for sale has been falling from 2025 highs. Some sellers have noticed tepid demand and are hesitant to move because they already have a locked-in, low mortgage rate. Buyers are wary due to economic uncertainty and mortgage rates that remain relatively high. Harsh winter weather also dampened sales activity in some parts of the country, even though price increases have recently been slower in some regions.

Figure 1 | Inventory Has Been Falling



Source: Redfin, MIM. As of March 10, 2026.

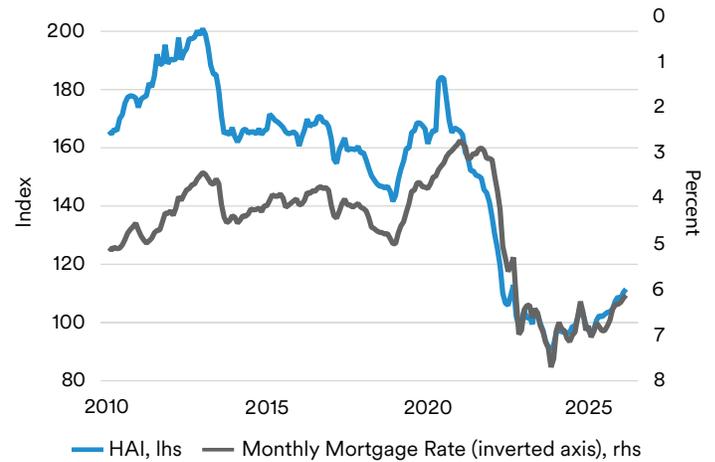
Affordability Remains a Concern

Even though housing market price pressures have abated in the last few months, affordability remains an issue.

The National Association of Realtor’s Housing Affordability Index reached 111.5 (after seasonal adjustment) in February. That marks an improvement that tracks the decline in mortgage rates (and the Fed’s cutting cycle). In October 2023, after the Fed finished hiking rates, the index was 90.6, implying that a family with a median income could not qualify for a median-priced home. Despite the recent improvement, affordability is a far cry from where it was pre-pandemic when the index was consistently above 140.

We do not see affordability improving quickly. Even if the Fed cuts rates two to three times more in 2026, mortgage rates will likely decline only modestly from where they stand today. Higher prices could continue to put pressure on the housing market, even as rates come down due to constrained supply.

Figure 2 | Housing was More Affordable Pre-Pandemic



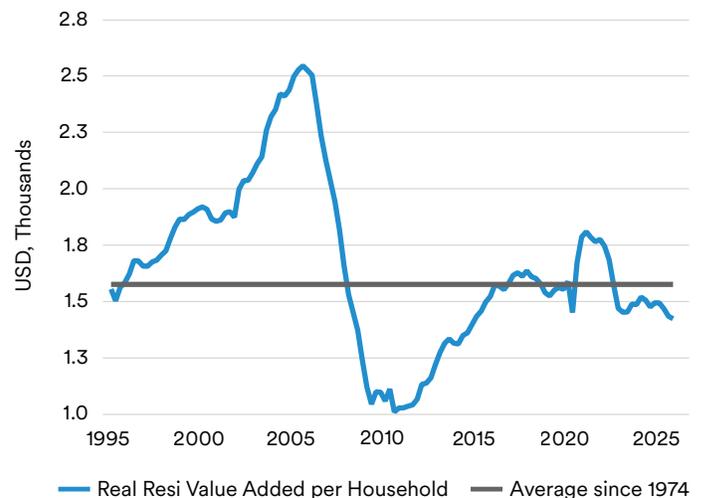
Note: A value of 100 means that a family with median income can qualify for a median priced home. A higher index implies housing is more affordable; a lower index implies housing is less affordable.
Source: NAR, MIM. As of March 10, 2026.

Underinvestment in Housing

Real residential value added per household has actually declined after a brief post-pandemic spike. In Q4 2025, calculations using U.S. Bureau of Economic Analysis and census data show real residential investment was \$1,424 per household, down from a high of \$1,809 in the first quarter of 2021.

Housing completions increased through 2022 and 2023, reflecting the 2021 burst in investment. Completions have stagnated since then, and starts and permits have fallen relative to 2021.

Figure 3 | Value Added per Household Is Stagnant



Source: U.S. Bureau of Economic Analysis (BEA), U.S. Census Bureau, MIM. As of February 20, 2026.

Lower rates have not yet resulted in much additional building, and the undersupply of housing is a broader structural issue involving land use and zoning constraints, higher labor and nonlabor input costs, and a decade of underinvestment after the 2008 financial crisis. These

issues will likely persist for some time, since simply cutting rates further will likely not resolve them. To solve the supply shortage at its core and return to a “normally” functioning housing market, housing market participants, builders and regulators will all have to work together.

Outlook

U.S.	2025†	2026	2027
GDP (Avg. Annual % Chg.)	2.2	2.2	2.3
CPI (Dec. Y/Y % Chg.)	2.7	2.6	2.3
10 Year Treasury (EoP %)	4.17	4.25	4.25
Policy rates (upper bound, EoP %)	3.75	3.00	3.00
Unemployment (EoP %)	4.4	4.6	4.4

Source: BEA, BLS, Treasury, Federal Reserve, MIM. As of March 2026.

† Italics denote 2025 actuals.

We expect 2026 GDP growth to be roughly in line with 2025, driven by moderate consumption and solid non-residential investment. We expect net exports to remain strong as U.S. businesses try to shift away from import-driven businesses. Tariffs remain likely to affect activity, as the Trump administration looks to implement new tariffs to replace IEEPA tariffs. We believe labor demand will remain lackluster in 2026. We continue to expect the Federal Open Market Committee to reduce rates by 75 basis points (bps) in response to the weakening labor market.

Risks

Risks to our forecast have risen substantially since the start of the conflict with Iran. The greatest threat to our base case is the substantial upside risk to our inflation forecast. If oil and other commodities continue to be disrupted beyond the initial four to six weeks of the conflict, we would expect headline inflation to rise by at least 25–50 bps over the year, while core inflation would rise by at least half that.

We see the risk to GDP growth as roughly balanced, with a rising probability of weakening growth. The conflagration between the U.S./Israel and Iran raises risks to the downside, specifically regarding the struggle to re-establish safe passage through the Strait of Hormuz and the risk of a widening — or lengthening — conflict.

We are also increasingly worried about the negative interaction effects with other macroeconomic trends: the interaction of higher energy prices with the high energy consumption of data centers; the interaction of higher gas prices with an increasingly stressed consumer; the interaction of greater uncertainty and already struggling non-AI investment; and concerns about AI valuations coupled with concerns about private credit.

Positive impulses — such as why we maintain a balanced view on GDP — include the continued strength of wealthier consumer balance sheets and the extraordinarily strong investment expectations in AI and AI-related sectors, as well as the windfalls expected in the oil and gas sectors and rising expenditures in the defense sector.

¹ Bankrate.com U.S. Home Mortgage 30-Year Fixed National Average. As of March 9, 2026.

Disclosure

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