

Mortgage Rates React to Surging Oil Prices as More Homes Reach Market

International conflict translates to surging mortgage rates.

Escalating tensions involving Iran have emerged as an additional headwind for the U.S. housing market, introducing a layer of macroeconomic uncertainty just as conditions were beginning to stabilize. The conflict has contributed to a surge in oil prices, fueling renewed inflation concerns and prompting financial markets to reassess the likelihood and timing of Federal Reserve rate cuts. As a result, long-duration Treasury yields have come under renewed upward pressure. Because mortgage rates are closely tied to these Treasury yields, they have reversed course after briefly trending down. The average 30-year fixed rate rose back above 6.2 percent in mid-March after dipping below 6.0 percent at the end of February, its lowest level since mid-2022.

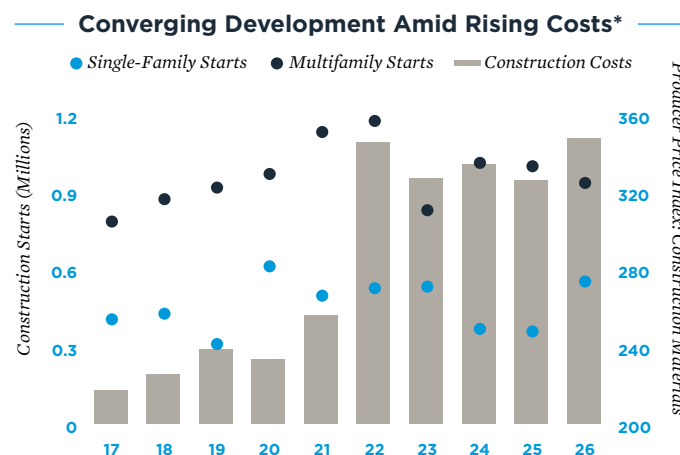
Varying scenarios influence single-family housing demand. Looking ahead, the trajectory of mortgage rates will hinge on whether tensions with Iran evolve into a sustained supply-side shock, particularly through disruptions in the Strait of Hormuz, which facilitates roughly one-fifth of global oil trade. Should disruptions persist, they will reinforce a higher-for-longer borrowing environment, in which mortgage rates are likely to remain elevated. While modest near-term increases are unlikely to materially alter buyer behavior, prolonged elevated rates could weigh on demand. Conversely, if tensions de-escalate and supply concerns ease, the recent spike in oil prices may prove transitory, allowing mortgage rates to compress. In that scenario, improving financing conditions could help support stronger buyer activity.

Supply of existing homes rapidly increasing. While the number of new homes for sale has declined modestly in each of the three months ending in February, existing home inventory in the U.S. rose more than 10 percent over the same period, reaching its highest level since 2020. This increase in supply is helping moderate sales-price growth, with existing home prices rising just 0.2 percent year-over-year in February, the slowest pace since mid-2023. Should elevated mortgage rates persist, the barrier to homeownership could rise, further decelerating existing home price growth through the rest of 2026.

Construction Trends

Development trends bifurcate. Annualized single-family completions in January were broadly in line with the past-decade average. Meanwhile, multifamily completions fell 14 percent below the prior January's level, which marked the highest reading since 1987. Ahead, single-family construction may begin to moderate slightly, as seasonally adjusted starts declined year-over-year in January. In contrast, multifamily starts rose over the same period, signaling an impending acceleration in completions. However, with permitting activity trending slightly below the trailing-decade average, evidence of a sustained increase in completions in the coming years has yet to materialize.

Construction costs still growing. The producer price index for construction materials continued to rise, increasing nearly 7.0 percent year-over-year in February, placing additional pressure on development. These cost pressures may be further compounded by rising oil prices, which indirectly raise the cost of construction inputs and transportation. Together, these trends point to potentially slowing housing starts and the possibility of project delays.



* Data points reflect January observations for each year
Sources: IPA Research Services; Freddie Mac; Moody's Analytics; National Association of Realtors; RealPage, Inc.; Federal Reserve Bank of St. Louis; Mortgage Bankers Association; National Association of Home Builders; U.S. Census Bureau