The worst is over for the US housing market – and prices will stop crashing within 6 months, Goldman Sachs says

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House prices are likely to have fallen 6% from their peak by the time they stop sliding later this year, according to Goldman Sachs. Reuters

The end is in sight for the US housing market's troubles, according to Goldman Sachs.

Strategists at the US bank said this week that easing mortgage rates are likely to help the market find a floor within six months – with prices likely to have fallen around 6% from their peak when housing bottoms out.

"The sharpest declines for the US housing market are now behind us," a team led by Goldman Sachs' chief economist Jan Hatzius said in a research note.

Low interest rates, stagnating supply and generous fiscal policies fueled something of a house price bubble in the two years after the coronavirus pandemic hit the US in March 2020.

But that was followed by the Federal Reserve's most aggressive monetary tightening campaign since the 1980s, with the central bank raising interest rates from near-zero to around 4.5% last year in a bid to crush soaring inflation. That pushed up mortgage rates to multi-year highs, leading to a slowdown in housing demand.

Thirty-year mortgage rates peaked at 7.24% in November but have slid by nearly one percentage point since, with cooling inflation sparking hopes the Fed may be nearing the end of its rate-hike cycle.

The retreat in mortgage rates should eventually filter through into the market by making it cheaper to borrow to buy a house, which Goldman Sachs believe will eventually halt the slide in prices.

"Since reaching 20-year highs of over 7% in October, mortgage rates have fallen by a percentage point, causing our housing affordability index to recover very slightly," they said.

House prices could fall more sharply on the US west coast because there's greater excess supply than in the more crowded mid-Atlantic and Midwest regions, the strategists added.

Goldman Sachs named Austin, San Francisco, San Diego, Phoenix, and Denver as the five US cities likely to see steeper price declines of over 10% from their peaks.

"On a regional basis, we project larger declines across the Pacific Coast and Southwest regions – which have seen the largest increases in inventory on average – and more modest declines across the Mid-Atlantic and Midwest – which have maintained greater affordability over the past couple years," Hatzius' team said.

But the bank's view that the market is only set for a minor correction isn't echoed by ordinary people.

Two-thirds of Americans believe that a housing market crash is "imminent in the next three years", according to a NerdWatch survey that sought to gauge views about the current slowdown.