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Experts Say US Housing Market Slump Likely to Worsen Through 2025

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The U.S. housing market shows no signs of recovery, with economists forecasting an even deeper downturn as the year progresses. Rising mortgage rates, unaffordable home prices, and weakening buyer demand are pushing the sector into increasingly fragile territory.

A new report from Oxford Economics warns that the already stagnant market could worsen significantly, citing a troubling mix of economic headwinds. Mathew Martin, an analyst at the firm, noted that the market's current stability is tenuous. "The supply of existing homes for sale is approaching pre-pandemic levels as a combination of high prices, elevated

mortgage rates, and concerns over the labor market keep buyers sidelined,” Martin explained. The report, titled Recession Monitor – Real test for economy is just beginning, highlights how both the new and existing home segments are under pressure.

Builders of new homes are also grappling with a surplus of unsold inventory, prompting them to offer more incentives such as price cuts. Martin added, “The new-home market is also being challenged, with builders continuing to offer incentives, including price cuts, in an effort to move unsold inventory.”

One major issue is the growing gap between home prices and wages. According to data from the National Association of Realtors (NAR), median home prices have soared 52 percent since May 2019. In contrast, wages only grew by 30 percent in the same period. This affordability mismatch is locking out many would-be buyers, especially first-time homeowners.

Realtor.com predicts that just four million home sales will take place in the U.S. this year, the lowest level since 1995. That aligns with NAR projections and highlights just how significantly activity has declined.

Daiwa Capital Markets analysts Lawrence Werther and Brendan Stuart echoed these concerns in a separate report earlier this week. “A longstanding lack of inventory has supported both high prices and sluggish sales in the market for existing homes,” they noted. “Substantial improvement is unlikely to materialize in the near term until mortgage rates (and/or prices) ease, thereby mitigating the current affordability challenges faced by potential buyers.”

Mortgage rates, meanwhile, remain stubbornly high. Oxford Economics forecasts that the average 30-year fixed mortgage rate will hover around 6.7 percent for most of 2025, only dropping slightly to 6.4 percent by year-end. These rates continue to discourage new buyers and make refinancing nearly impossible for many current homeowners.

Lawrence Yun, Chief Economist at the NAR, explained that years of lagging home construction have created a critical shortage in supply. “Multiple years of undersupply are driving the record-high home prices. Home construction continues to lag population growth,” Yun said. “This is holding back first-time home buyers from entering the market.”

Despite cooling sales, economists don't expect home prices to fall significantly. Oxford Economics anticipates a modest 2.5 percent rise in home prices through 2025. Many sellers, unwilling to accept lower offers, choose to pull their listings rather than drop their asking prices. In June alone, more than 20 percent of listed homes saw price reductions, the highest share for that month since 2016.

The situation is especially pronounced in cities like Phoenix, Arizona, where a spike in delistings reflects a market in flux. Analysts attribute this trend to areas in the South and West reaching pre-pandemic inventory levels while prices remain flat or are beginning to dip.

Mark Zandi, Moody's chief economist, has raised the alarm, warning that the housing slowdown could become a broader economic drag. "I sent off a yellow flare on the housing market in a post a couple of weeks ago, but I now think a red flare is more appropriate," Zandi said in a recent post on X (formerly Twitter).

With buyers hesitant, prices stubborn, and mortgage rates hovering near multi-decade highs, the outlook for the housing market remains bleak, and many experts believe the worst is yet to come.