

The Impact of U.S. Housing Price Fluctuations on Economic and Social Development

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Abstract. As a vital component of the national economy, the real estate sector sees housing price fluctuations that not only on the functioning of the property market itself but also, through channels such as the wealth effect, credit constraints, further influence economic development. This paper focuses on the U.S. housing market and discusses how changes in housing prices may affect economic growth, people's daily lives, social inequality, population movement, and regional development. Housing prices are not only a market indicator. To examine this issue, the paper reviews existing studies, compares relevant indicators, and uses quantitative analysis based on publicly available data. A time-series regression model is also built to explore the possible links between housing prices and broader economic outcomes. The results show that rising housing prices may support economic growth in the short run through the wealth effect and real estate investment. But if housing prices increase too quickly, they can also create heavier housing burdens for families and reduce their ability to spend on other goods and services. High housing prices may also affect young families' willingness to have children or move to other places. In addition, rapid increases in housing prices can make the wealth gap between homeowners and non-homeowners even larger. On the other hand, falling housing prices may help some people afford homes more easily. However, if the decline is too sharp, it may also create pressure on financial stability and negatively affect regional economic development.

Keywords: U.S. Housing Price fluctuations, economic, social development

1. Introduction

In the modern economic system, the real estate industry occupies a very important position. Because housing is an important intermediary for family asset allocation, financial credit, and urban development, it still remains a necessity upon which residents rely. According to the United States, fluctuations in the housing market are closely intertwined with household wealth, mortgage lending, local government finances, construction investment, and labor mobility. Rising housing prices generally increase the wealth of existing homeowners and may therefore influence their consumption and investment choices. If housing prices rise too quickly, it becomes harder for people who do not already own a home to enter the housing market. This may also widen the wealth gap between different households. For this reason, changes in housing prices should not be seen only as

a real estate market issue. They are also related to people's daily lives, economic activity, and the broader social structure.

In recent years, the U.S. housing market has remained at a high price level, while high interest rates and low market liquidity have also become important features. Fonseca, Liu, and Mabilie point out that many U.S. homeowners previously obtained fixed-rate mortgages at low interest rates. When market interest rates rise, selling their current homes would mean giving up those low-rate mortgages and facing higher borrowing costs when buying another home. As a result, many homeowners choose to delay selling their properties. This creates the so-called "mortgage lock-in effect." The lock-in effect reduces the number of homes listed for sale, makes housing supply tighter, and may continue to support housing prices to some extent [1]. However, the rise in U.S. housing prices cannot be explained only by limited supply. Mondragon and Wieland find that after the COVID-19 pandemic, the spread of remote work increased households' demand for living space. This change accounted for a large share of the increase in real U.S. house prices from 2019 to 2023 [2]. This suggests that housing price movements are shaped by several factors at the same time, including interest rates, credit conditions, work patterns, housing preferences, and population migration. In other words, U.S. housing price changes are not caused by one single factor. They are the result of financial conditions, housing supply, and household demand working together.

This paper focuses more on the social effects of housing price fluctuations, rather than only on whether prices rise or fall. Social development in this paper includes housing affordability, household consumption, fertility decisions, child development, population mobility, social equity, and intergenerational wealth accumulation. Existing studies show that rising housing costs can change household spending patterns. They may also affect children's physical and mental development indirectly through financial pressure and parental stress [3]. At the same time, higher housing prices may influence homeowners and non-homeowners in different ways. For families that already own homes, rising home values may increase their sense of wealth and make them more willing to have children. For families without homes, higher housing costs may create more pressure and reduce their willingness to have children [4]. High housing prices can also affect migration. When people face high housing or moving costs, they may be less willing to move to expensive areas. This can weaken labor mobility and affect the allocation of resources [5]. From the supply side, limited housing supply and land-use regulations are also important reasons why housing prices rise and housing affordability declines [6, 7]. Differences in housing prices across cities are also related to housing quality, location, and demand structure [8]. Therefore, this paper will consider demand, interest rates, credit conditions, supply, and social structure when analyzing U.S. housing price fluctuations. In terms of research method, this paper combines literature review and empirical analysis. It uses public data from FRED, FHFA, the U.S. Census Bureau, and the Internal Revenue Service. The main variables include the house price index, mortgage rates, housing starts, personal consumption expenditures, Gross Domestic Product (GDP), unemployment rate, household income, and homeownership rate. These indicators will be used for descriptive statistics and regression analysis. Previous research also shows that housing asset returns, financial support from parents, and long-term differences in homeownership across social groups can strengthen intergenerational wealth transmission and social inequality [9-11]. Based on the literature and empirical results, this paper will further discuss housing affordability, social equity, and possible policy adjustments in the U.S. housing market.

2. The current status of U.S. housing price fluctuations and research hypotheses

2.1. Long term trend of U.S. housing price changes

In the long run, U.S. housing prices have generally moved upward. This rise has not been smooth, since several clear cycles appeared during the sample period. Based on the chart made in Stata, the U.S. national house price index increased from a little above 60 around 1987 to nearly 330 around 2025. The housing market did fall sharply after the 2007 to 2009 financial crisis. Still, when the whole period is considered, the main direction is still upward.

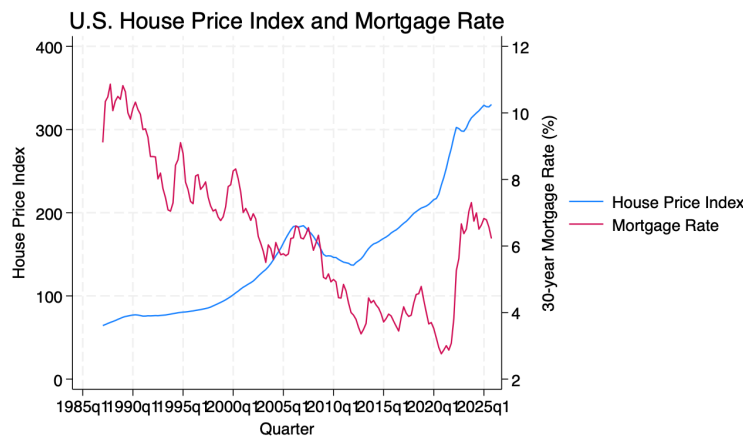


Figure 1. U.S. house price index and mortgage rate

Picture credit: Original

Figure 1 compares the house price index with the 30-year fixed mortgage rate. The house price index shows a clear long-term increase. Mortgage rates moved in a different way. In the late 1980s, the mortgage rate was close to or above 10 percent. After that, it declined for many years and fell below 3 percent around 2020. After 2022, as the Federal Reserve raised interest rates, mortgage rates quickly moved back to around 6 to 7 percent. Lower rates usually make home buying cheaper and can support housing demand. But the figure also shows that interest rates are not the only reason for changes in house prices. Since 2022, mortgage rates have risen a lot, but house prices have not collapsed in the same way as they did during the financial crisis. Prices stayed high, although the growth rate slowed. This may be related to limited housing supply, the mortgage lock in effect, income growth, inflation expectations, and population movement.

2.2. Recent features of U.S. housing price changes

The year over year growth rate shows the cycle of U.S. housing prices more clearly. In Figure 2, housing price growth declined from 1987 to 1991 and later moved close to or below zero. From 1997 to 2005, the growth rate kept rising, which was also the period when the U.S. housing bubble was forming. During the 2007 to 2009 financial crisis, the growth rate turned negative and dropped to about negative 13 percent. After 2012, it became positive again. The strongest increase appeared after the pandemic. From 2020 to 2022, the growth rate reached the highest level in the sample period, with a peak close to 18 percent. Since 2023, higher interest rates have slowed the growth of house prices, but the rate has still remained above zero in most quarters.

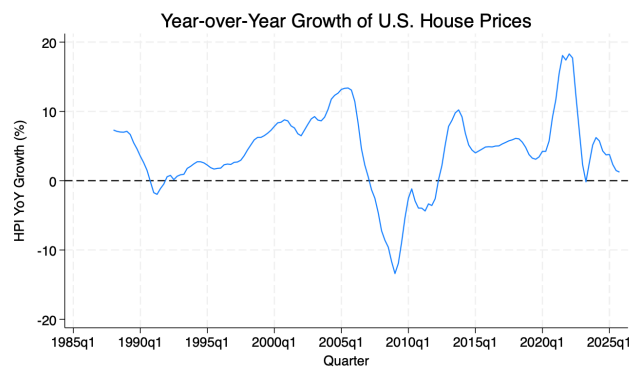


Figure 2. Year-over-year growth of U.S. house prices

Picture credit: Original

These changes show that U.S. housing prices do not simply rise in a straight line. They move in cycles, and those cycles are affected by financial conditions, housing supply, household income, policy shocks, and market expectations. Regional differences are also important. Coastal cities with high housing prices have long been affected by limited land and strict regulation. Some Sunbelt cities, which used to be known for more flexible housing supply, have also faced slower construction and rising prices in recent years [7]. For this reason, U.S. housing price changes should be understood as the result of both national trends and local housing conditions.

2.3. Main driving factors

Several factors help explain changes in U.S. housing prices. Interest rates and credit conditions are especially important. When interest rates fall, borrowing becomes cheaper and housing demand usually rises. When rates rise, monthly mortgage payments become heavier, and buying a home becomes less affordable. However, the U.S. fixed rate mortgage system makes this relationship more complicated. Many homeowners already have low mortgage rates. If they sell their homes and buy again, they may need to take a new loan at a much higher rate. Because of this, some owners choose not to sell. This reduces the supply of existing homes and creates the mortgage lock in effect [1].

Housing supply also matters. Land use rules, construction costs, approval delays, and local opposition to new housing can all limit new supply and push prices upward [6, 7]. Changes in work patterns are another factor. After the pandemic, remote work increased the demand for larger homes and changed where some families wanted to live [2]. High housing prices can also reduce migration to areas with better jobs and higher wages. This may weaken labor mobility and affect how resources are allocated across regions [5]. Family wealth is also connected to the housing market. Families that already own homes can use home value gains or home equity to help their children buy homes. Families without housing assets face a higher barrier to entering the market, which can widen wealth gaps across generations [10].

Based on these points, this paper develops four main hypotheses. H1 is that rising house prices may support economic activity in the short run through the housing wealth effect and real estate investment, but very fast growth may crowd out household consumption and investment in the real economy. H2 is that higher house prices increase housing cost pressure and may affect consumption, child development, and fertility decisions through.

3. Research design and results by hypothesis

3.1. Data sources sample scope and special values

This section looks at how changes in housing prices affect social development from different angles. The analysis uses quarterly national data for the United States. Most of the data comes from CSV files downloaded from FRED. Key data points include: the S&P CoreLogic Case-Shiller U.S. National Home Price Index, 30-year fixed mortgage rates, housing starts, residential construction spending, real personal consumption expenditures, real GDP, the unemployment rate, CPI, the homeownership rate, population, and real median household income. The sample period is set from 1987Q1 to 2025Q4, which is determined based on the availability of variable data. The data was processed in Stata. Since the original variables came in different frequencies, they were first changed into quarterly data. Monthly and weekly data were averaged by quarter. Variables that were already quarterly were kept unchanged. Annual income data were matched to the quarters in the same year. Some FRED variables included missing values, blank cells, or non-numeric entries. These values were cleaned before the regression analysis, and the variables were then converted into numeric form. For house prices, housing starts, residential construction spending, consumption, GDP, CPI, income, and population, natural logs were taken and year over year growth rates were calculated. This helps reduce the effect of long-term trends and differences in scale.

3.2. Variable definition

The core explanatory variable is housing price fluctuation, represented by the year-over-year growth rate of the U.S. National Housing Price Index:

$$HPI_{\text{growth},t} = 100 \times [\ln(HPI_t) - \ln(HPI_{t-4})] \quad (1)$$

Among these, HPI_t denotes the U.S. national house price index for the t -th quarter. This variable reflects the rate of change in housing prices in the current quarter compared to the same quarter of the previous year.

The dependent variables are classified into three categories based on the research dimensions. First, economic development variables, including the year-over-year growth rates of real personal consumption expenditures, housing starts, residential construction expenditures, and real GDP. Second, the variables for livelihood security, including the homeownership rate, the housing price-to-income pressure indicator, and the growth rate of consumption. Third, social structural variables are discussed primarily through a literature analysis, encompassing housing wealth disparities, intergenerational home-buying support, child development, racial disparities in homeownership rates, and population migration. The control variables include the 30-year fixed mortgage rate, the unemployment rate, the year-on-year growth rate of real GDP, the year-on-year growth rate of the CPI, a dummy variable for the pandemic, and a dummy variable for the financial crisis. Specifically, the mortgage interest rate measures the cost of housing credit; the unemployment rate reflects the state of employment and macroeconomic conditions; the CPI measures the inflationary environment; the COVID-19 dummy variable controls for the exceptional shocks of 2020–2021; and the financial crisis dummy variable controls for the crisis shocks of 2007Q4–2009Q2.

3.3. Model specification

The baseline model in this paper is specified as follows:

$$Y_t = \alpha + \beta HPI_{growth,t} + \gamma MortgageRate_t + \delta Unemployment_t + \theta GDP_{growth,t} + \lambda CPI_{growth,t} + \mu COVID_t + \eta GFC_t + \varepsilon_t \quad (2)$$

Here, (Y_t) represents social development-related indicators, including the year-on-year growth rate of real consumption, the year-on-year growth rate of housing starts, the year-on-year growth rate of residential construction spending, or the homeownership rate. (HPI_growth_t) represents the year-on-year growth rate of house prices; ($MortgageRate_t$) represents the 30-year fixed mortgage rate; ($Unemployment_t$) represents the unemployment rate; (GDP_growth_t) represents the year-on-year growth rate of real GDP; and (CPI_growth_t) represents the year-on-year growth rate of CPI. ($COVID_t$) and (GFC_t) are dummy variables for the COVID-19 pandemic period and the Global Financial Crisis period, respectively. Considering that time-series data may suffer from autocorrelation, this paper uses Newey-West standard errors for correction.

3.4. Impact on economic development

Rising house prices can affect economic growth in two different ways. When prices go up, real estate developers may expect higher returns, so they become more willing to start new projects. This can increase housing starts and residential construction spending. It can also support related industries such as construction, building materials, home renovation, and financial services. Figure 3 shows that the year over year growth rate of housing starts changes much more sharply than the growth rate of house prices. This means that housing construction is very sensitive to market cycles and the broader economy. During the financial crisis, the growth rate of housing starts fell to around negative 70 percent. This shows how quickly construction activity weakened at that time. After the pandemic, housing demand recovered, and housing starts also rebounded.

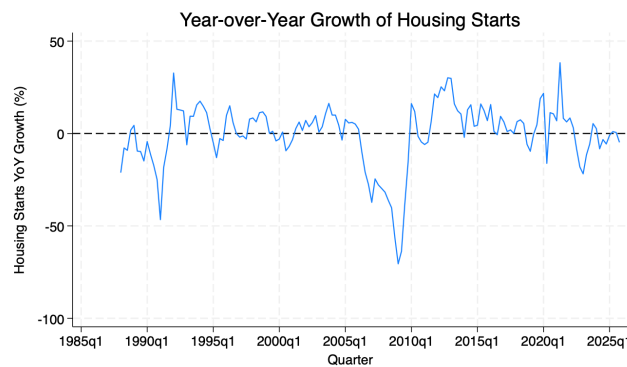


Figure 3. Year-over-year growth of housing starts

Picture credit: Original

Fast growth in house prices can also create pressure. When too much capital flows into real estate, investment in the real economy may be crowded out. High housing prices can also raise land costs for firms and living costs for residents. This may make a city less attractive to workers and businesses. In the long run, stable housing prices may be more helpful for economic development than simply pushing prices higher.

3.5. Effects on living conditions

Housing price changes also affect people's living conditions. The main effects can be seen in household consumption, housing affordability, and quality of life. Figure 4 shows a positive relationship between house price growth and consumption growth. The fitted line also moves upward. This suggests that rising house prices may increase consumption through the housing wealth effect.

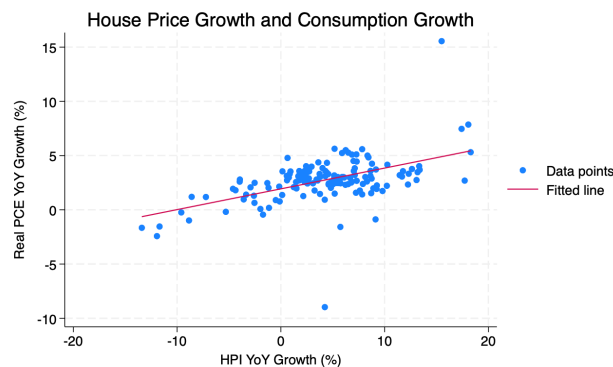


Figure 4. House price growth and consumption growth

Picture credit: Original

Still, this positive relationship does not mean that higher house prices always improve living standards. Figure 5 shows that the housing price to income pressure index has been rising for a long time, especially after 2020. This means that housing costs have become heavier compared with real household income. If house prices keep rising faster than income, housing affordability will decline, and residents quality of life may also be affected.

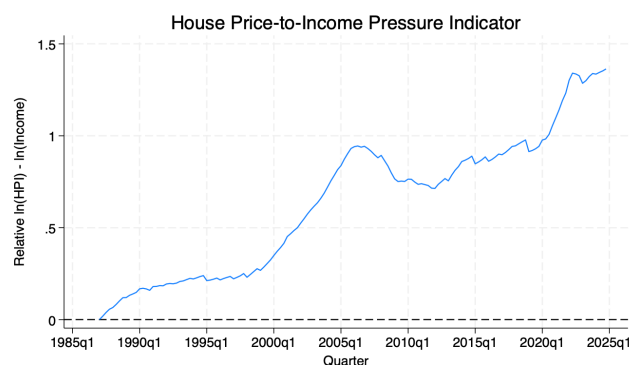


Figure 5. House Price-to-income pressure indicator

Picture credit: Original

4. Policy suggestions for housing price changes and social development

The Stata graphs show that the U.S. house price index has risen in the long run, but its yearly growth rate has moved in clear cycles. In Figure 1, house prices keep moving upward, while mortgage rates first fall for many years and then rise quickly in recent years. Figure 2 shows a sharper cycle. House price growth turned negative during the financial crisis, reached a high point after the pandemic, and

then slowed again under higher interest rates. Figure 3 shows that housing starts changed much more than house prices, which suggests that construction activity is very sensitive to market cycles and the broader economy. Figure 4 shows a moderate positive relationship between house price growth and real consumption growth. This may reflect the effect of housing wealth. Figure 5 shows that pressure from the house price to income ratio has kept rising, so housing affordability is getting worse.

These results generally support the earlier hypotheses. Rising house prices may raise consumption through the wealth effect. They may also encourage construction by improving developers' expected returns. Still, the effect is not always good. If house prices keep rising faster than income, housing pressure will become heavier for ordinary households. The gap between homeowners and non-homeowners may also become larger.

The empirical part uses a Newey West time series regression model. It examines how year over year house price growth affects real personal consumption expenditures, housing starts, residential construction spending, and the homeownership rate. The regression also controls mortgage rates, unemployment, real GDP growth, CPI growth, and shocks from the COVID pandemic and the financial crisis. When house price growth has a positive effect on consumption or construction related variables, it suggests that housing prices may influence economic activity through both the effect of the wealth and investment expectations. If the mortgage rate coefficient is negative, it means higher interest rates can weaken housing demand and put pressure on construction.

Based on these results, housing policy should not simply aim to push prices down or keep prices rising. The more important goal is to avoid both rapid price increases and sharp price declines. Since population inflows, housing demand, income levels, and inventory pressure differ across regions, policy should also vary by local conditions. In areas with stronger housing pressure, the government can increase affordable housing and rental housing supply and make land use and construction approval more efficient. At the same time, financial leverage in real estate should be managed carefully, so that housing price growth does not rely too much on credit expansion.

Policies should also pay attention to the actual housing burden faced by residents. Rental subsidies, down payment support, and more equal public services can help reduce pressure on some households. These measures may also limit speculative demand in the housing market. Housing policy should not only focus on raising the homeownership rate. It should also care about residential stability, affordability, and social fairness. In the long run, helping more families live in stable and affordable housing may be more important than focusing only on whether house prices rise or fall.

5. Conclusion

This study focuses on the U.S. housing market and examines how housing price changes may affect social development. It uses literature review, indicator comparison, and Stata time series analysis. The results show that the U.S. house price index has generally increased in the long run. At the same time, clear cycles appeared around the financial crisis and the COVID 19 pandemic. Housing prices are not only affected by interest rates and credit conditions. They are also related to housing supply, remote work, migration, construction costs, family wealth, and social structure.

The graph results show a positive relationship between house price growth and household consumption growth. This suggests that the housing wealth effect may exist. Housing starts also changed more sharply than house prices, which means construction activity is more sensitive to market cycles and the broader economy. The housing price to income pressure index continued to rise. This shows that house prices have grown faster than household income, and housing affordability has become worse. In this sense, rising house prices can support economic activity

through consumption and construction investment. But if prices rise too fast, they may also increase housing pressure, reduce other household spending, widen the wealth gap across generations, and limit population movement. These effects can hurt social fairness and long-term development. Based on these findings, housing price changes should be addressed from several sides, including economic stability, living conditions, social fairness, and regional balance. Local governments can adjust policies based on different city conditions. In high demand areas, increasing housing supply may be necessary. Rental housing and affordable housing systems also need to be improved. At the same time, real estate credit should be managed carefully, speculative demand should be limited, and public services should become more equal across regions. These measures may help reduce housing pressure and lower the unequal effects of housing price changes on different groups.

This paper still has some limits. The data are quarterly data at the national level, so they cannot fully show differences across cities and regions. The analysis also focuses more on correlation, rather than strict causal effects. Future research could use state level or city level panel data. Fixed effects, instrumental variables, or difference in differences methods could also be used to study how housing price changes affect consumption, migration, fertility, education, and wealth distribution in different places.

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