

A Mid-Year Review: The Housing Market & Broader Economy

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July 13, 2023

The background of the slide is a teal-colored map of Austin, Texas. The map shows the city's street grid, major highways, and the Colorado River winding through the city. The map is rendered in a light teal color against a darker teal background.

THE BROADER ECONOMY

BROADER MACROECONOMIC TURBULENCE



Decelerating, Albeit Elevated Inflation



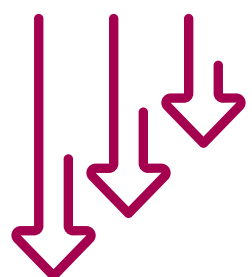
Slowing, But Robust Labor Market



Potential for More Rate Hikes

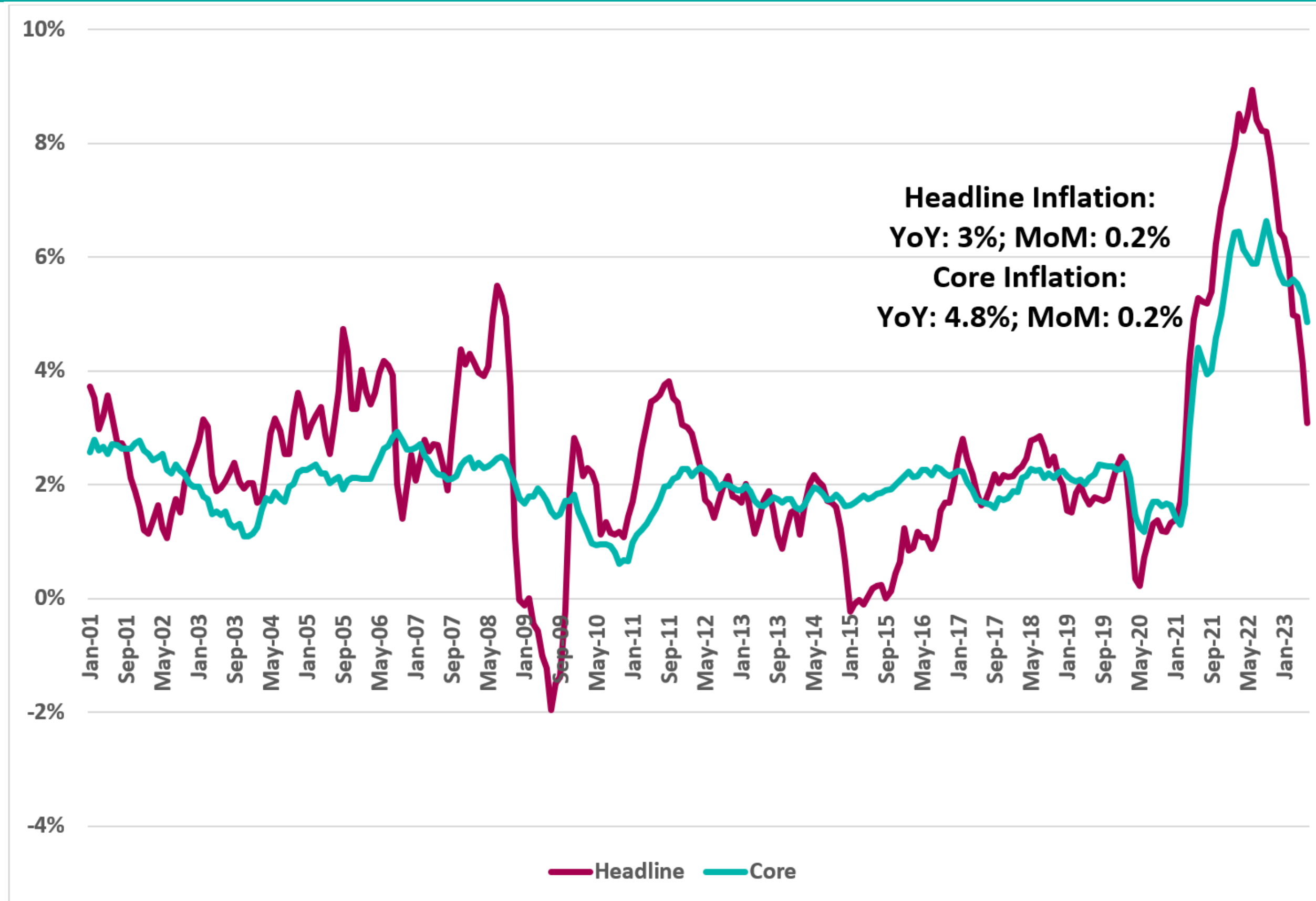


Household Balance Sheets Resilient



Banks Tightening Credit

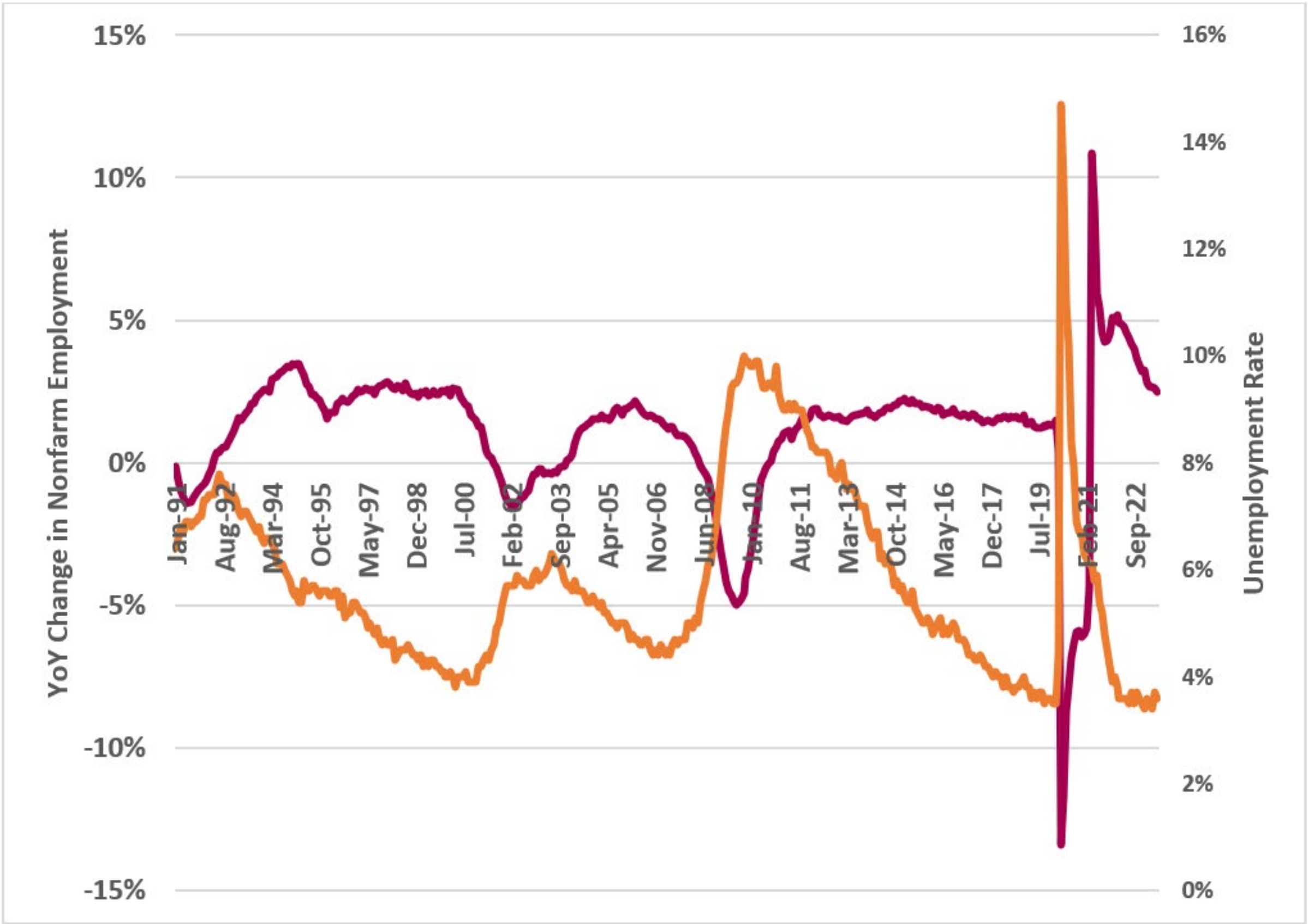
CONSUMER INFLATION COOLING, BUT STILL ELEVATED



Source: Bureau of Labor Statistics

July 13, 2023

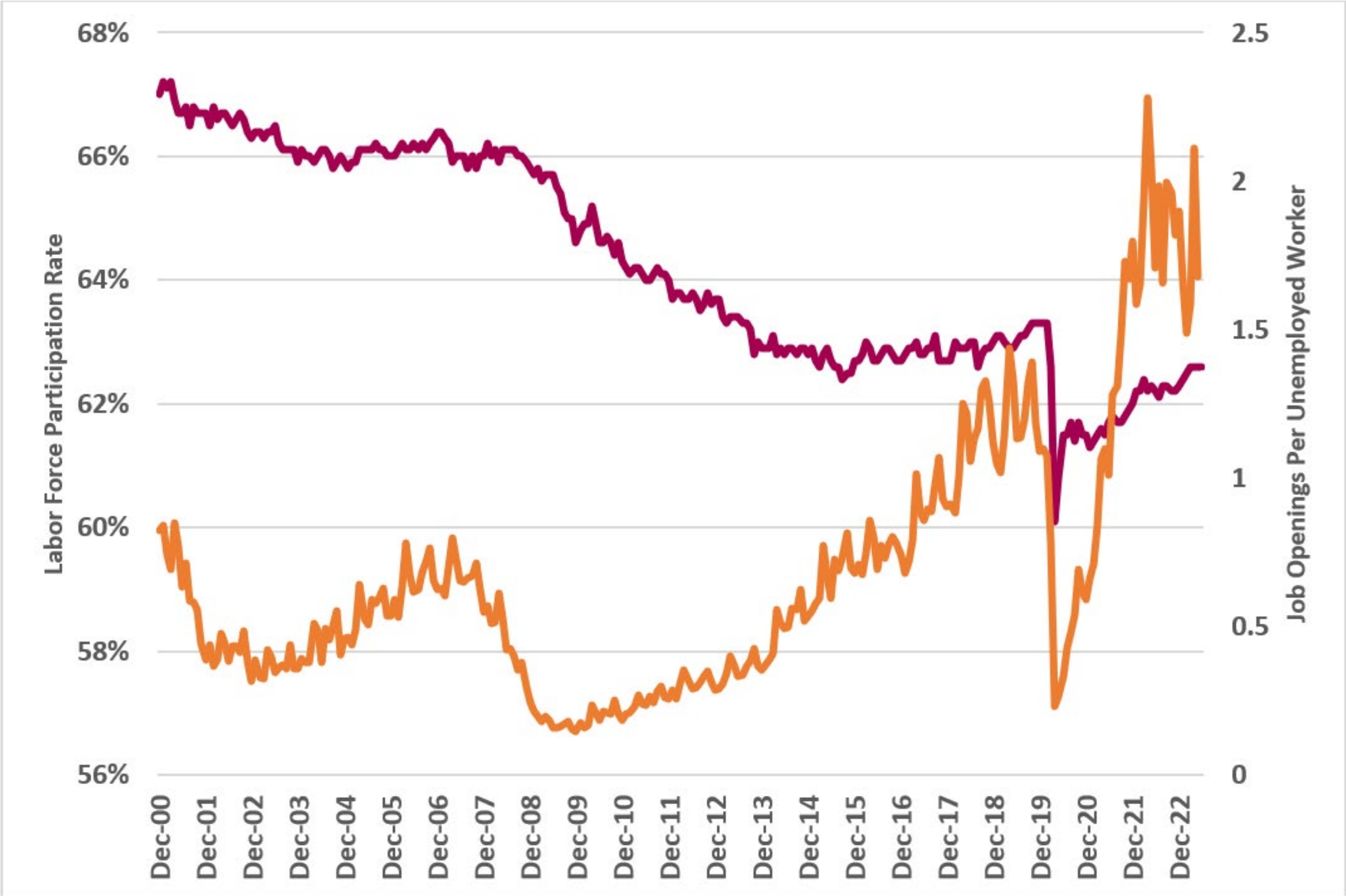
LABOR MARKET SOFTENING SLIGHTLY, BUT REMAINS RESILIENT



Source: Bureau of Labor Statistics

July 13, 2023

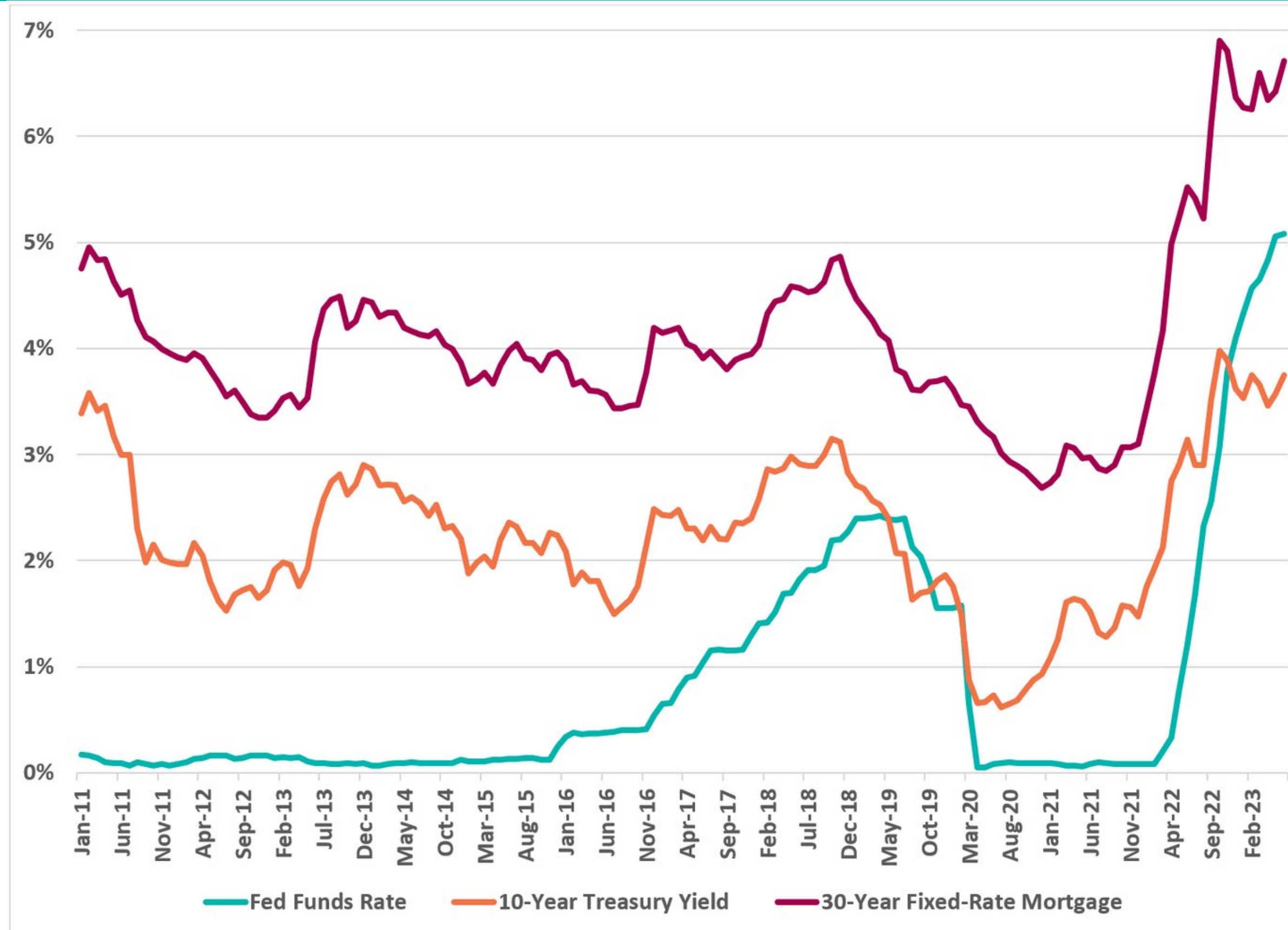
LABOR MARKET SOFTENING SLIGHTLY, BUT REMAINS RESILIENT



Source: Bureau of Labor Statistics

July 13, 2023

RATE HIKES BY FEDERAL RESERVE INCREASING BORROWING COSTS



Fed funds
rate at
highest
level in 16
years

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POTENTIAL FOR TWO ADDITIONAL RATE HIKES

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Fed's Powell Suggested July Rate Rise Is Likely, Analysts Say

Officials didn't raise rates this week but penciled in two more hikes this year

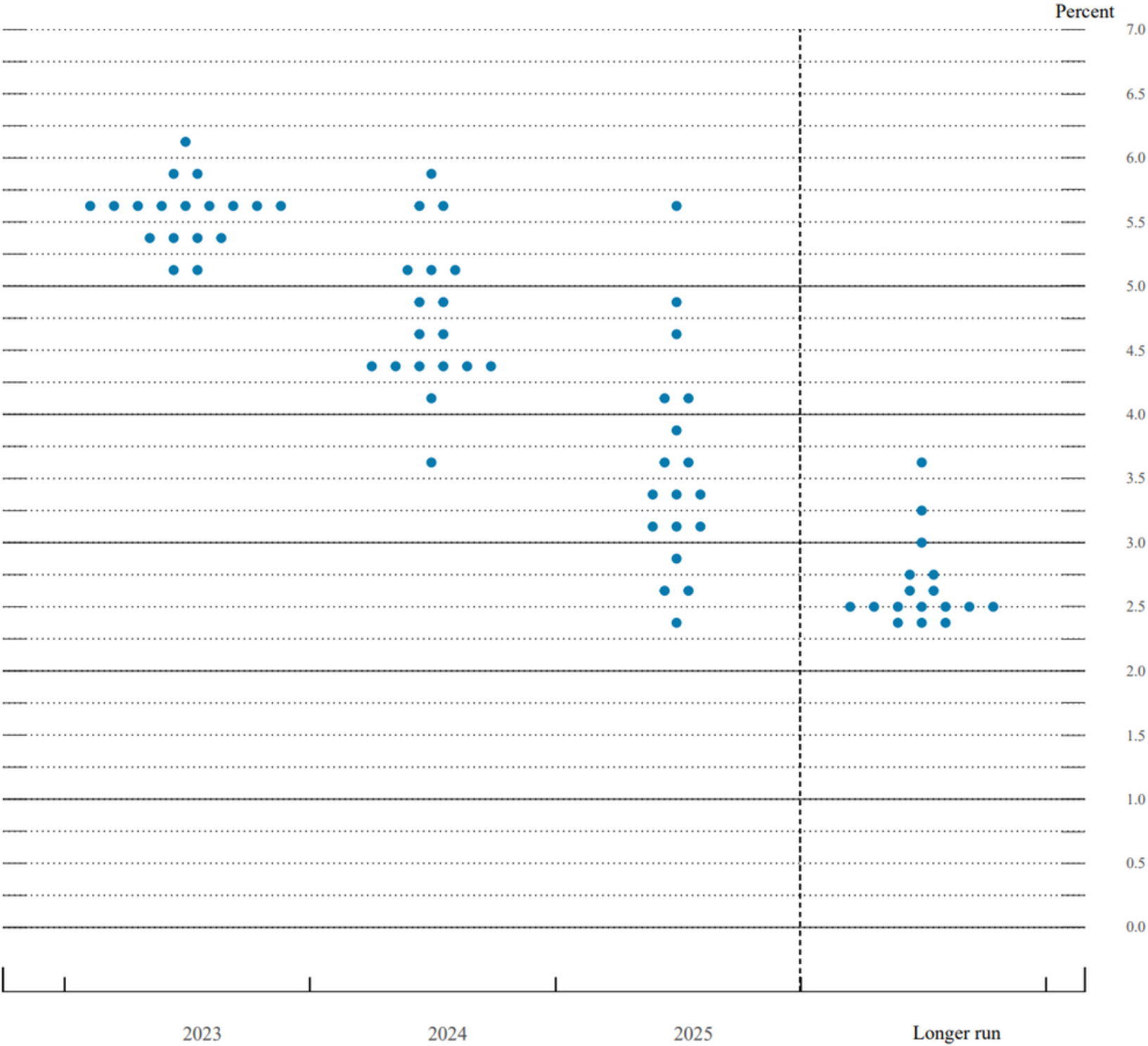
By Nick Timiraos [Follow](#)

June 15, 2023 8:33 am ET

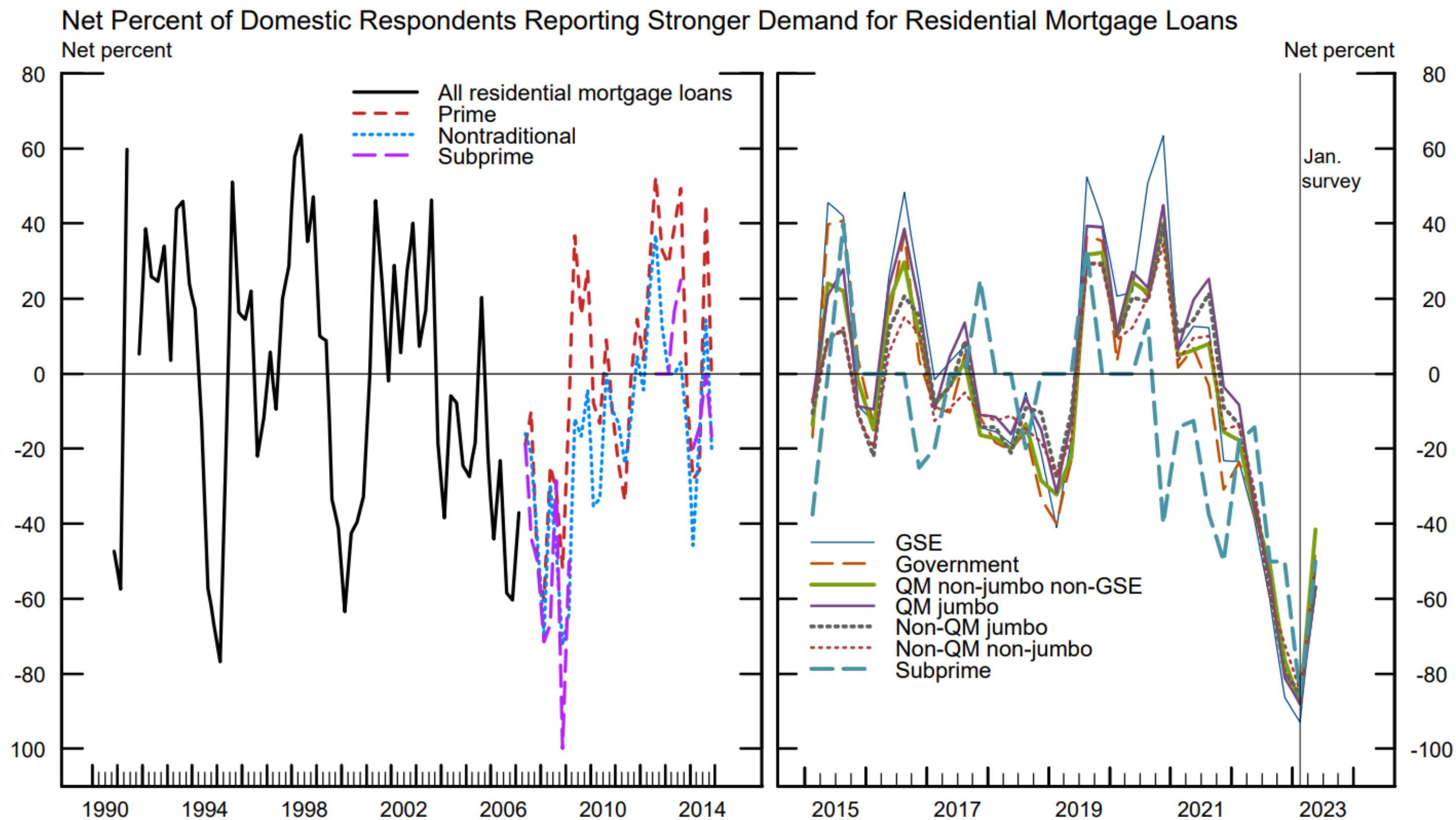
July 13, 2023

POTENTIAL FOR TWO ADDITIONAL RATE HIKES

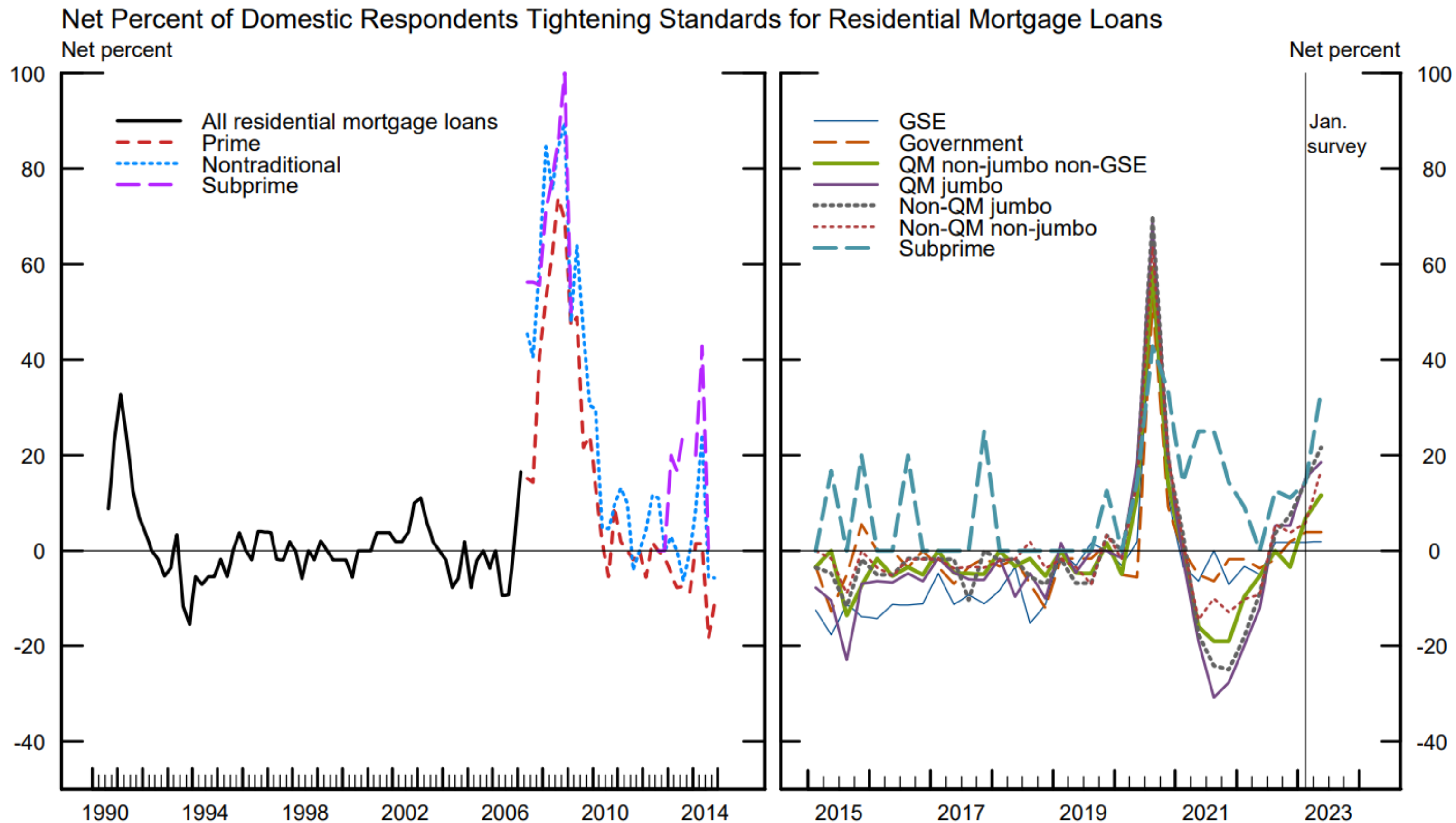
Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



DEMAND FOR RESIDENTIAL LOANS REMAINS LOWER, BUT REBOUNDBING



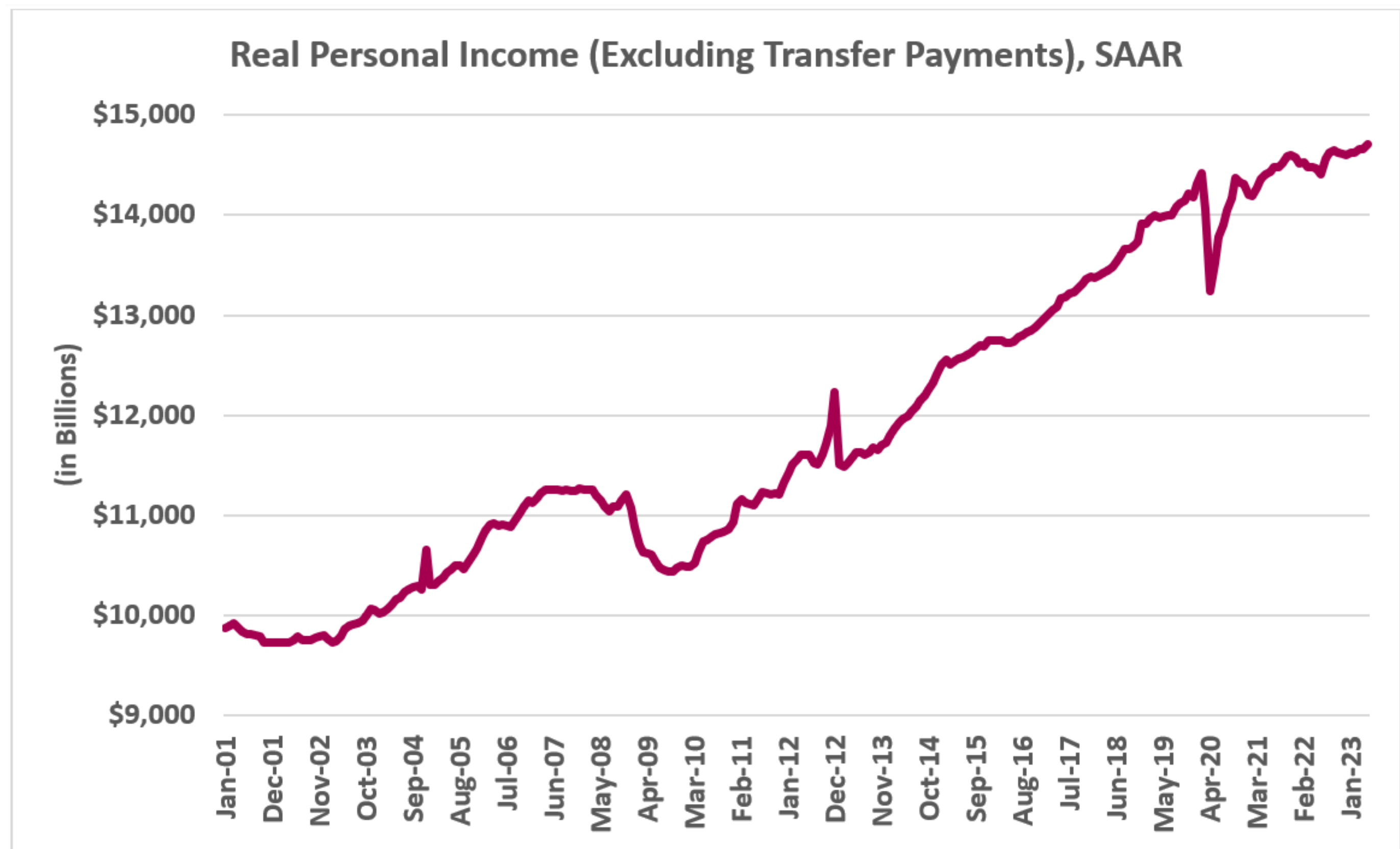
RESIDENTIAL RE CREDIT TIGHTENING



Source: Federal Reserve Board, Senior Loan Officer Opinion Survey on Bank Lending Practices

July 13, 2023

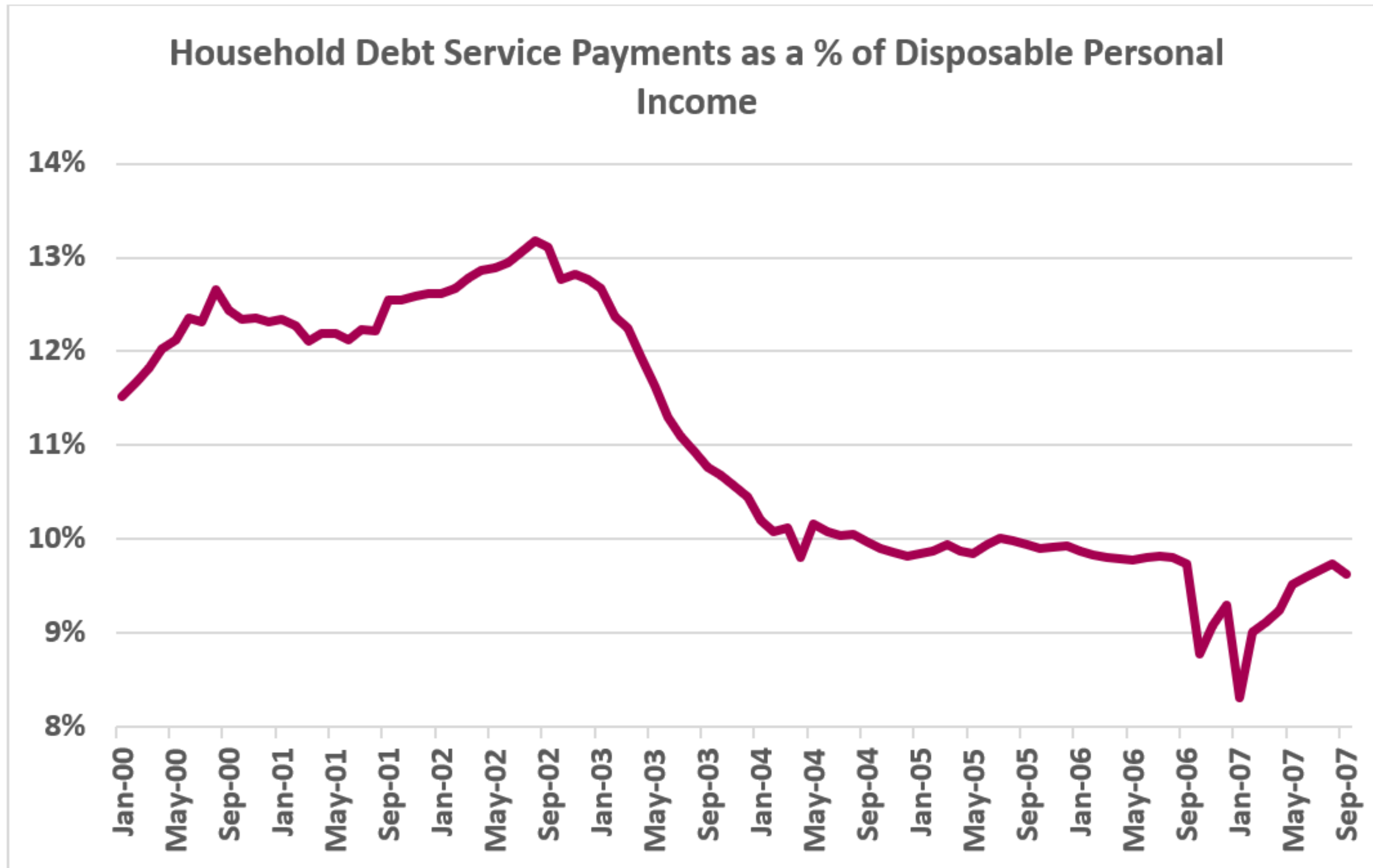
HOUSEHOLD BALANCE SHEETS STILL RELATIVELY RESILIENT AMID HIGH INFLATION



Source: Bureau of Economic Analysis

July 13, 2023

HOUSEHOLD BALANCE SHEETS STILL RELATIVELY RESILIENT AMID HIGH INFLATION

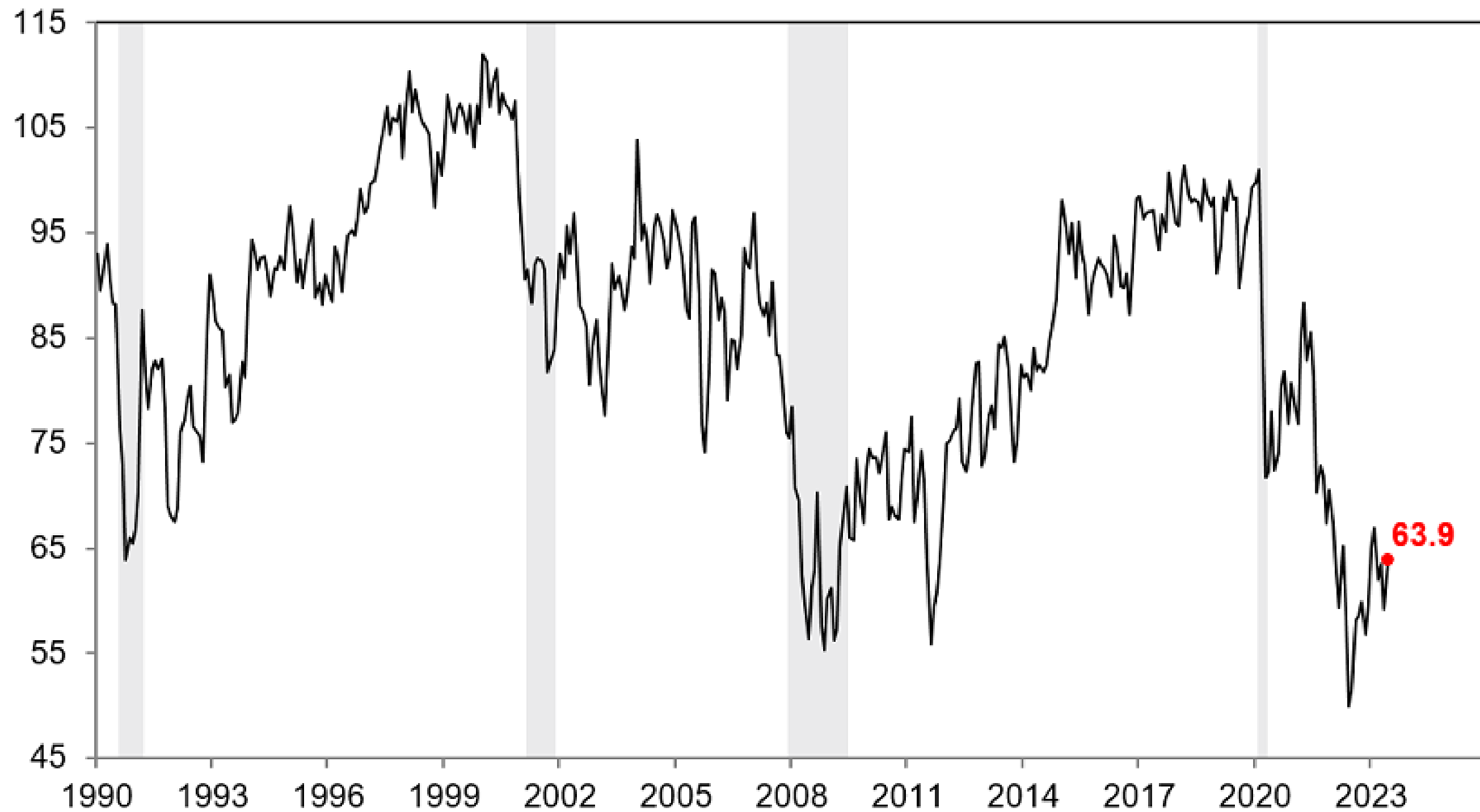


Source: Bureau of Economic Analysis

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CONSUMERS CONCERNED OVER STATE OF ECONOMY

Index of Consumer Sentiment

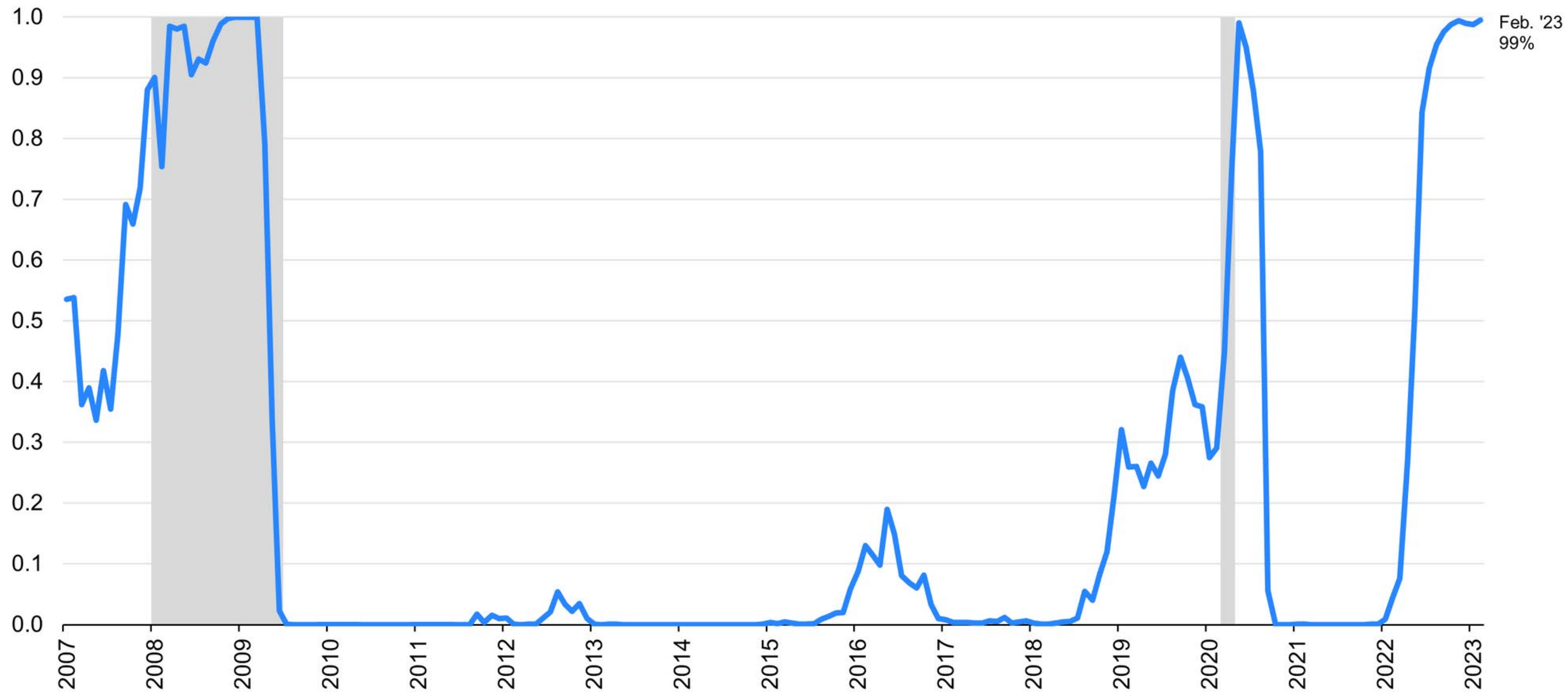


University of Michigan 2023

July 13, 2023

RECESSION LIKELY OVER NEXT 12 MONTHS

US Recession Probability (0-1)



Source: The Conference Board, 2023

July 13, 2023

A teal-colored background featuring a stylized map of Austin, Texas. The map shows the city's street grid, major highways, and the Colorado River winding through the center. The map is rendered in a lighter shade of teal against the darker teal background.

THE HOUSING MARKET

HEADWINDS TO THE HOUSING MARKET



Higher Mortgage Rates



Sustained High Inflation



Potential for Further Monetary
Policy Tightening



Affordability Constraints

HIGHER INFLATION EXTENDS THE TIME TO SAVE FOR A DOWNPAYMENT ON HOME

Years to Save for 5% Downpayment on Starter Home

	Inflation							
Income	2%	3%	4%	5%	6%	7%	8%	9%
\$50,000	7.2	7.3	7.3	7.4	7.5	7.6	7.6	7.7
\$60,000	6.0	6.0	6.1	6.2	6.2	6.3	6.4	6.4
\$70,000	5.1	5.2	5.2	5.3	5.3	5.4	5.5	5.5
\$80,000	4.5	4.5	4.6	4.6	4.7	4.7	4.8	4.8
\$90,000	4.0	4.0	4.1	4.1	4.2	4.2	4.2	4.3
\$93,450	3.8	3.9	3.9	4.0	4.0	4.0	4.1	4.1
\$100,000	3.6	3.6	3.7	3.7	3.7	3.8	3.8	3.9
\$110,000	3.3	3.3	3.3	3.4	3.4	3.4	3.5	3.5
\$120,000	3.0	3.0	3.1	3.1	3.1	3.1	3.2	3.2
\$122,300	2.9	3.0	3.0	3.0	3.1	3.1	3.1	3.2

Source: ABoR, Bureau of Labor Statistics

BUYERS MUST EARN HIGHER INCOMES TO QUALIFY FOR SAME-PRICED HOME

Maximum Required Income to Qualify for a Mortgage Loan (Repeat Buyers)

Home Price Range	May '20	May '21	May '22	May '23
\$0 - \$69,999	\$17,894	\$17,565	\$20,508	\$22,215
\$70,000 - \$99,999	\$25,562	\$25,093	\$29,297	\$31,735
\$100,000 - \$149,999	\$38,344	\$37,640	\$43,946	\$47,603
\$150,000 - \$199,999	\$51,125	\$50,186	\$58,595	\$63,470
\$200,000 - \$249,999	\$63,906	\$62,733	\$73,244	\$79,338
\$250,000 - \$299,999	\$76,687	\$75,280	\$87,892	\$95,205
\$300,000 - \$399,999	\$102,250	\$100,373	\$117,190	\$126,941
\$400,000 - \$499,999	\$127,813	\$125,467	\$146,488	\$158,676
\$500,000 - \$749,999	\$191,719	\$188,200	\$219,731	\$238,014
\$750,000 - \$999,999	\$255,625	\$250,933	\$292,975	\$317,352
\$1,000,000 +	-	-	-	-

Source: ABoR

BUYERS MUST EARN HIGHER INCOMES TO QUALIFY FOR SAME-PRICED HOME

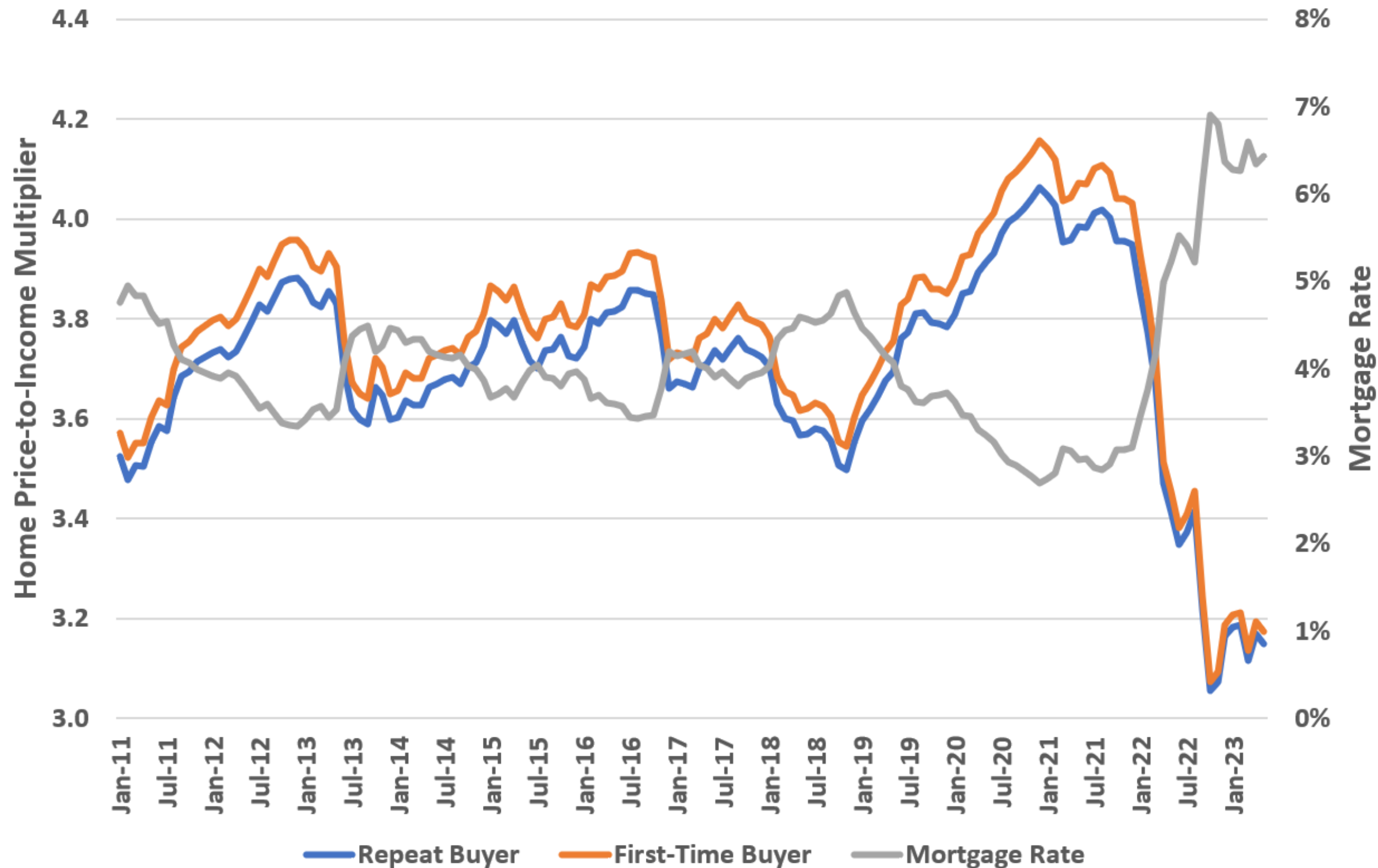
Maximum Required Income to Qualify for a Mortgage Loan (First-Time Buyers)

Home Price Range	May '20	May '21	May '22	May '23
\$0 - \$69,999	\$17,536	\$17,191	\$20,277	\$22,054
\$70,000 - \$99,999	\$25,052	\$24,558	\$28,966	\$31,506
\$100,000 - \$149,999	\$37,578	\$36,837	\$43,449	\$47,259
\$150,000 - \$199,999	\$50,104	\$49,116	\$57,933	\$63,012
\$200,000 - \$249,999	\$62,630	\$61,395	\$72,416	\$78,765
\$250,000 - \$299,999	\$75,156	\$73,674	\$86,899	\$94,518
\$300,000 - \$399,999	\$100,208	\$98,231	\$115,865	\$126,024
\$400,000 - \$499,999	\$125,260	\$122,789	\$144,832	\$157,530
\$500,000 - \$749,999	\$187,890	\$184,184	\$217,248	\$236,295
\$750,000 - \$999,999	\$250,520	\$245,579	\$289,664	\$315,060
\$1,000,000 +	-	-	-	-

Source: ABoR

HIGHER RATES DIMINISH AFFORDABILITY

Home Price-to-Income Multiplier



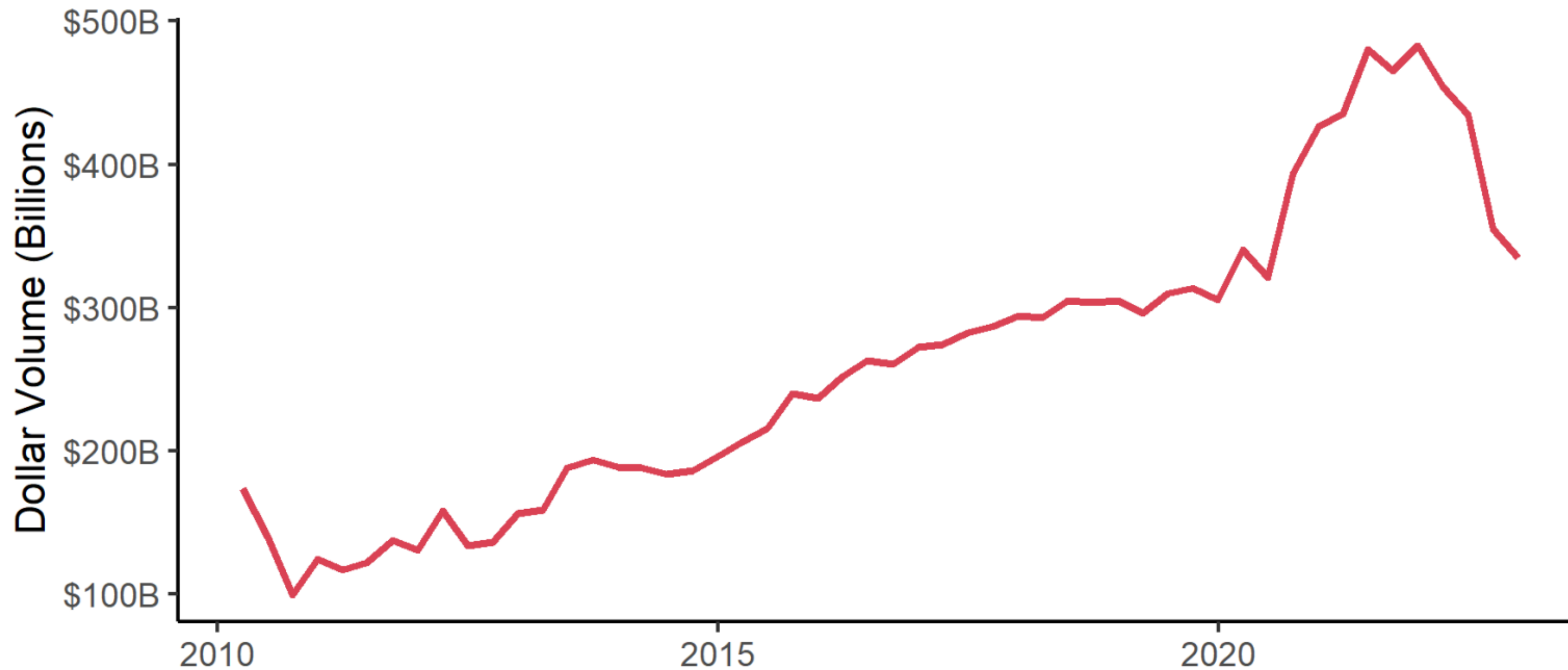
When mortgage rates were the lowest (Dec. '20), buyers could afford a home price ~4 times their income. Now, buyers can afford a home price ~3 times their income.

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RISE IN MORTGAGE RATES, MODERATION IN PRICES SLOWS MORTGAGE ORIGINATION \$ VOLUME

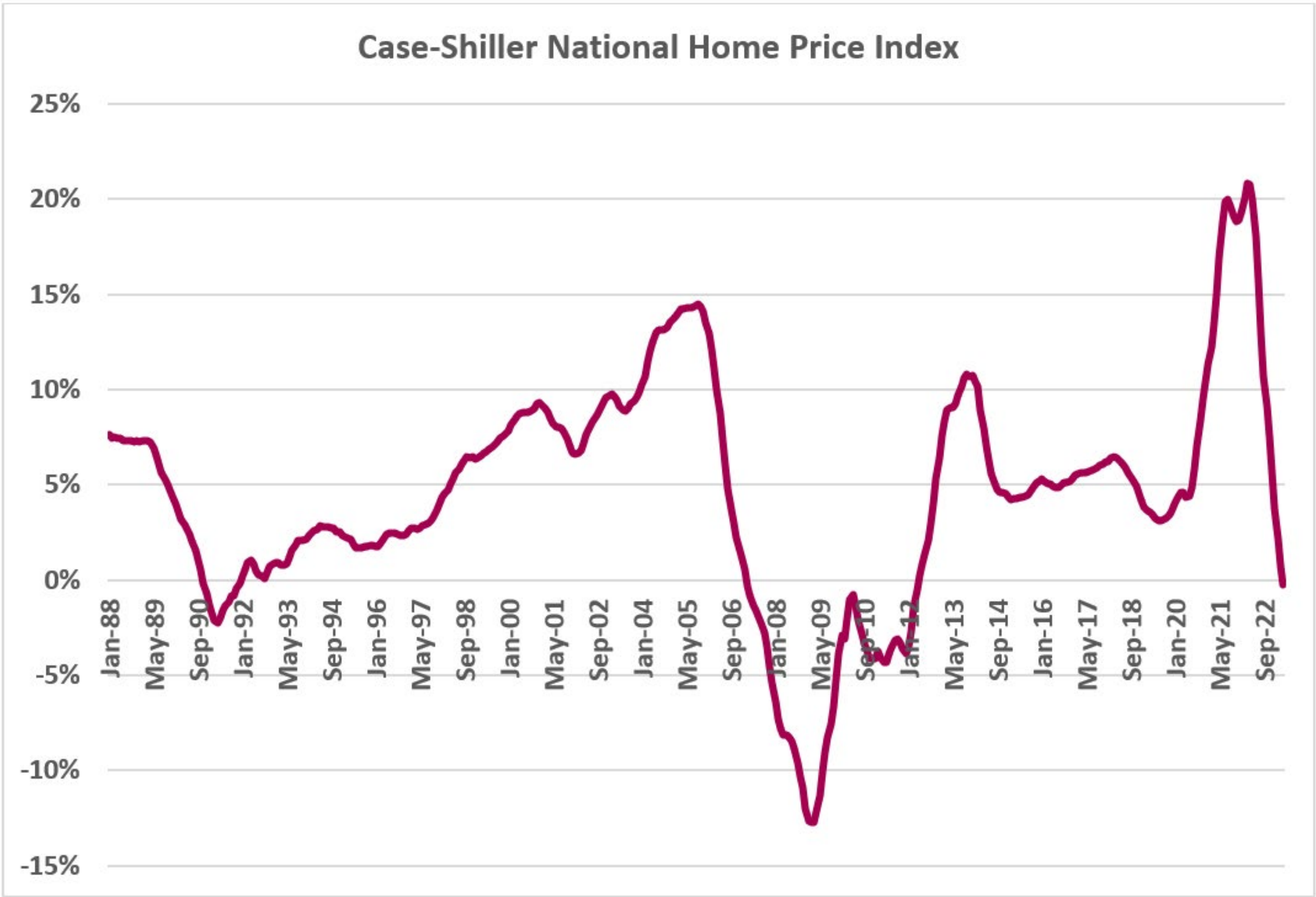
U.S. Purchase Mortgage Origination Dollar Volume

Seasonally Adjusted



Source: Mortgage Bankers Association

HOME PRICE GROWTH SLOWING, VERY SLIGHTLY NEGATIVE IN APRIL '23



Source: S&P Dow Jones Indices LLC

HEADWINDS AFFECTING SINGLE-FAMILY RESIDENTIAL CONSTRUCTION



H i g h e r M o r t g a g e R a t e s

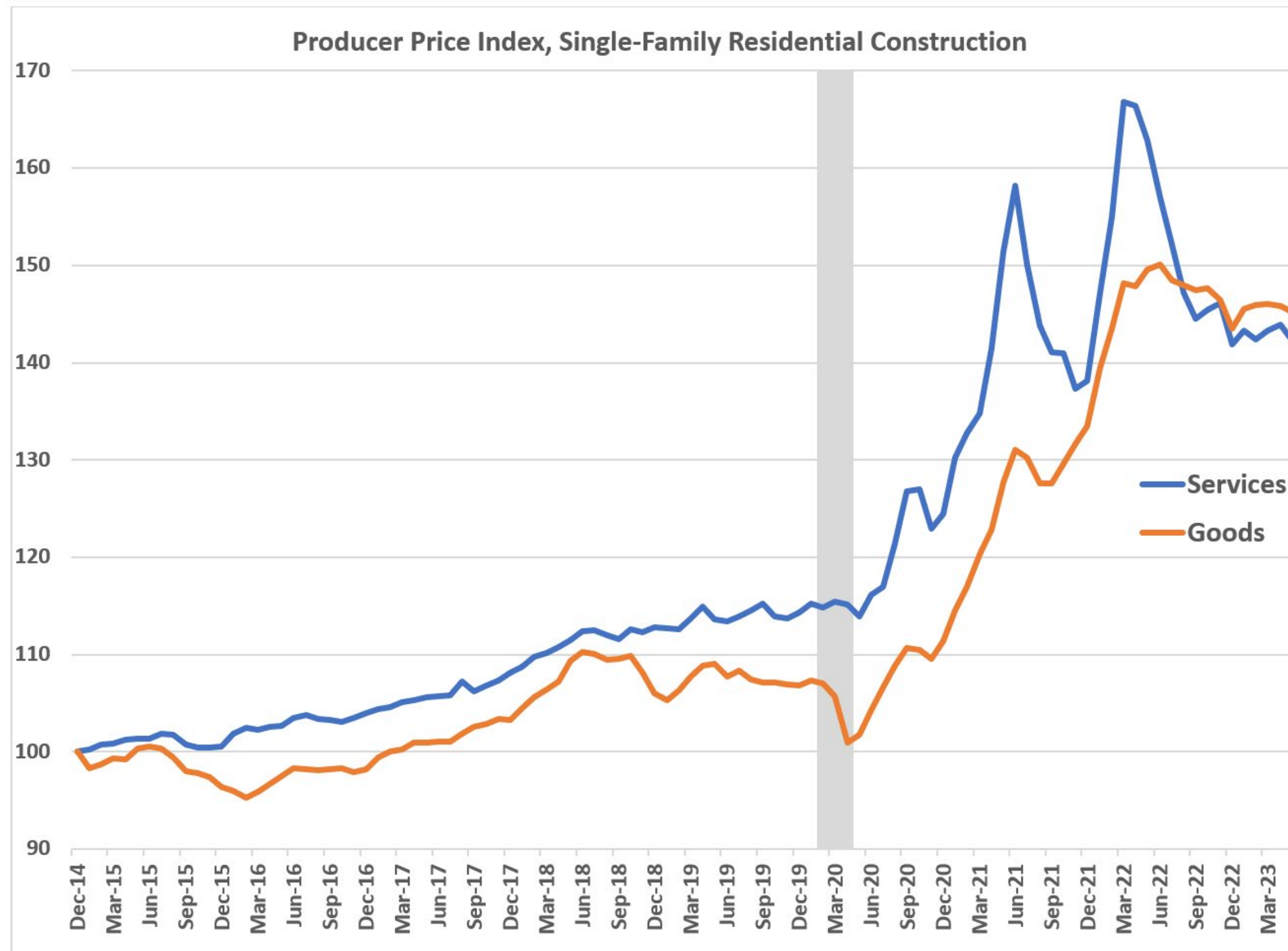


S t i l l - E l e v a t e d C o n s t r u c t i o n C o s t s



B e l o w - A v e r a g e B u i l d e r C o n f i d e n c e

GROWTH IN SINGLE-FAMILY CONSTRUCTION COSTS SLOWING



Source: U.S. Bureau of Labor Statistics

SINGLE-FAMILY CONSTRUCTION COSTS UP 25-33% SINCE MAY '19

YoY Change in Producer Price Index, Single-Family Residential Construction

	Services	Goods
May-16	1.4%	-2.8%
May-17	2.8%	3.5%
May-18	5.6%	8.3%
May-19	1.9%	-0.3%
May-20	0.3%	-6.7%
May-21	32.9%	25.6%
May-22	7.5%	17.1%
May-23	-12.6%	-2.9%

Source: U.S. Bureau of Labor Statistics

The costs of construction services and goods were 25% and 33% higher, respectively, in May '23 than in May '19.

INCREASE IN CONSTRUCTION COSTS DIMINISHES AFFORDABILITY

Increase in New Home Price Based on Increase in the PPI

Increase in the Producer Price Index	Increase in New Home Price	Original New Home Price					
		\$200,000	\$300,000	\$400,000	\$500,000	\$600,000	\$750,000
5%	3%	\$6,000	\$9,000	\$12,000	\$15,000	\$18,000	\$22,500
10%	6%	\$12,000	\$18,000	\$24,000	\$30,000	\$36,000	\$45,000
15%	9%	\$18,000	\$27,000	\$36,000	\$45,000	\$54,000	\$67,500
20%	12%	\$24,000	\$36,000	\$48,000	\$60,000	\$72,000	\$90,000
25%	15%	\$30,000	\$45,000	\$60,000	\$75,000	\$90,000	\$112,500
30%	18%	\$36,000	\$54,000	\$72,000	\$90,000	\$108,000	\$135,000
35%	21%	\$42,000	\$63,000	\$84,000	\$105,000	\$126,000	\$157,500
40%	24%	\$48,000	\$72,000	\$96,000	\$120,000	\$144,000	\$180,000
45%	27%	\$54,000	\$81,000	\$108,000	\$135,000	\$162,000	\$202,500

Source: ABoR

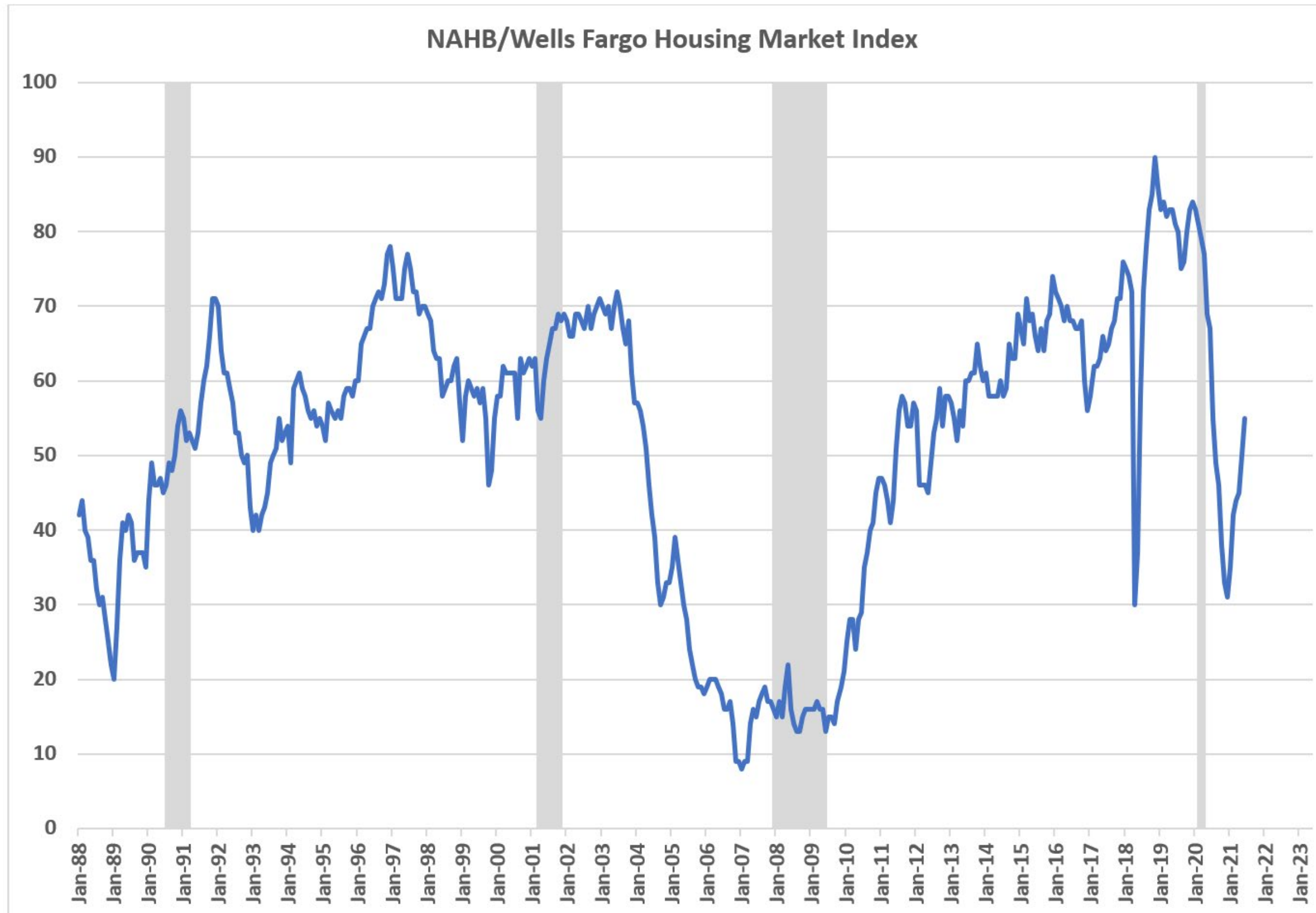
A new home priced \$400,000 in May '19 would be ~\$60,000 - \$84,000 higher in May '23 from construction costs alone.

AFFORDABLE INVENTORY OF NEW HOMES DECLINING

	Less Than \$150,000	Between \$150,000 and \$199,999	Between \$200,000 and \$299,999	Between \$300,000 and \$399,999	Between \$400,000 and \$499,999	Between \$500,000 and \$749,999	Between \$750,000 and Over
Apr-11	15.0%	23.0%	32.0%	15.0%	8.0%	5.0%	2.0%
Apr-12	14.0%	21.0%	32.0%	15.0%	9.0%	6.0%	3.0%
Apr-13	6.0%	18.0%	31.0%	21.0%	11.0%	9.0%	4.0%
Apr-14	6.0%	17.0%	34.0%	22.0%	10.0%	7.0%	4.0%
Apr-15	2.0%	16.0%	34.0%	22.0%	12.0%	11.0%	3.0%
Apr-16	2.0%	15.0%	27.0%	26.0%	13.0%	12.0%	5.0%
Apr-17	1.0%	9.0%	37.0%	21.0%	16.0%	11.0%	5.0%
Apr-18	5.0%	10.0%	31.0%	22.0%	14.0%	10.0%	8.0%
Apr-19	2.0%	7.0%	28.0%	29.0%	16.0%	14.0%	4.0%
Apr-20	3.0%	9.0%	33.0%	24.0%	16.0%	11.0%	4.0%
Apr-21	1.0%	1.0%	23.0%	33.0%	16.0%	20.0%	6.0%
Apr-22	1.0%	0.0%	8.0%	25.0%	24.0%	27.0%	15.0%
Apr-23	0.0%	0.0%	15.0%	32.0%	23.0%	18.0%	12.0%

Source: FRED, U.S. Census Bureau, HUD

HOME BUILDER CONFIDENCE BELOW PRE-PANDEMIC LEVELS, BUT CONTINUES TO RISE

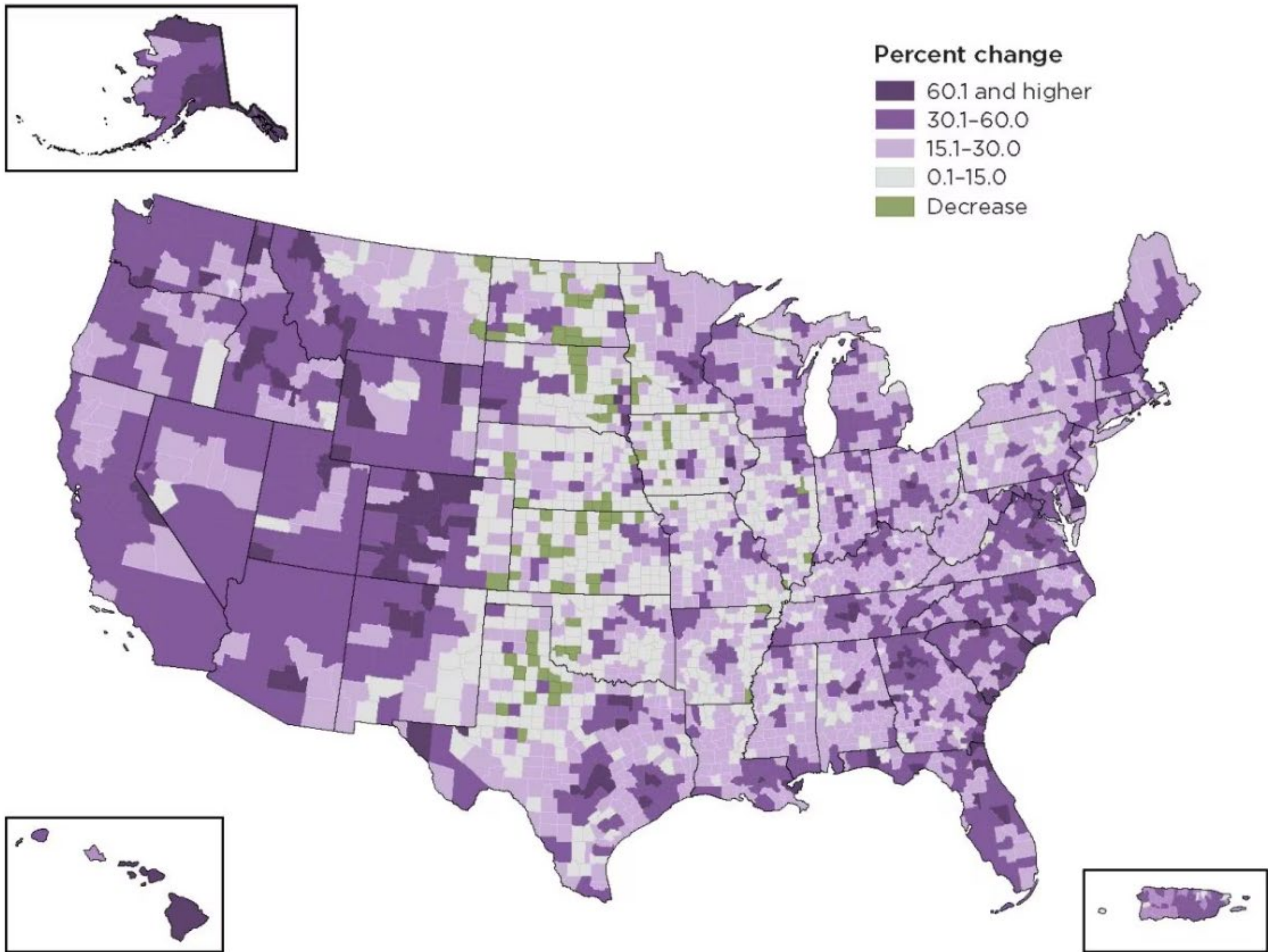


Source: NAHB

A teal-colored background featuring a stylized map of Austin, Texas. The map shows the city's street grid, major highways, and the Colorado River winding through the city. The map is rendered in a lighter shade of teal against the darker teal background.

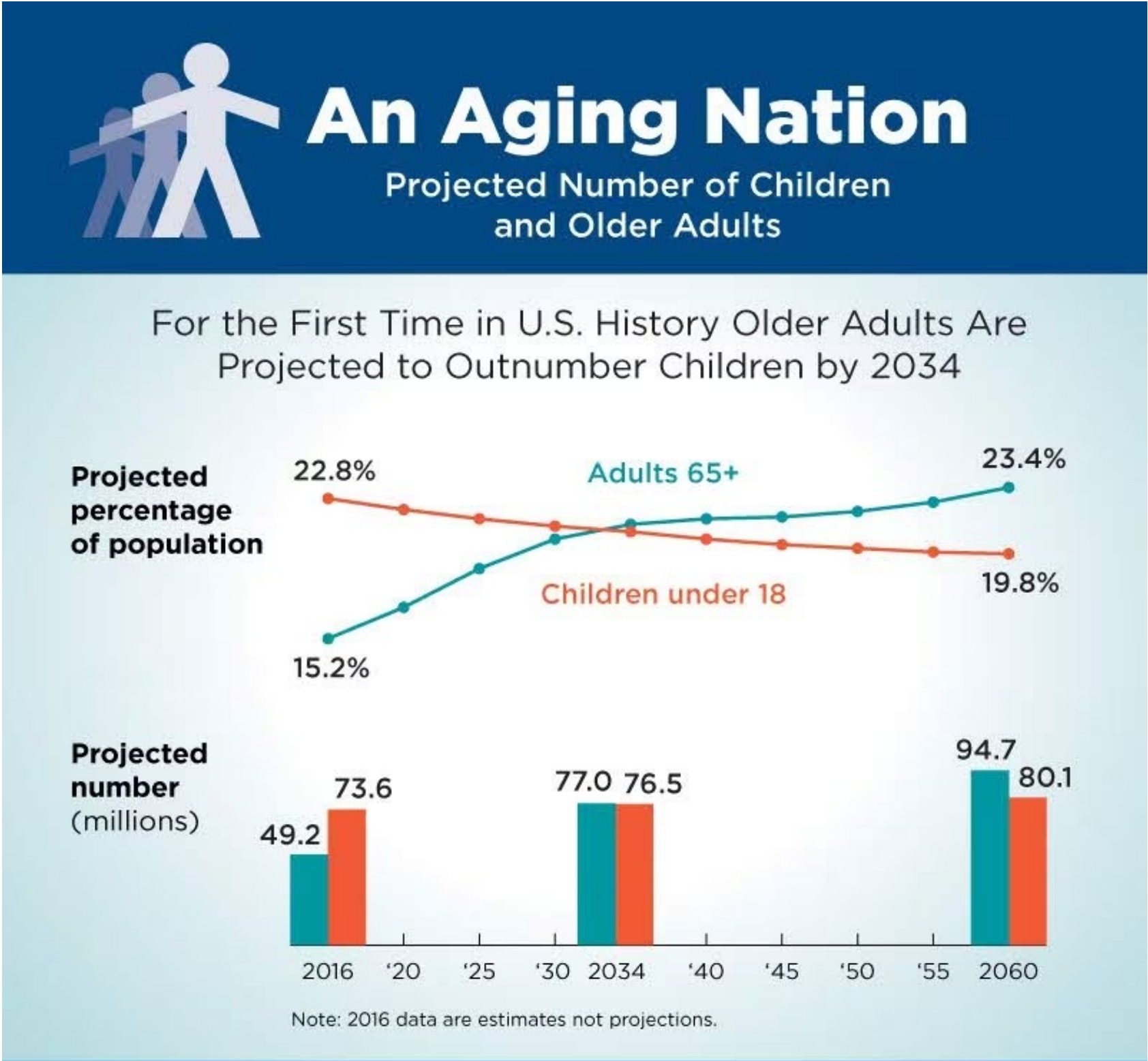
DEMOGRAPHICS OF OLDER AMERICANS

PERCENT CHANGE AMONG THE 65+ POPULATION FROM '10-'19



Source : Census
Bureau

NATIONAL POPULATION IS AGING, ADULTS 65+ TO OUTNUMBER CHILDREN BY '34



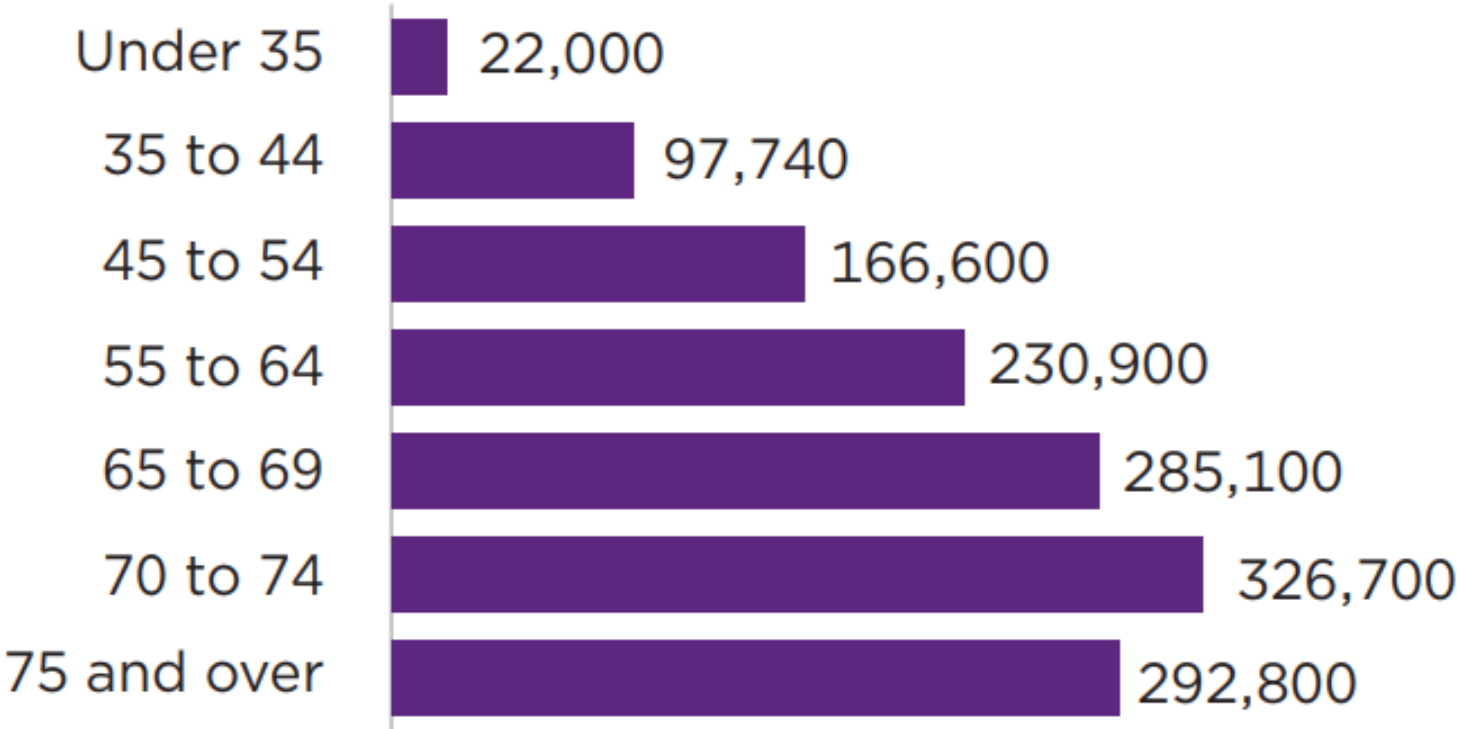
MEDIAN WEALTH OF OLDER HOUSEHOLDS RANGED FROM \$285K-\$327K IN 2020



Median Wealth by Household Characteristics: 2020

(In 2020 dollars)

Age of Householder¹



OLDER AMERICANS HOLD A HIGHER SHARE OF NATION'S WEALTH

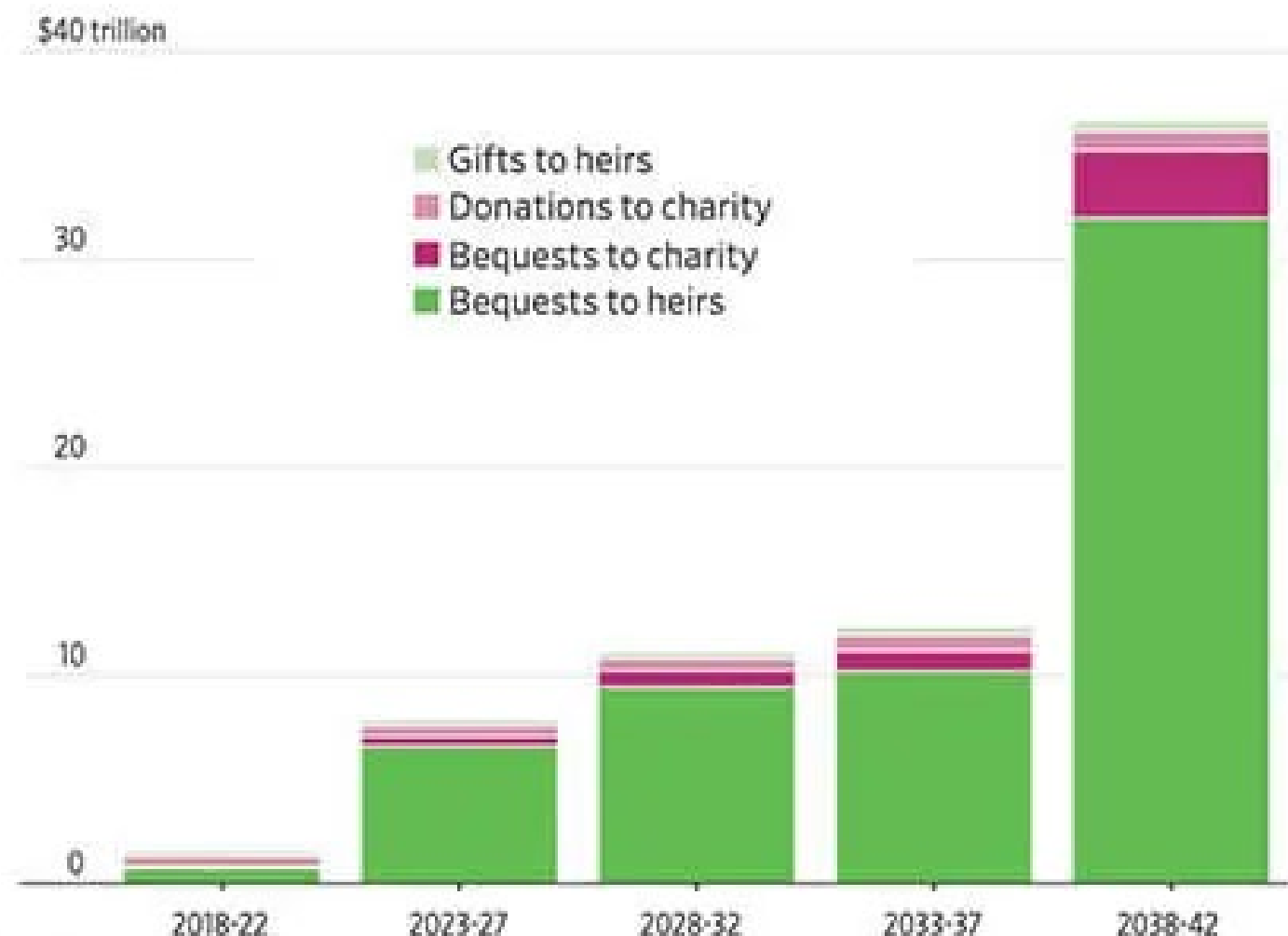
Generational Shift

Older Americans have accumulated a record amount of wealth, and are projected to hand down some \$70 trillion by 2042.

Net worth of people 70 and older as a share of U.S. gross domestic product



Wealth transfer*



*Figures in 2018 dollars. Totals represent the transfer for the five-year increment indicated (not cumulative).
Sources: Federal Reserve (net worth); U.S. Bureau of Economic Analysis (GDP); Cerulli Associates (wealth transfer)

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