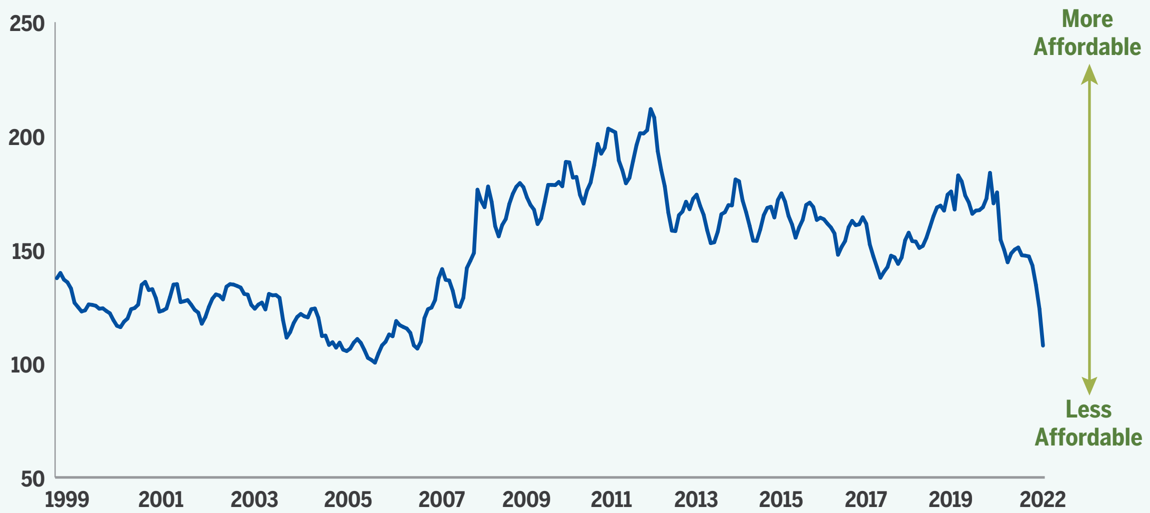
ALGER

Alger On the Money

Cracks in the Foundation?

Housing is important to the economy, representing approximately $38 trillion or approximately a quarter of household assets. It is also a huge component of inflation and a sector of the economy that is very interest rate sensitive. These factors likely make it a key focus of the Federal Reserve's (The Fed's) tightening policy. Is the housing foundation stable?

Housing Affordability Index



A value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. An index value above 100 signifies that a family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20 percent down payment.

Source: National Association of Realtors and Alger estimates. Data is as of April 30, 2022, with April data based on Alger estimates.

- The housing market represents one-third of the Consumer Price Index and therefore is a big part of the high inflation that the Fed is trying to mitigate. Additionally, it is a large source of American wealth that is susceptible to the Fed's tools, given that higher interest rates make buying homes less affordable, thereby slowing housing activity.
- With the one-two punch of rising home prices and interest rates over the past year, housing affordability has declined significantly. While official numbers are not yet out, we estimate April 2022 affordability plummeted to levels not seen since the housing bubble of 2007.
- Less affordable housing may portend slowing home buying, building and remodels. It may also slow consumer spending and in particular impact household durable products, including home-building supplies, home furnishings, and household appliances.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

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