



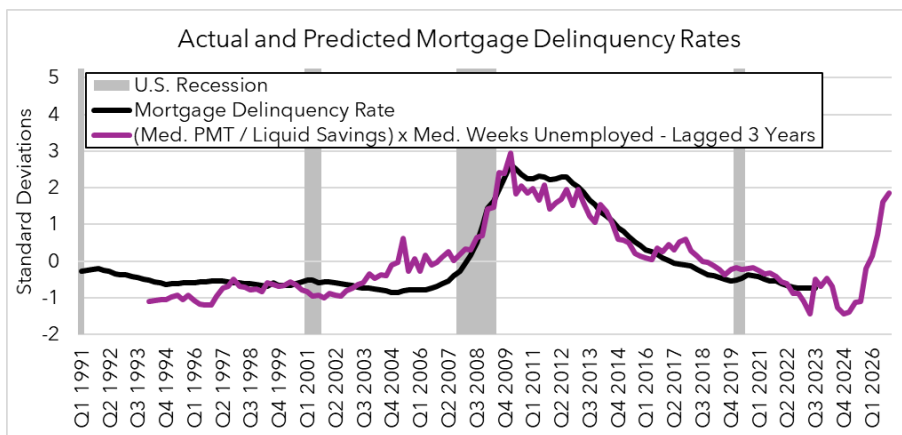
Friday, May 3, 2024

The Fed announced this week it will keep its policy interest rate in a range of 5.25 to 5.5 percent. [Their statement](#) notes inflation "remains elevated." That's putting it mildly 😞. After declining two years, inflation is **still higher** than at any time (outside the current inflationary period) since Tom Hanks [had insomnia in that rainy city that one time](#). But I digress. Yes, overall inflation is very bad, but housing is much much worse.

Housing Crisis Snapshot:

- 😞 Since 2020, [existing home prices](#) are up an average of **42 percent**
- 😞 Average 30-year [mortgage rates](#) have more than doubled, from **three to seven percent**
- 😞 Typical 30-year mortgage payments have also roughly doubled, from about **\$1.1K to about \$2.3K**
- 😞 Median monthly payments as share of [gross median income](#) increased from about **a quarter to half**
- 😞 In 2020, a typical mortgage payment cost one **WHOLE** fulltime minimum wage income. **Now it's TWO**

How'd all this happen? COVID, of course. A record [15 percent of workers got laid-off](#), but the rest had income and [nothing to buy](#). Savings [hit twice their previous high](#), and millions suddenly had loads of cash. The market flooded, despite the high rates, creating a shortage and doubling housing costs for millions. Can this new [gentry](#) make their record high mortgage payments? Lenders try to guess using income ratios, but what if they lose their incomes? Say, if there were a severe recession just around the corner?



The graph at left shows mortgage delinquency rates and a new metric to predict them. The calculations are complex, but the basic idea is unemployed workers will stay solvent if they have enough liquid savings to last until they find a job. It's 92 percent accurate over the existing sample, and the really cool thing is, if it holds, it can predict market delinquency three years out 😊.

The less cool part is the current median mortgage payment is **twice** the median liquid savings, and [millions](#) of American families are **already just one paycheck away** from their first missed mortgage payment 🚧.

It's not quite ready to post yet, but watch my [twitter](#) for a more detailed discussion on this soon.

Until next week,

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