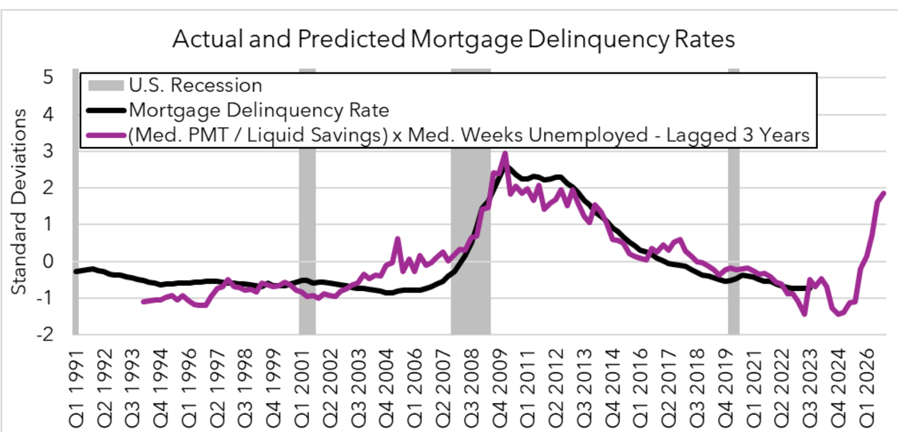
Friday, May 3, 2024

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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