Presented by Domonic D. Purviance, FRB Atlanta

Turning Point

Impact of Rising Prices & Costs on the Housing Market

Federal Reserve Bank *of* Atlanta

Overview

Responding to Rising Inflation

FEDERAL RESERVE BANK of ATLANTA

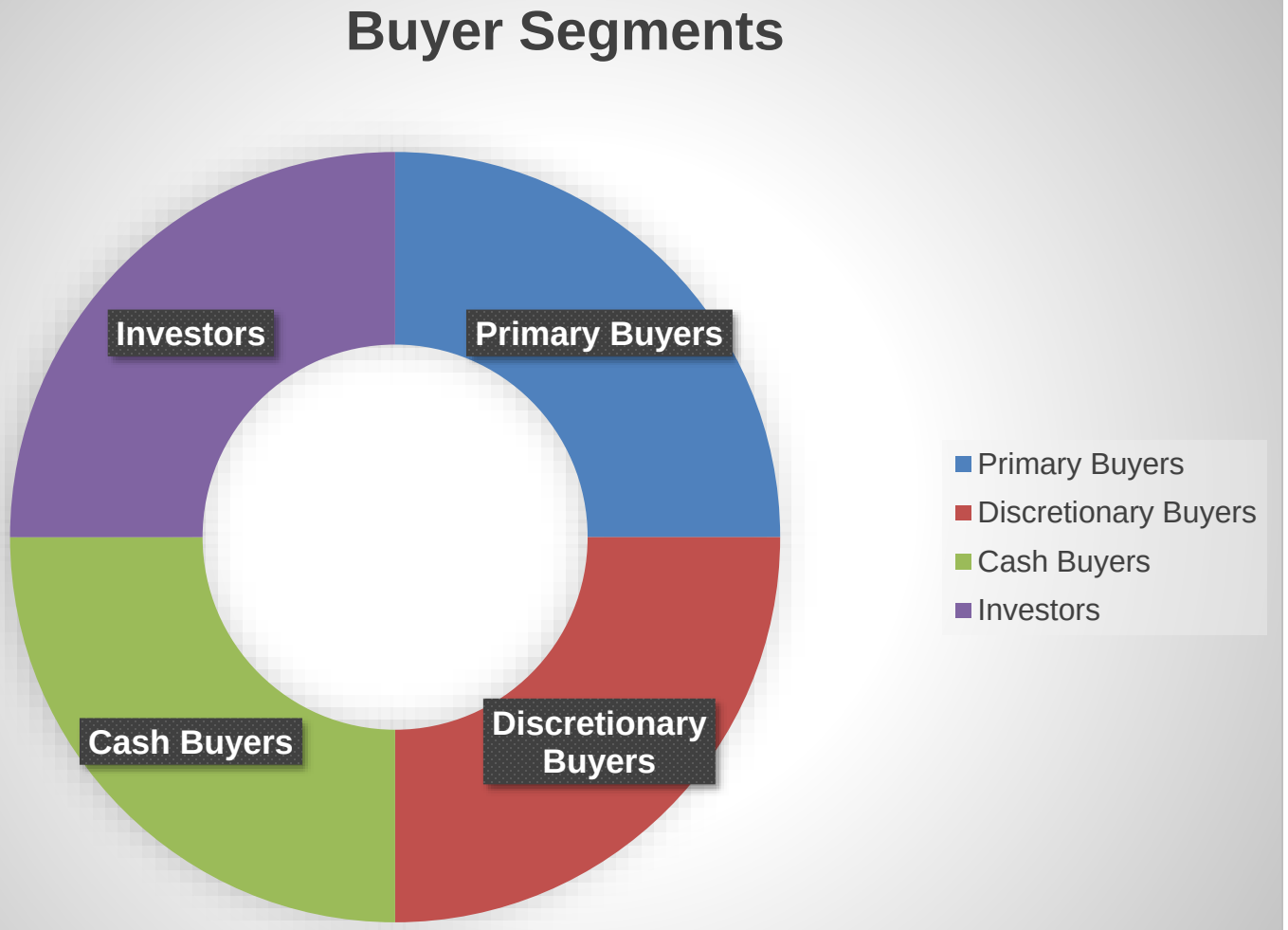
“

- **Inflation remains elevated,** reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures
- The Committee decided to raise the target range for the federal funds rate to **1/4 to 1/2 percent** and anticipates that ongoing increases in the target range will be appropriate.
- The Committee expects to **begin reducing its holdings** of Treasury securities and agency debt and agency mortgage-backed securities at a coming meeting.

FOMC Statement – March 2022

Overview

Possible Impact on Buyers as Rates Rise



- **Primary Buyers** - sensitive to higher rates, may be priced out of market
- **Discretionary Buyers** – may have less incentive to buy as rates rise
- **Cash Buyers** - may find it harder to liquidate existing assets to fund home purchase
- **Investors** - higher capital costs, lower returns

Overview

Is there a Bubble in Housing?

“

- An asset—in this case, housing—is in the primary expansionary phase of a bubble when **price rises are out of step with market fundamentals.**

Source: Dallas Fed

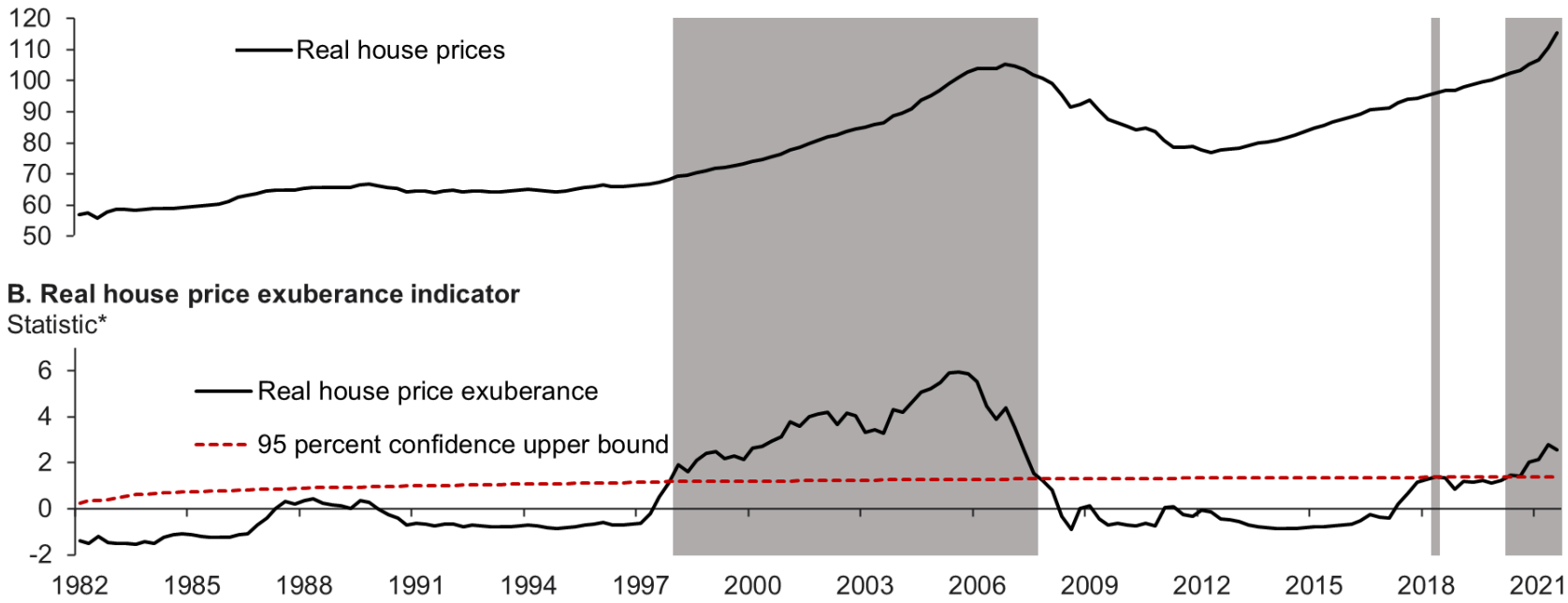
Overview

Is there a bubble in housing?

FEDERAL RESERVE BANK of ATLANTA

Chart 1

As Real U.S. House Prices Rise, Signs of Exuberance Emerge



*Refers to a statistical indicator of exuberance computed using the U.S. real house price index.

NOTES: Shaded areas indicate periods of exuberance inferred by comparing the exuberance statistic to the 95 percent confidence upper bound. Ninety-five percent confidence is a statistical threshold that marks the level that the statistic would need to surpass in order to be 95 percent confident that the series is showing signs of exuberance. Data are through third quarter 2021.

SOURCES: Federal Reserve Bank of Dallas, International House Price Database; International Housing Observatory.

Federal Reserve Bank of Dallas

“

- The U.S. housing market has been showing signs of **exuberance for more than five consecutive quarters** through third quarter 2021.

Source: Dallas Fed

Overview

Will there be a soft or hard landing?

FEDERAL RESERVE BANK of ATLANTA

Soft Landing

Moderate decline in demand, normalization of prices.

Hard Landing

Sharp decline in demand, correction in prices.

Overview

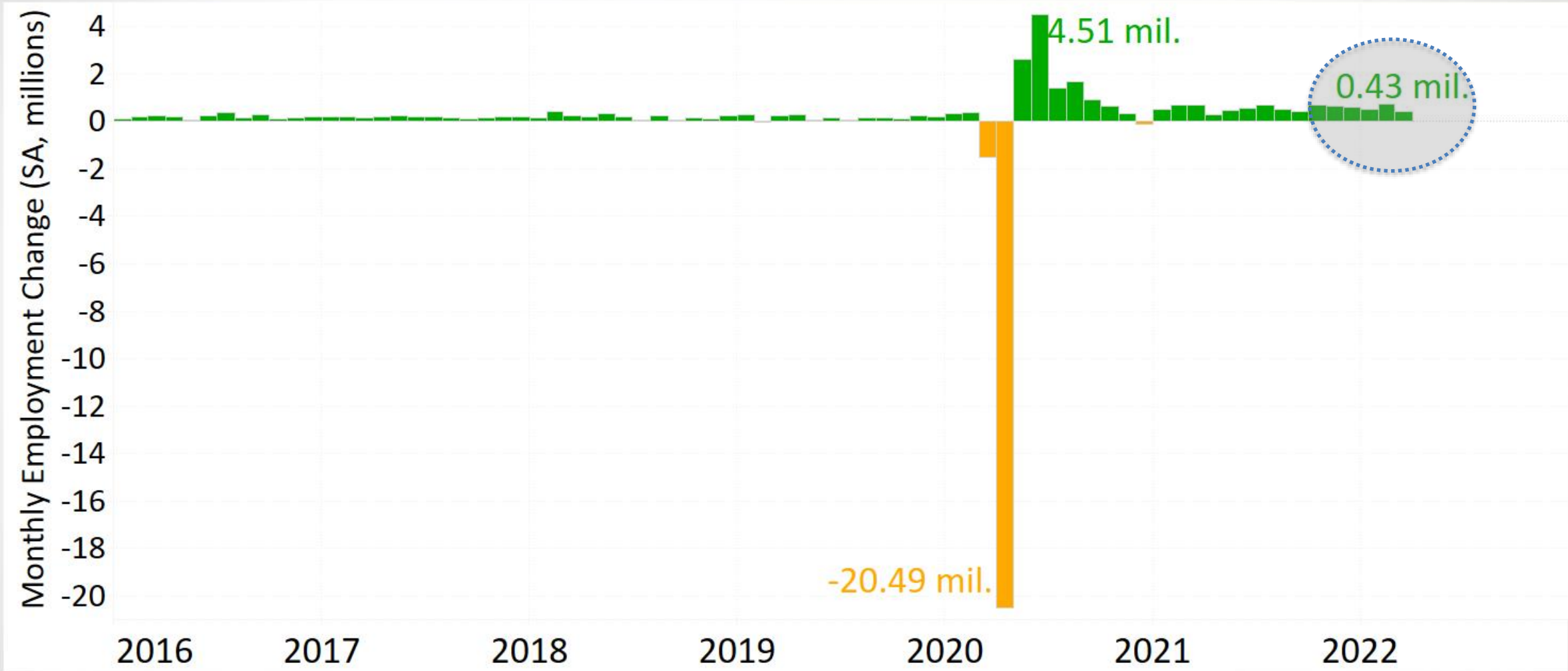
Agenda

- ECONOMY TRENDS
- DRIVERS OF INFLATION
- IMPLICATIONS FOR HOUSING
- CONCLUSIONS

U.S. Employment Growth

Source: Bureau of Labor Statistics; SRC - Risk Analysis Unit

FEDERAL RESERVE BANK of ATLANTA

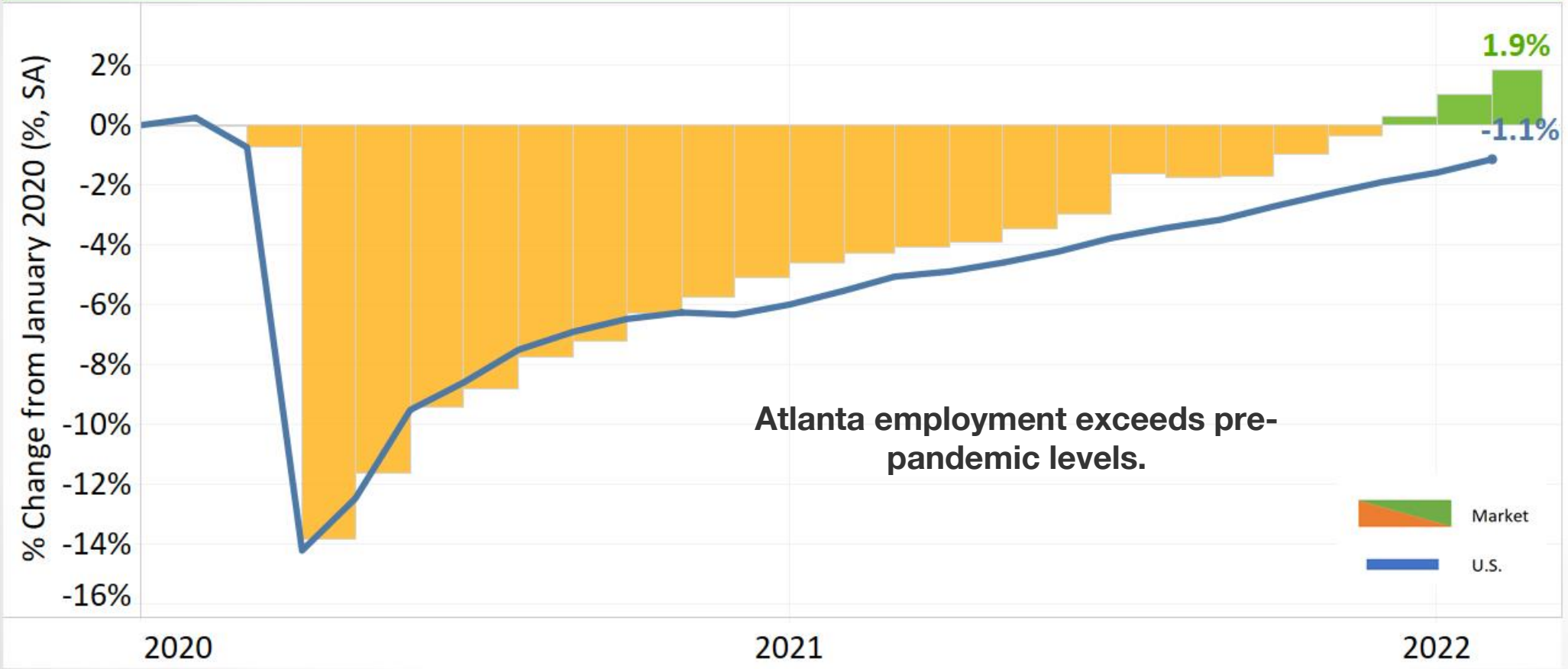


Tracking the Recovery: Job Growth by Metro Growth

Source: Bureau of Labor Statistics; SRC - Risk Analysis Unit

FEDERAL RESERVE BANK of ATLANTA

Atlanta, GA

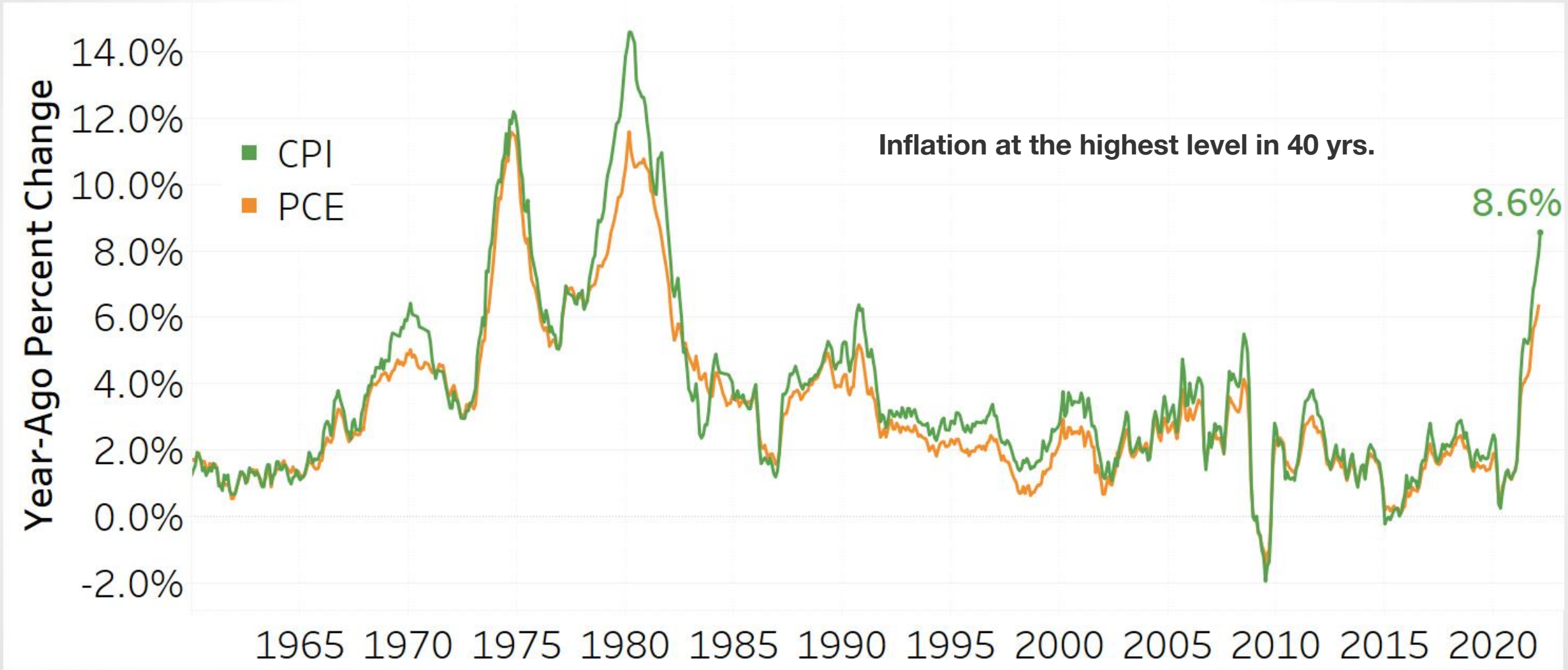


Metro
Atlanta, GA

U.S. Inflation (CPI vs. PCE)

Source: Bureau of Economic Analysis; Bureau of Labor Statistics; SRC - Risk Analysis Unit

FEDERAL RESERVE BANK of ATLANTA



U.S. CPI Inflation Breakout (YoY%)

Source: Bureau of Labor Statistics; SRC - Risk Analysis Unit

FEDERAL RESERVE BANK of ATLANTA

	All Items	Commodities	Core Inflation	Education & Communication	Energy	Food	Housing	Medical Care	Recreation	Transportation
March 2022	8.6%	14.2%	6.4%	1.6%	32.2%	8.8%	6.4%	2.9%	4.8%	22.5%
February 2022	7.9%	13.1%	6.4%	1.6%	25.7%	7.9%	5.9%	2.4%	4.9%	21.1%
January 2022	7.5%	12.4%	6.0%	1.7%	27.0%	7.0%	5.7%	2.5%	4.8%	20.9%
December 2021	7.1%	12.2%	5.5%	1.6%	29.4%	6.3%	5.1%	2.2%	3.3%	21.3%
November 2021	6.8%	12.0%	5.0%	1.7%	33.1%	6.1%	4.8%	1.7%	3.2%	21.1%
October 2021	6.2%	10.5%	4.6%	1.8%	29.8%	5.3%	4.5%	1.3%	3.8%	18.7%
September 2021	5.4%	9.0%	4.0%	1.7%	24.9%	4.6%	3.9%	0.4%	3.5%	16.5%
August 2021	5.2%	8.9%	4.0%	1.2%	25.1%	3.7%	3.5%	0.4%	3.4%	17.6%
July 2021	5.3%	9.1%	4.2%	1.1%	23.8%	3.4%	3.3%	0.3%	3.5%	19.1%
June 2021	5.3%	8.9%	4.4%	2.1%	24.5%	2.4%	3.1%	0.4%	2.4%	21.4%
May 2021	4.9%	8.1%	3.8%	1.9%	28.0%	2.1%	2.9%	0.9%	1.6%	19.8%
April 2021	4.2%	6.7%	3.0%	1.7%	24.9%	2.4%	2.6%	1.5%	2.2%	14.9%
March 2021	2.7%	4.1%	1.7%	1.5%	13.3%	3.5%	2.1%	1.8%	1.1%	6.0%
February 2021	1.7%	2.2%	1.3%	1.7%	2.3%	3.6%	1.8%	2.0%	0.8%	0.6%
January 2021	1.4%	1.4%	1.4%	1.7%	-3.9%	3.8%	1.8%	2.0%	0.1%	-1.4%
December 2020	1.3%	0.7%	1.6%	2.0%	-7.3%	3.9%	2.0%	1.8%	0.9%	-2.6%
November 2020	1.1%	0.2%	1.6%	1.9%	-9.7%	3.7%	2.0%	2.4%	1.3%	-3.4%
October 2020	1.2%	0.3%	1.6%	2.1%	-9.3%	3.9%	1.9%	2.9%	1.3%	-3.5%
September 2020	1.4%	0.6%	1.7%	2.2%	-7.6%	4.0%	2.0%	4.2%	1.5%	-3.1%
August 2020	1.3%	0.1%	1.7%	2.3%	-8.9%	4.1%	2.1%	4.4%	1.3%	-4.1%
July 2020	1.0%	-0.8%	1.5%	2.3%	-10.8%	4.1%	2.0%	5.0%	1.0%	-5.8%
June 2020	0.7%	-1.2%	1.2%	1.4%	-12.2%	4.5%	2.0%	5.1%	1.6%	-7.9%
May 2020	0.2%	-2.5%	1.3%	1.5%	-18.3%	4.0%	2.2%	4.9%	2.1%	-10.7%
April 2020	0.4%	-2.5%	1.5%	1.6%	-17.5%	3.5%	2.2%	4.8%	1.0%	-9.4%
March 2020	1.5%	-0.4%	2.1%	1.5%	-5.8%	1.9%	2.4%	4.7%	1.3%	-2.4%
February 2020	2.3%	1.2%	2.4%	1.5%	2.6%	1.8%	2.7%	4.6%	1.5%	1.7%
January 2020	2.5%	1.7%	2.3%	1.5%	6.0%	1.8%	2.8%	4.5%	1.4%	2.7%

Lumber Prices

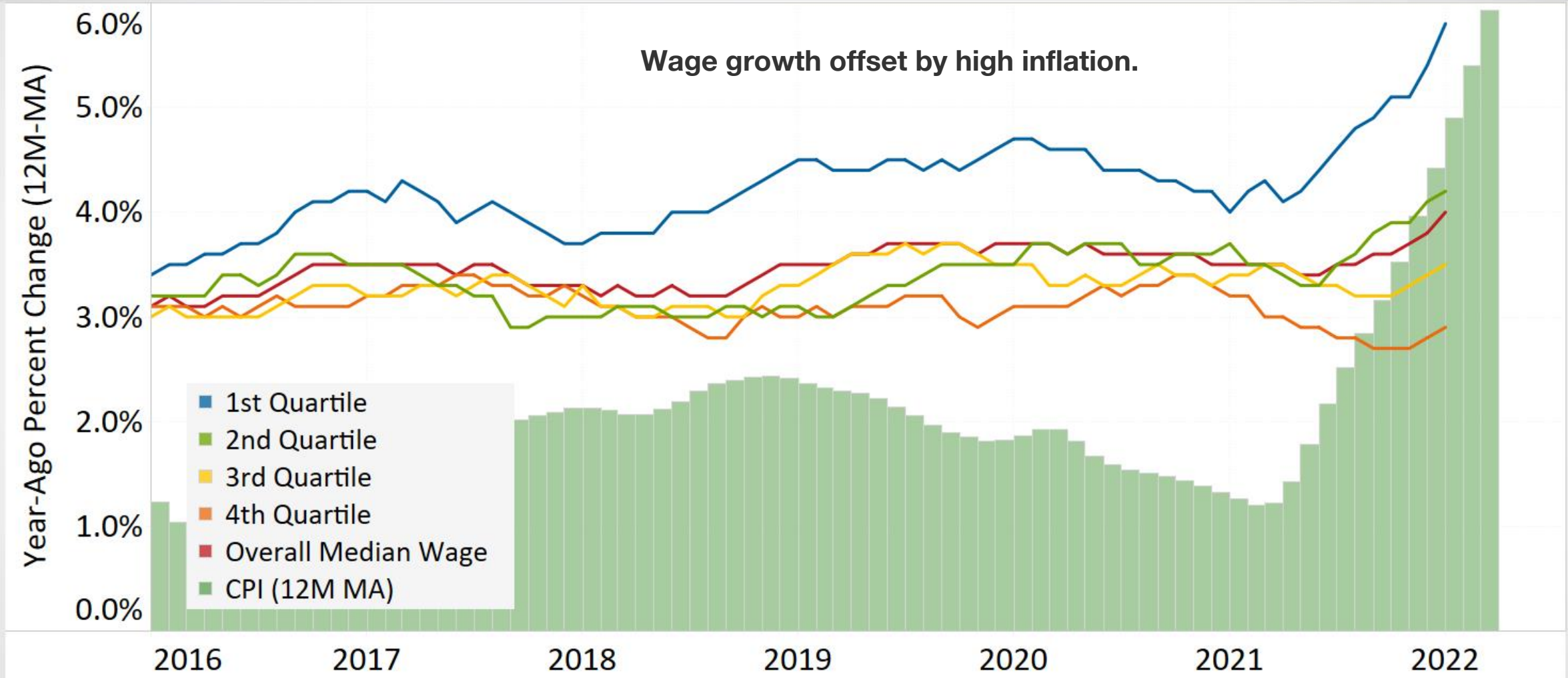
Source: Business Insider

Lumber Prices
Down 29.3% YoY

U.S. Hourly Wage Inflation

Source: Federal Reserve Bank of Atlanta; Bureau of Labor Statistics; SRC - Risk Analysis Unit

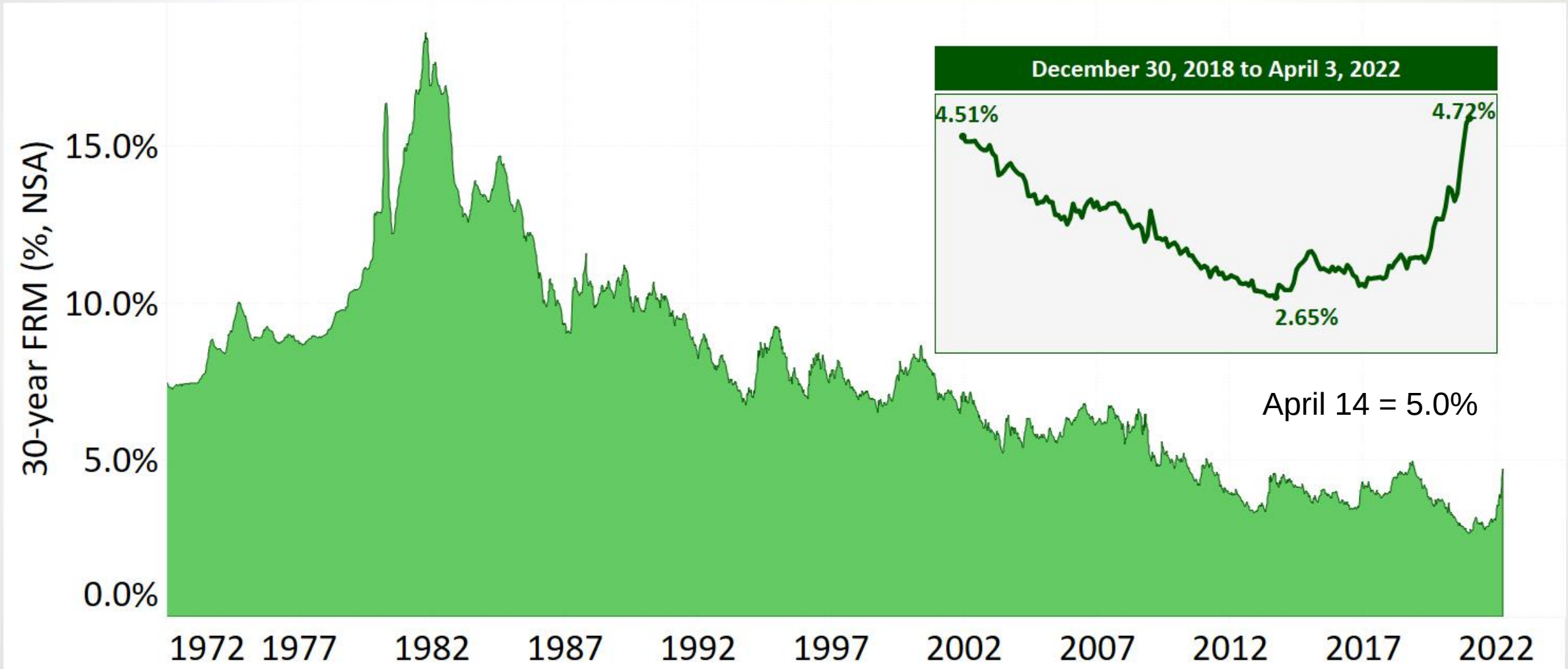
FEDERAL RESERVE BANK of ATLANTA



Mortgage Rates

Source: Freddie Mac; SRC - Risk Analysis Unit

FEDERAL RESERVE BANK of ATLANTA



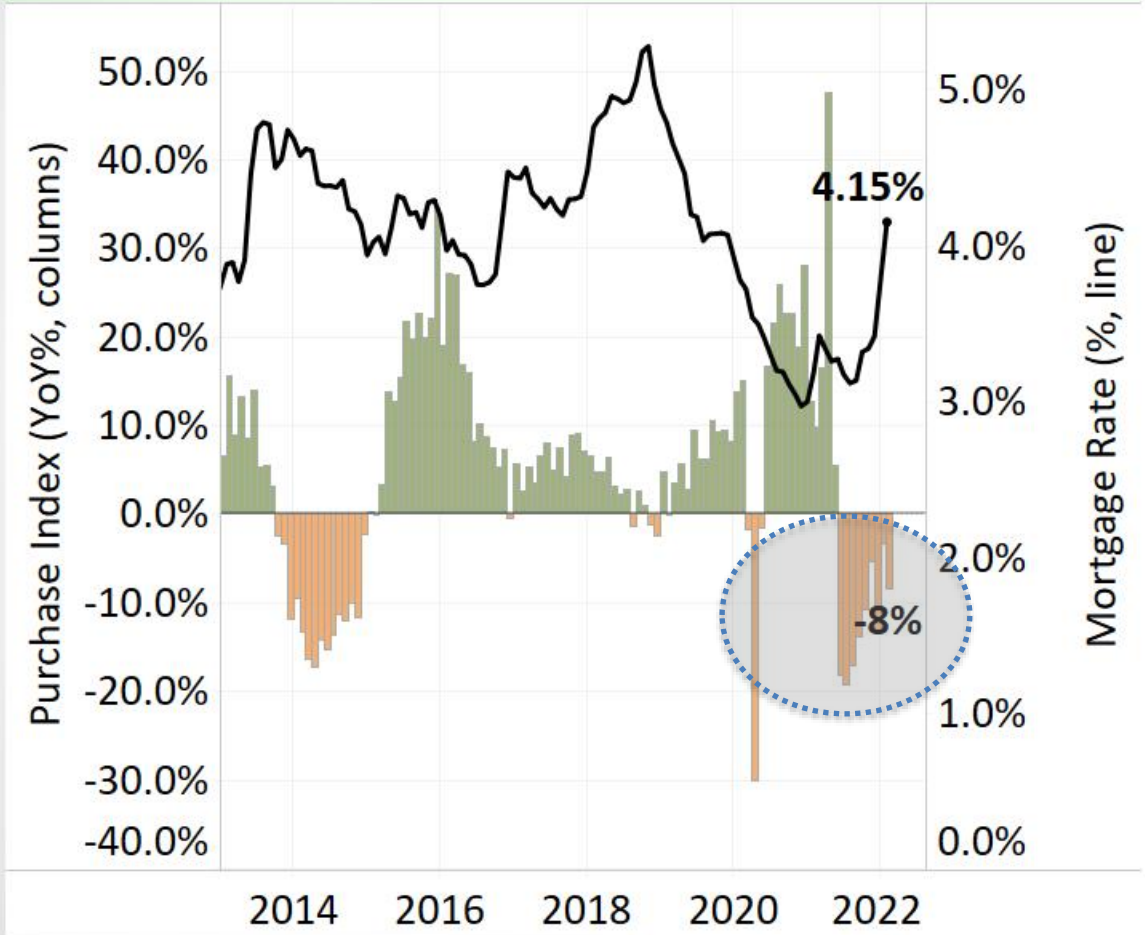
Housing Market Overview

U.S. Mortgage Applications and Rates

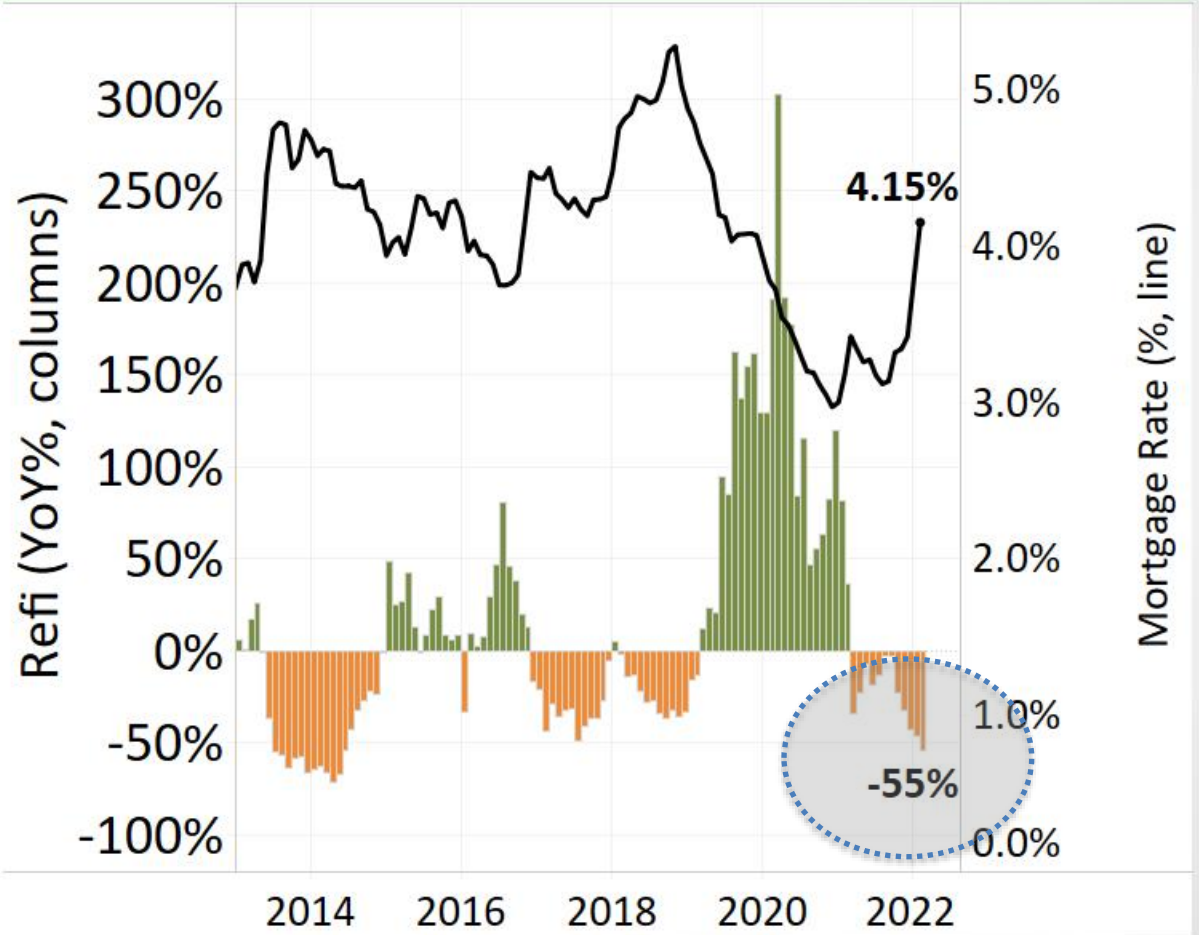
Source: Mortgage Bankers Association; SRC - Risk Analysis Unit

FEDERAL RESERVE BANK of ATLANTA

Purchase Index



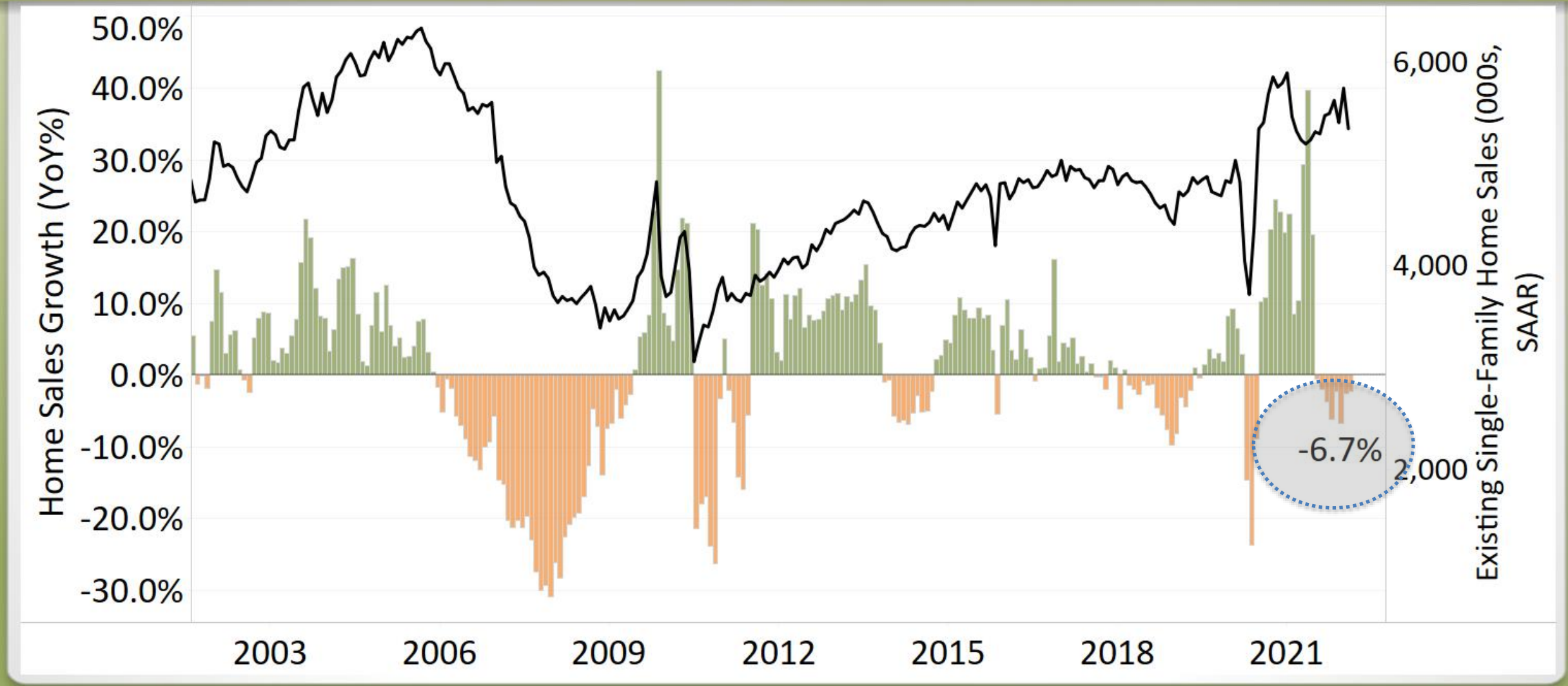
Refi Index



U.S. Existing Single-Family Home Sales

Source: National Association of Realtors; SRC - Risk Analysis Unit

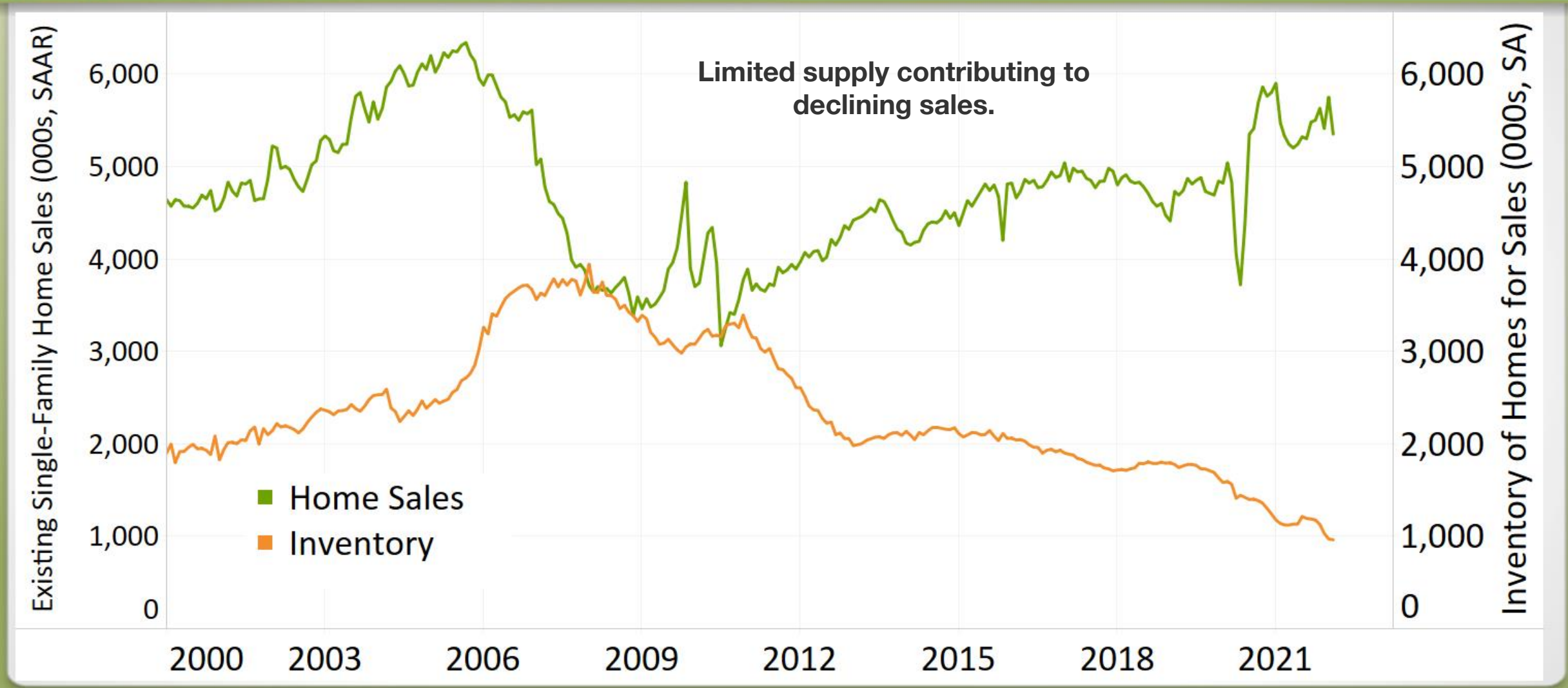
FEDERAL RESERVE BANK of ATLANTA



U.S. Home Sales and Inventory

Source: National Association of Realtors; SRC - Risk Analysis Unit

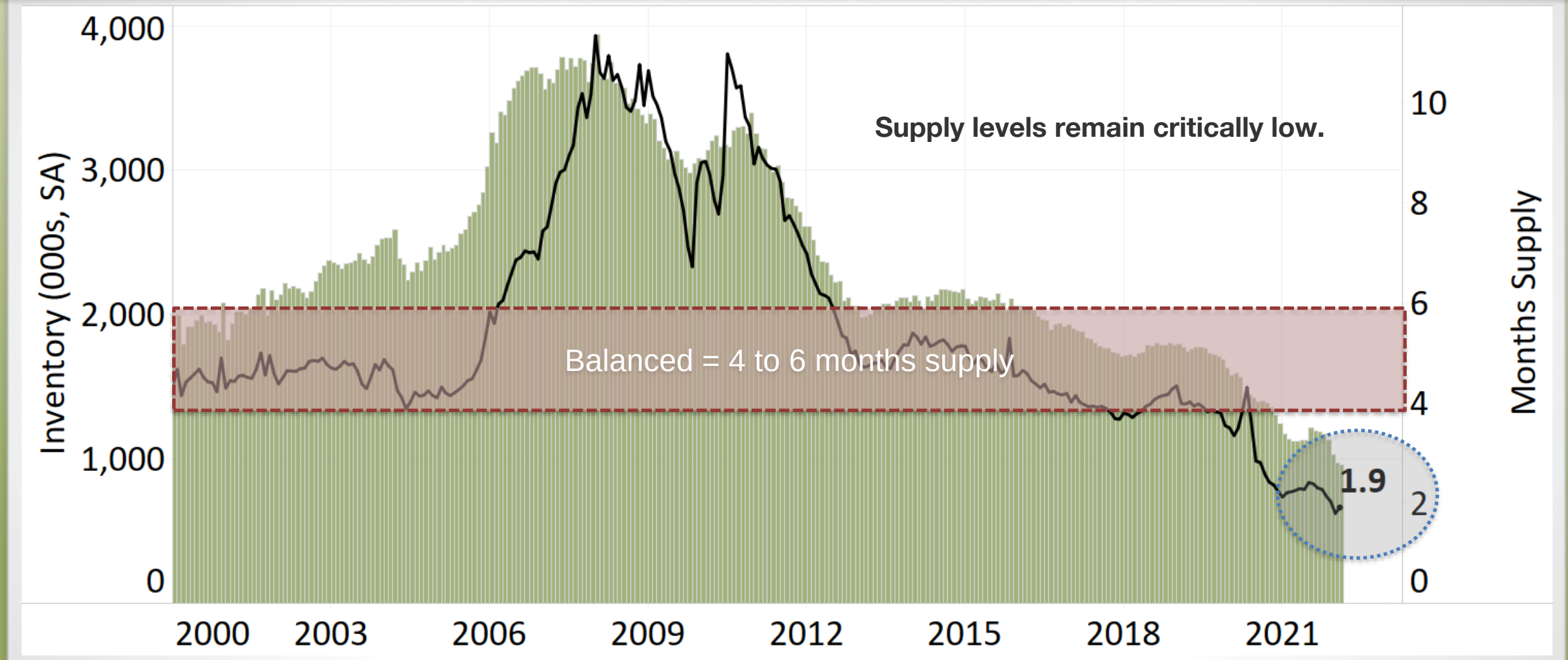
FEDERAL RESERVE BANK of ATLANTA



U.S. Inventory and Months Supply

Source: National Association of Realtors; SRC - Risk Analysis Unit

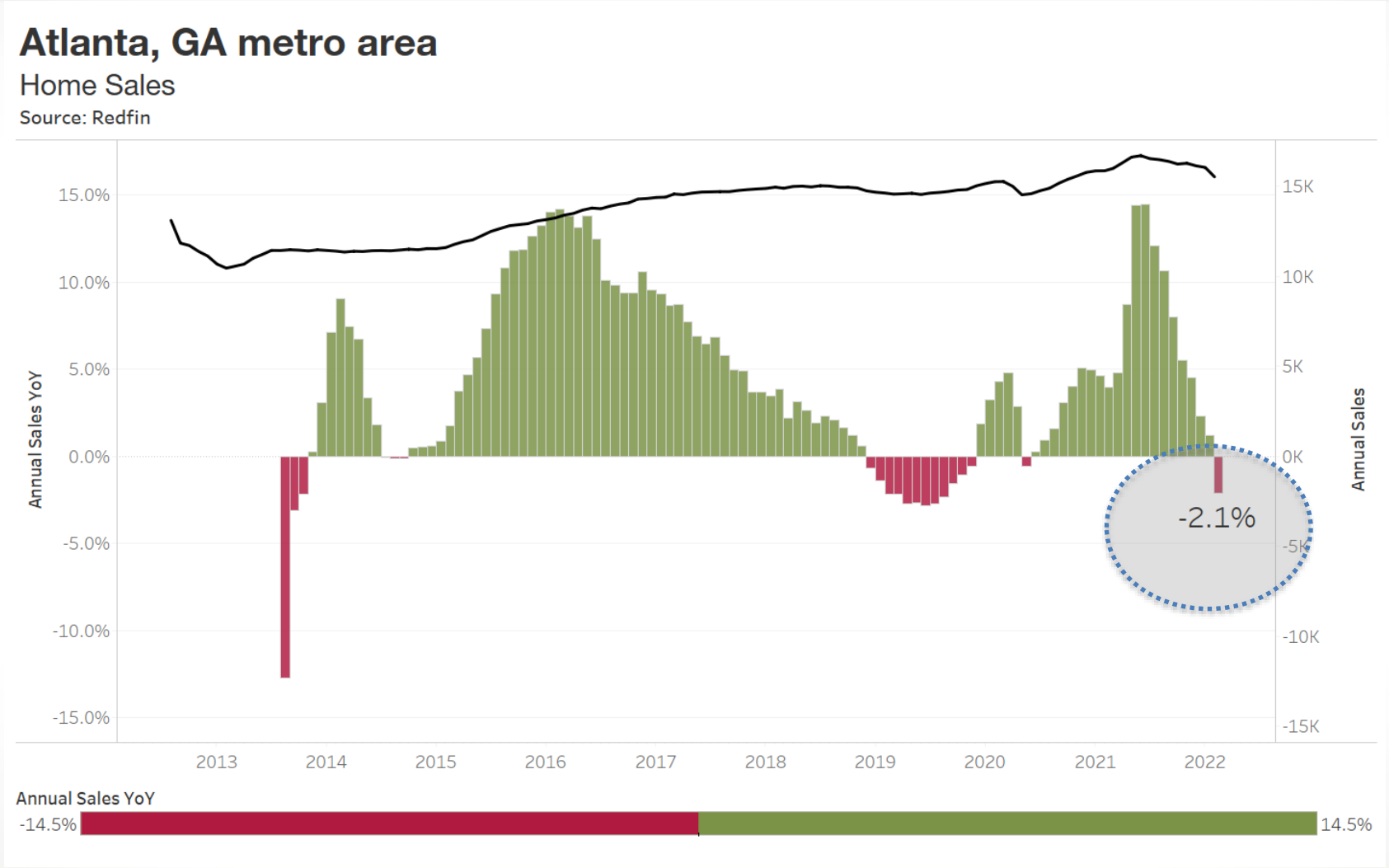
FEDERAL RESERVE BANK of ATLANTA



Atlanta Region

Home Sale Trend

FEDERAL RESERVE BANK of ATLANTA



Atlanta Region

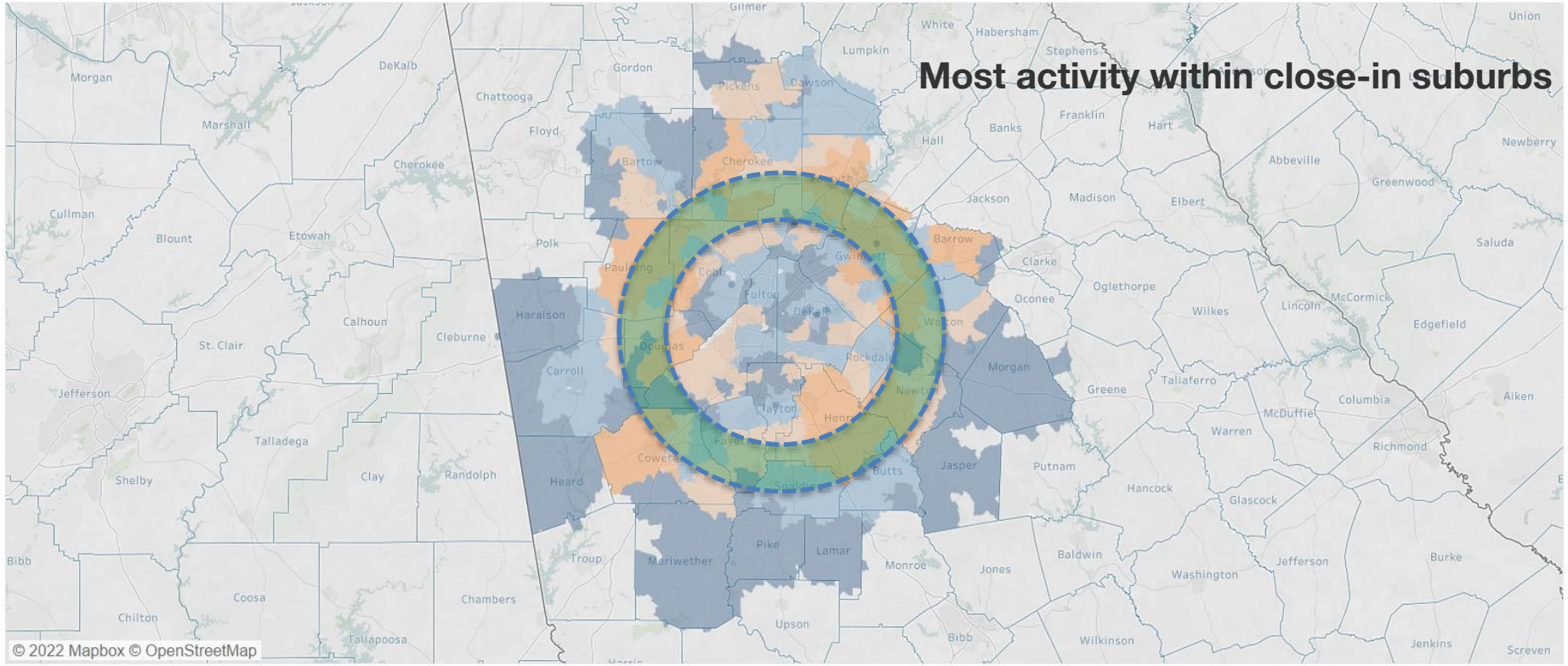
Home Sale Trend

FEDERAL RESERVE BANK of ATLANTA

Atlanta, GA

Home Sales by Zip Code **(January 2022)**

Source: Redfin

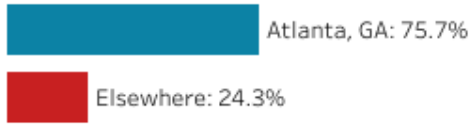


Atlanta Region

Where potential buyers are coming from?

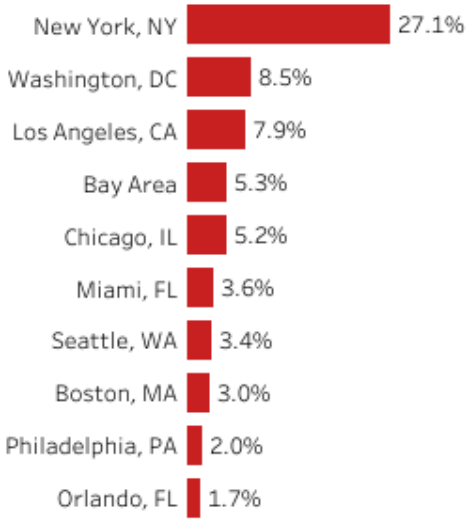
FEDERAL RESERVE BANK of ATLANTA

Percentage of Atlanta, GA Redfin users searching from...



Origin as % of Destination Incomers

Out-of-state metros only



Source: Redfin user search data for Q2 2021

Atlanta Region

Source: United Vans National Movers Study 2022

Georgia

Total Inbound: 53.5%
Total Outbound: 46.5%

Primary Reason for Moving

INBOUND		OUTBOUND
15.71%	retirement	15.87%
3.18%	health	3.97%
34.00%	family	34.66%
17.89%	lifestyle	14.55%
41.35%	job	39.15%
9.15%	cost	1.32%

Age Ranges

Income

Age Ranges

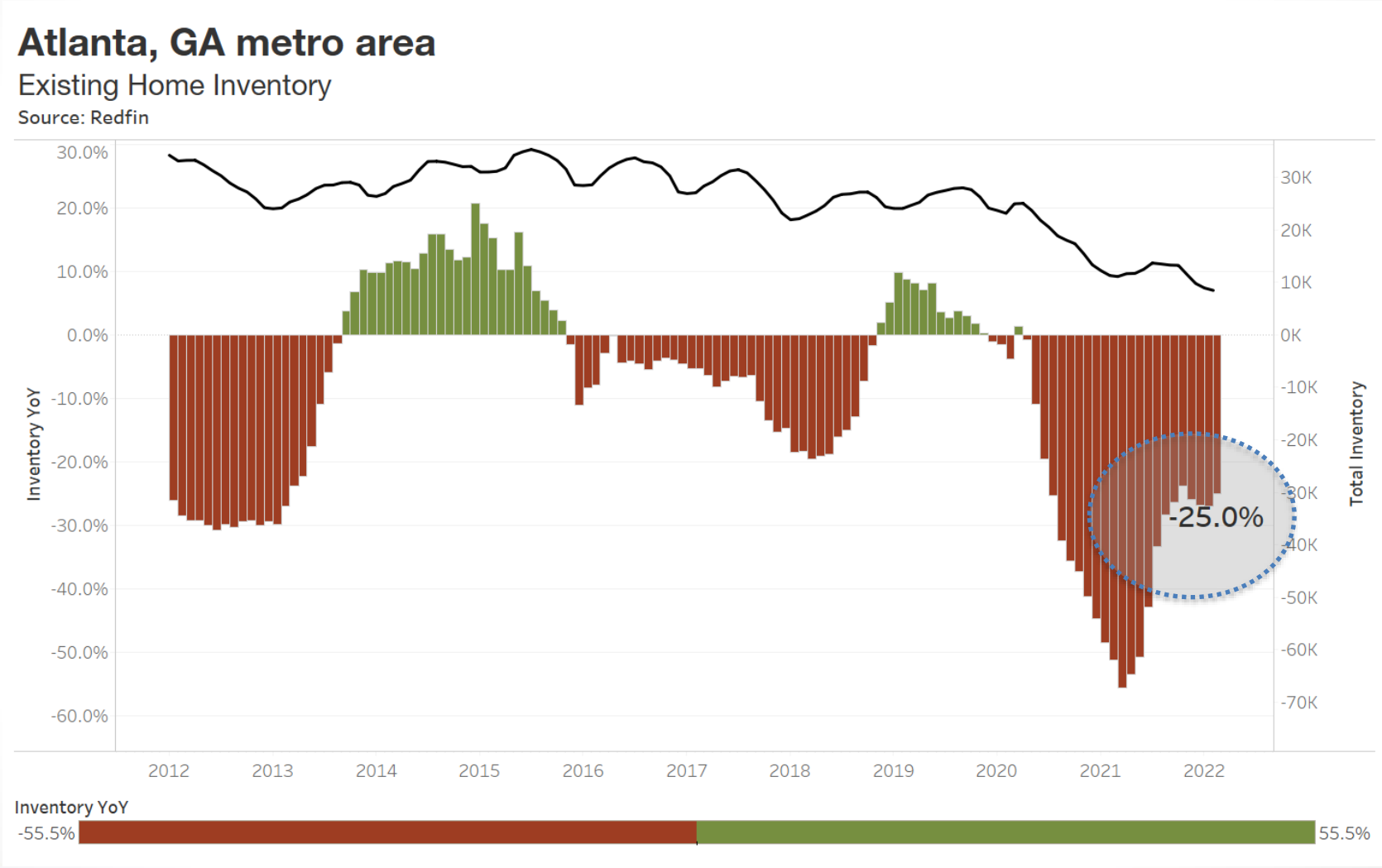
INBOUND		OUTBOUND
12.35%	<18 to 34	18.68%
18.18%	35 to 44	16.72%
19.11%	45 to 54	15.08%
21.45%	55 to 64	19.02%
28.91%	65 or older	30.49%

Income

INBOUND		OUTBOUND
7.11%	$0 to $49,999	5.04%
12.54%	$50,000 to $74,999	11.24%
11.97%	$75,000 to $99,999	12.02%
17.09%	$100,000 to $149,999	30.23%
51.28%	$150,000 or more	41.47%

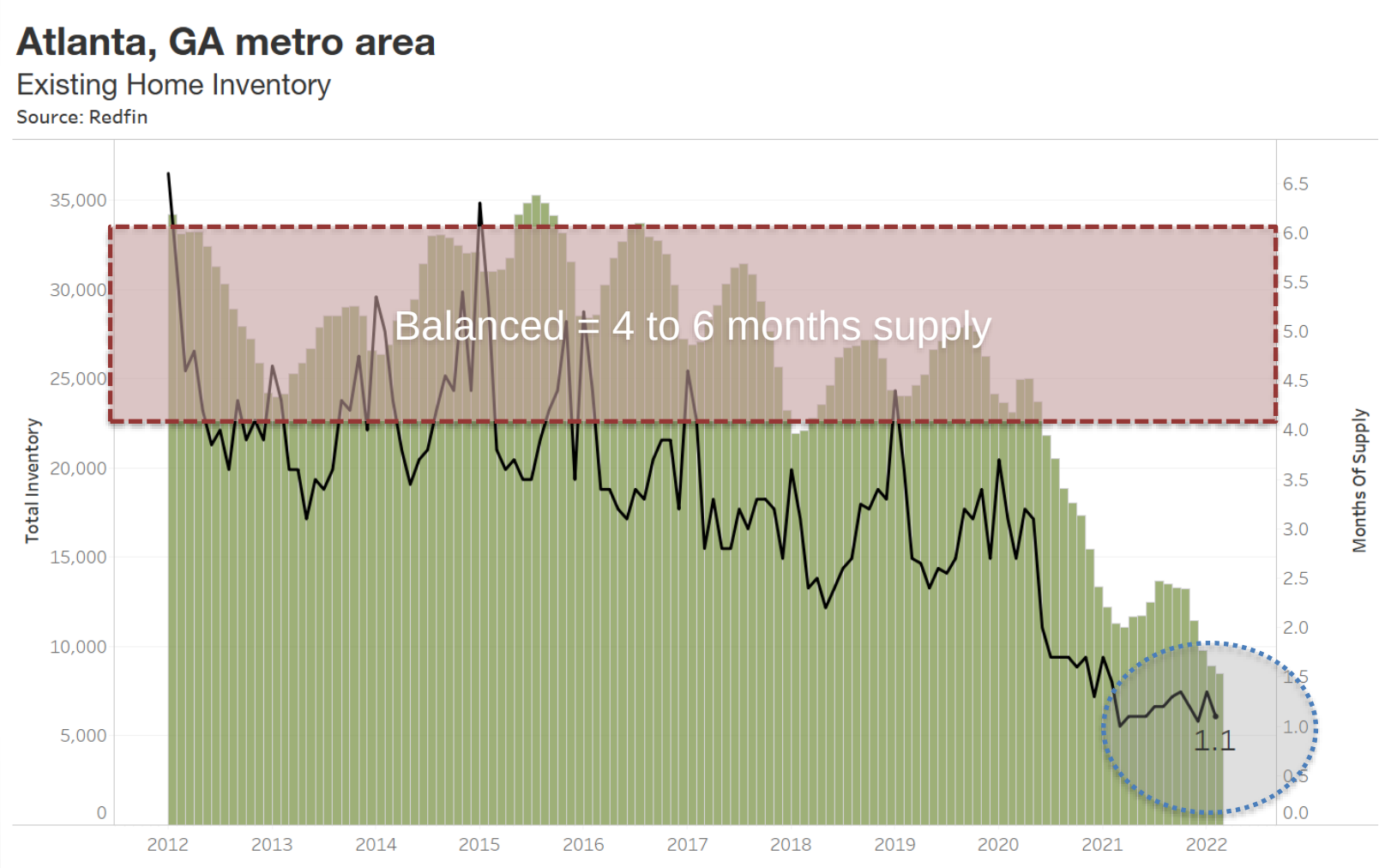
Housing Market Overview

Blank



Housing Market Overview

Blank



Atlanta Region

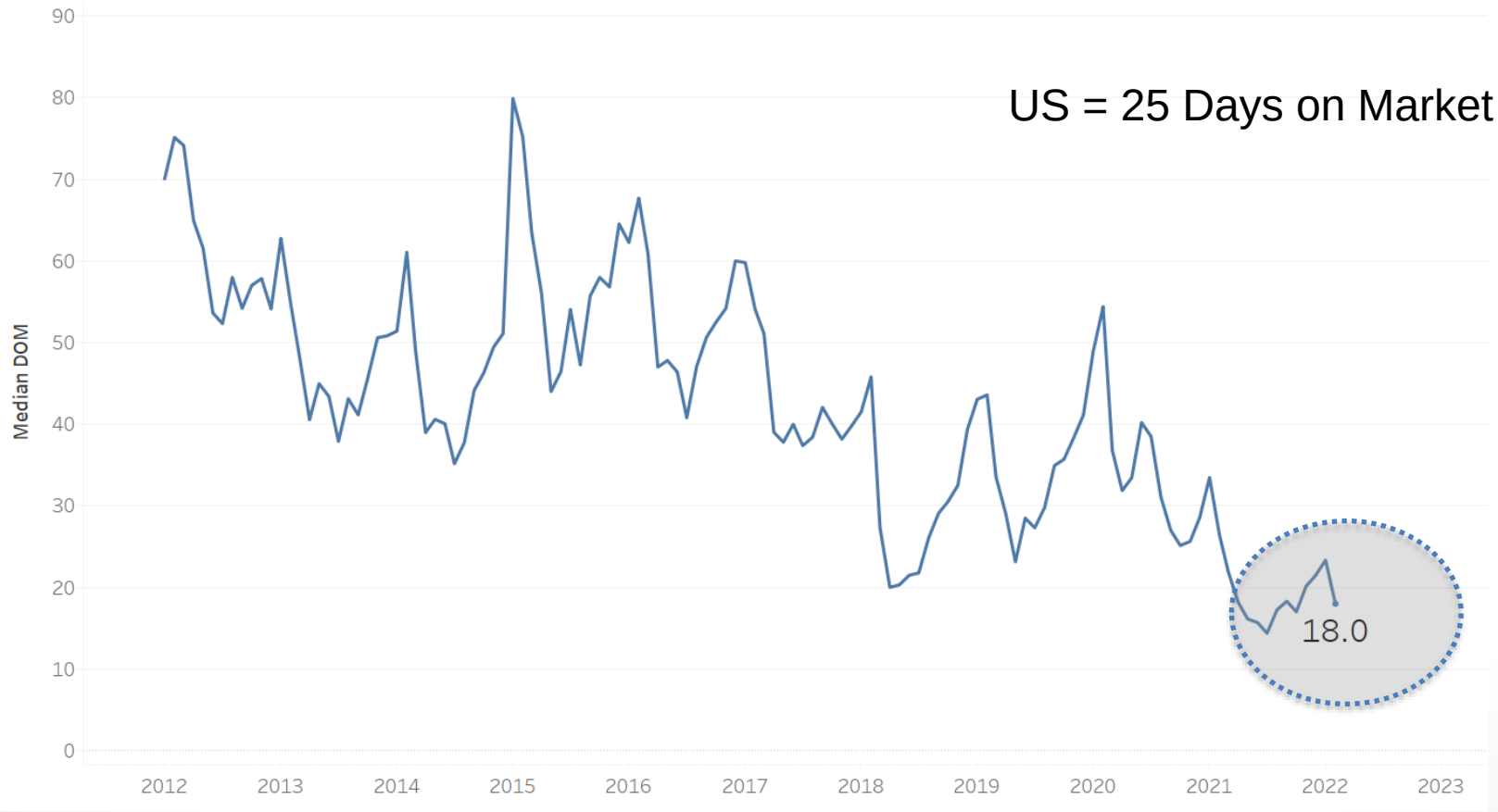
Housing Demand Trends

FEDERAL RESERVE BANK of ATLANTA

Atlanta, GA metro area

Median Days on Market

Source: Redfin



Atlanta Region

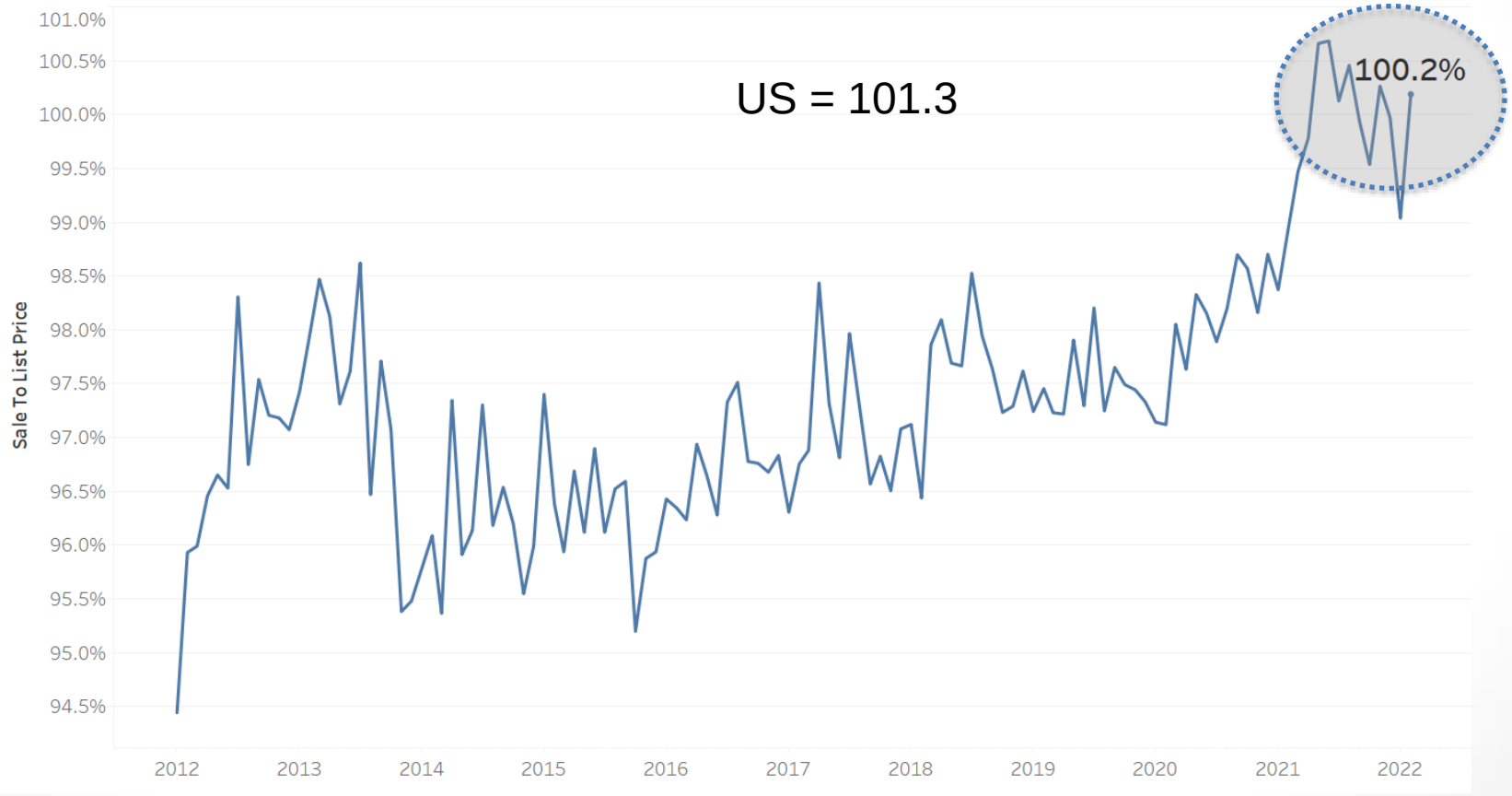
Housing Demand Trends

FEDERAL RESERVE BANK of ATLANTA

Atlanta, GA metro area

Median Sales to List Price

Source: Redfin



Atlanta Region

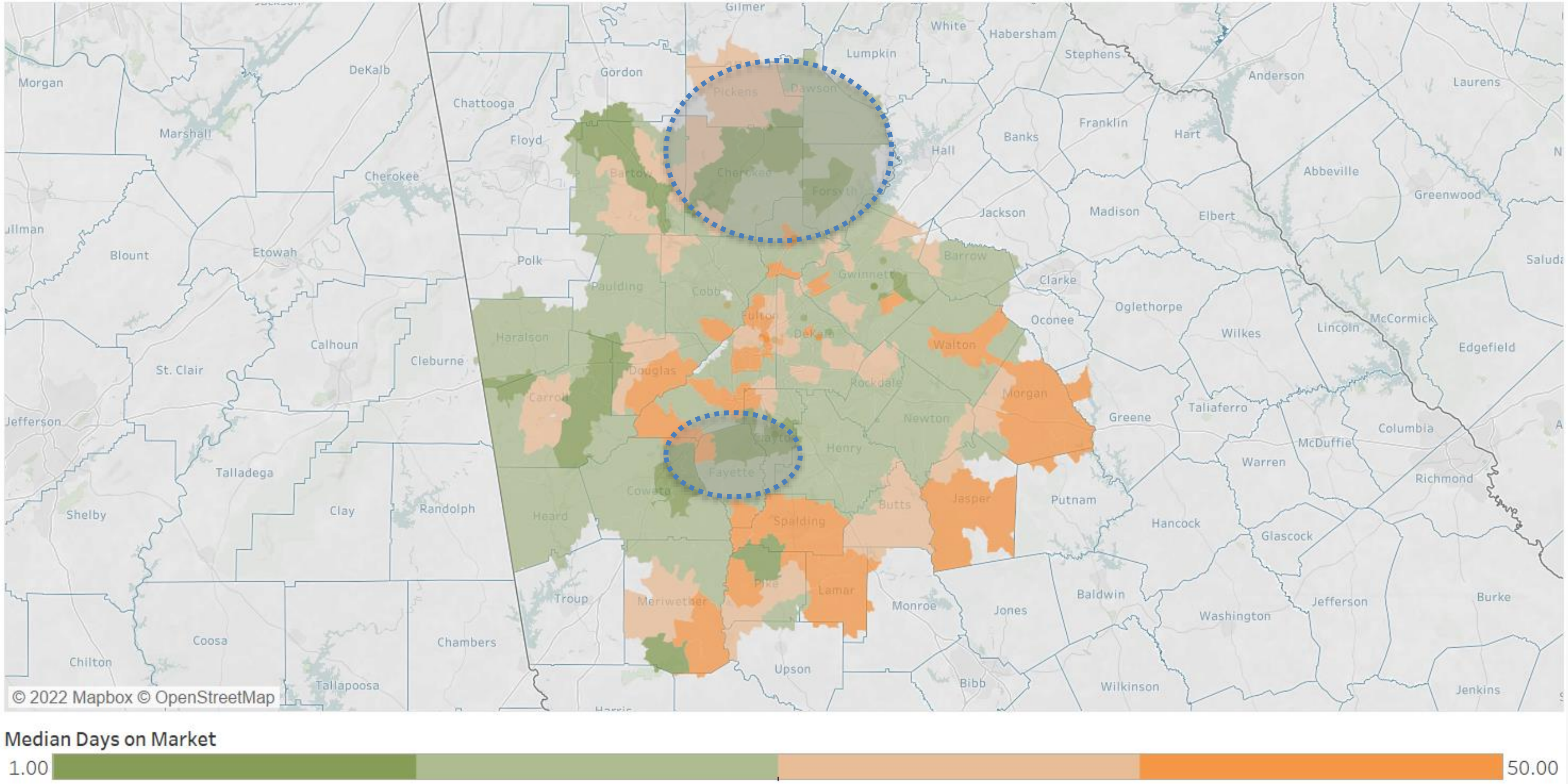
Housing Demand Trends

Atlanta, GA

Median Days on Market **(January 2022)**

Source: Redfin

Shortest DOM = Forsyth, Cherokee, Fayette, and Coweta



Home Prices

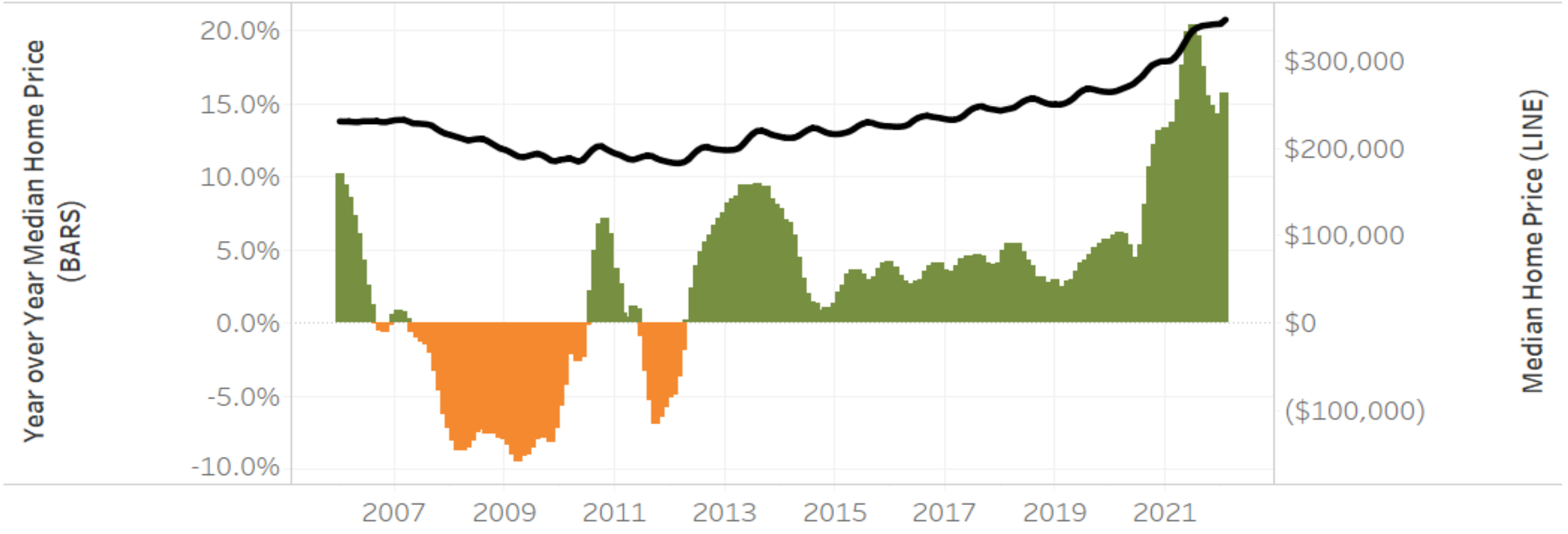
U.S. Home Price Trends

FEDERAL RESERVE BANK of ATLANTA

Existing Home Sales Price Trend

Source: Corelogic/Federal Reserve Bank of Atlanta

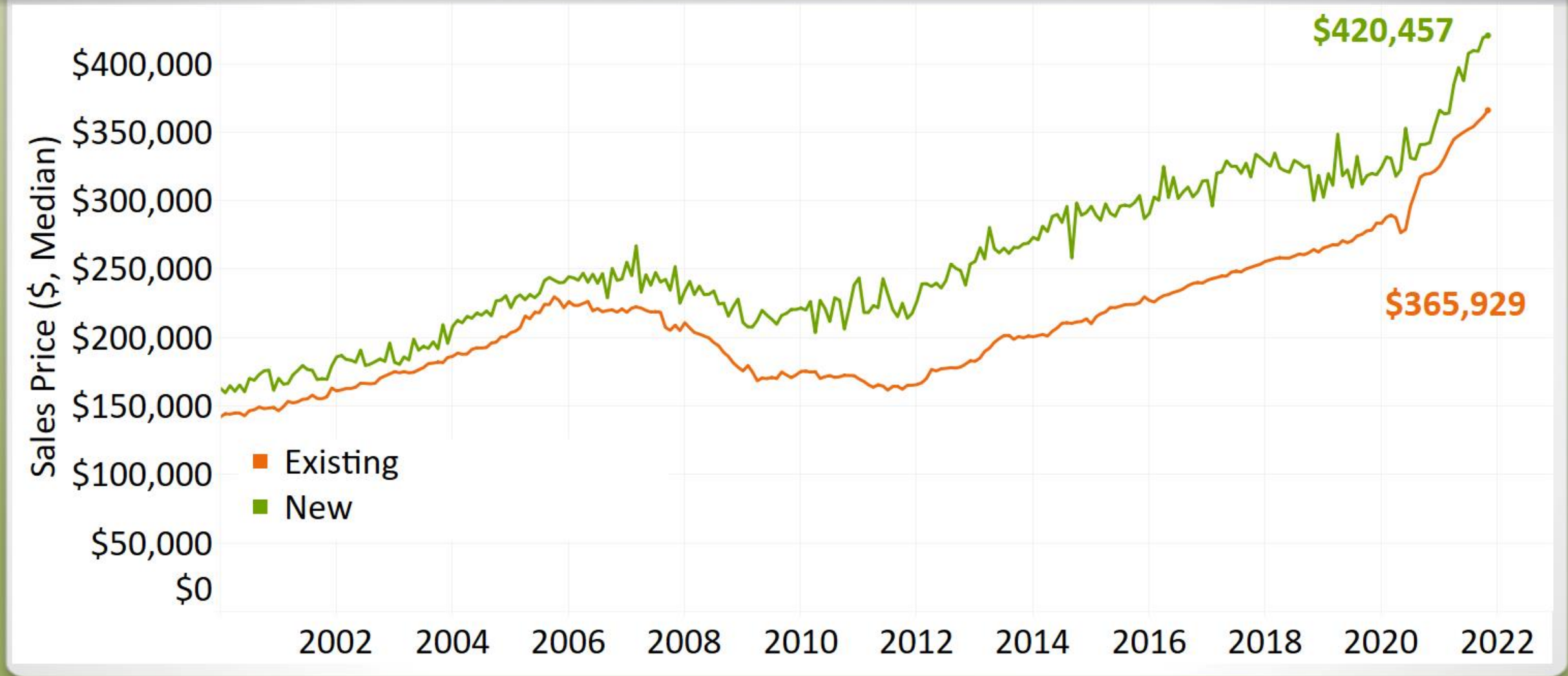
February = 15.7%



U.S. Median Home Prices

Source: National Association of Realtors; U.S. Census Bureau; SRC - Risk Analysis Unit

FEDERAL RESERVE BANK of ATLANTA



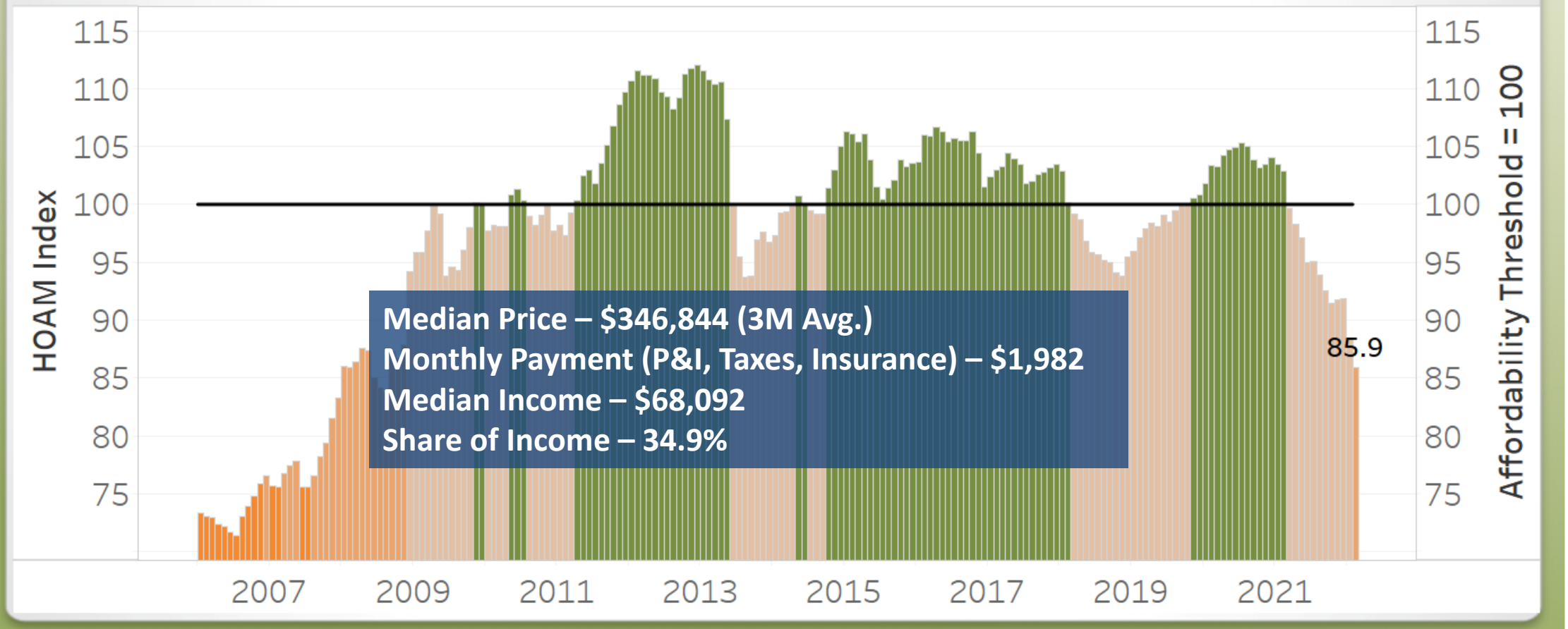
National Home Ownership Affordability Monitor (HOAM) Index

Source: Federal Reserve Bank of Atlanta - SRC

FEDERAL RESERVE BANK of ATLANTA

HOAM Index
63.99 112.00
Affordability = 100
100

January 2006 to February 2022



Median Price – $346,844 (3M Avg.)
Monthly Payment (P&I, Taxes, Insurance) – $1,982
Median Income – $68,092
Share of Income – 34.9%

National Home Ownership Affordability Monitor (HOAM) Index

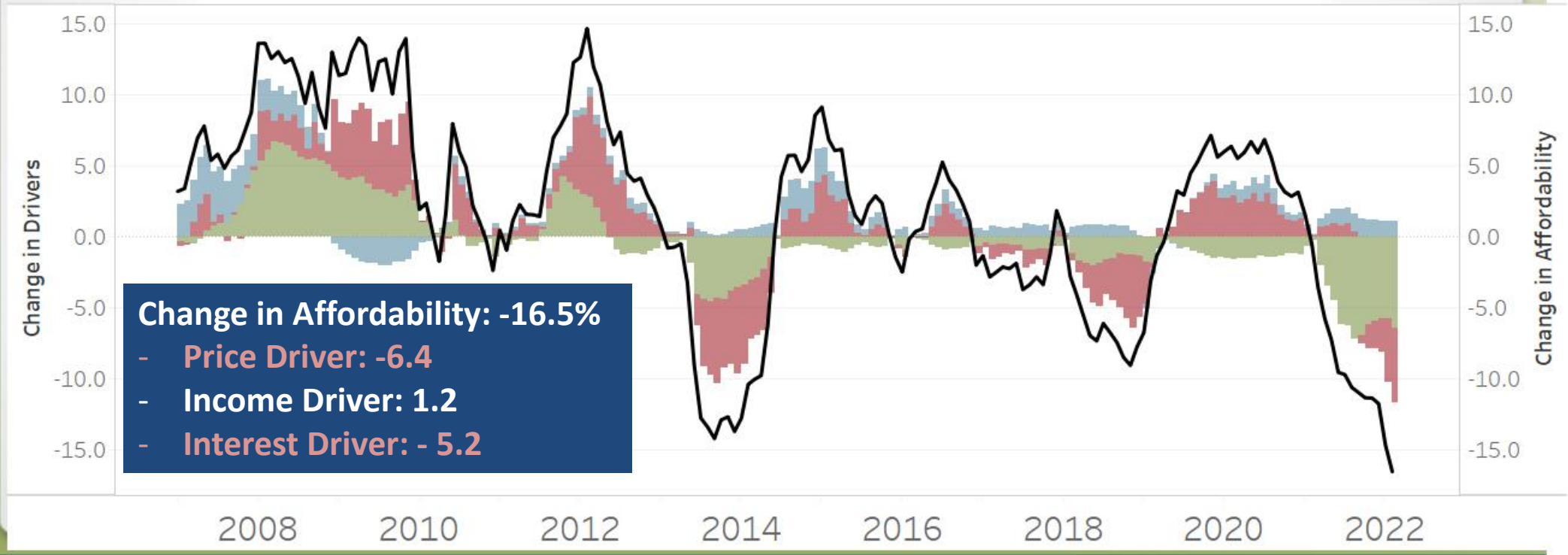
Source: Federal Reserve Bank of Atlanta - SRC

FEDERAL RESERVE BANK of ATLANTA

Drivers of Affordability

March 2000 to February 2022

Note: Tracks actual (not percent) change. Does not sum to change in index as other components (taxes, insurance, PMI) not included.



Change in Affordability: -16.5%

- **Price Driver: -6.4**
- **Income Driver: 1.2**
- **Interest Driver: - 5.2**

Home Ownership Affordability Monitor (HOAM) Index

Source: Federal Reserve Bank of Atlanta - SRC

FEDERAL RESERVE BANK of ATLANTA

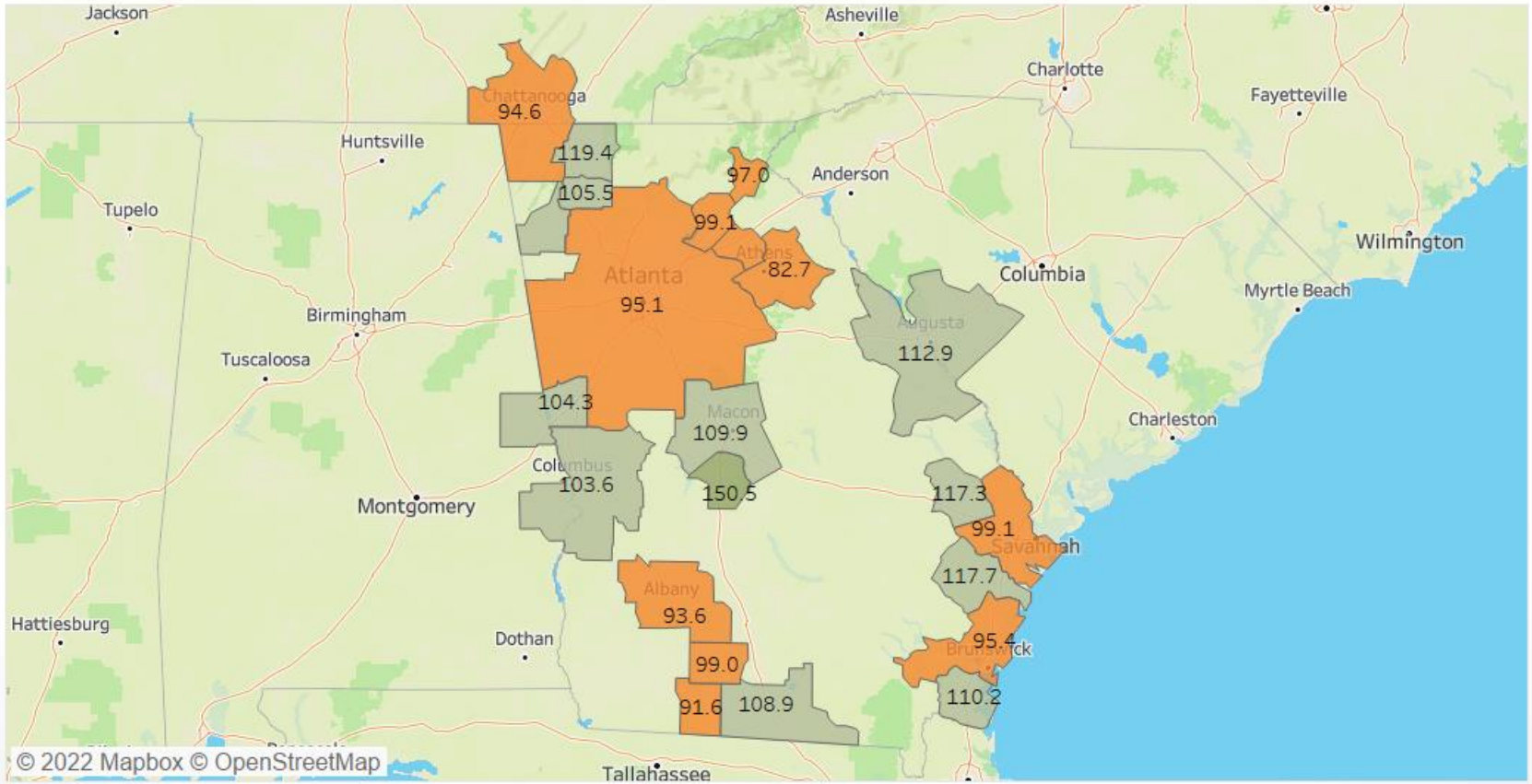
Georgia Metro Area HOAM Index

February 2022

Index Less than 100 = Unaffordable

February 2022

Show history



Home Ownership Affordability Monitor (HOAM) Index

Source: Federal Reserve Bank of Atlanta - SRC

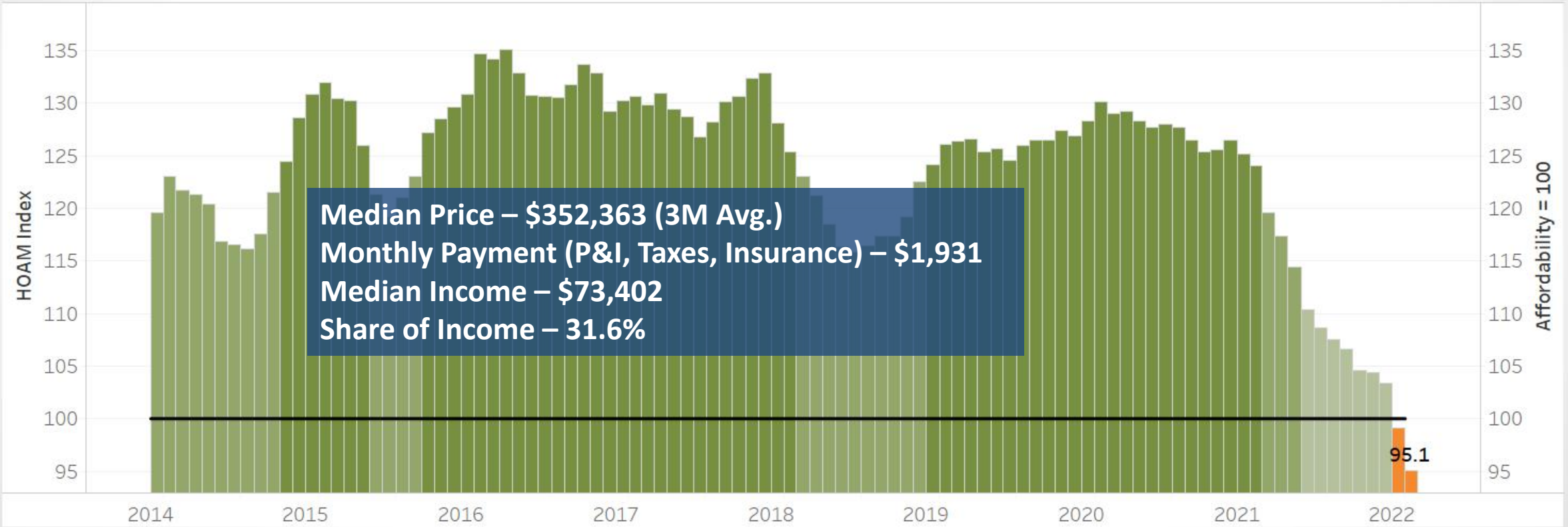
FEDERAL RESERVE BANK of ATLANTA

Select Geography
Atlanta-Sandy Springs-Rosw..

Atlanta-Sandy Springs-Roswell, GA

Metro Home Owner Affordability Monitor (HOAM) Index

Index Less than 100 = Unaffordable



Median Price – $352,363 (3M Avg.)
Monthly Payment (P&I, Taxes, Insurance) – $1,931
Median Income – $73,402
Share of Income – 31.6%

Select Geography
Atlanta-Sandy S..

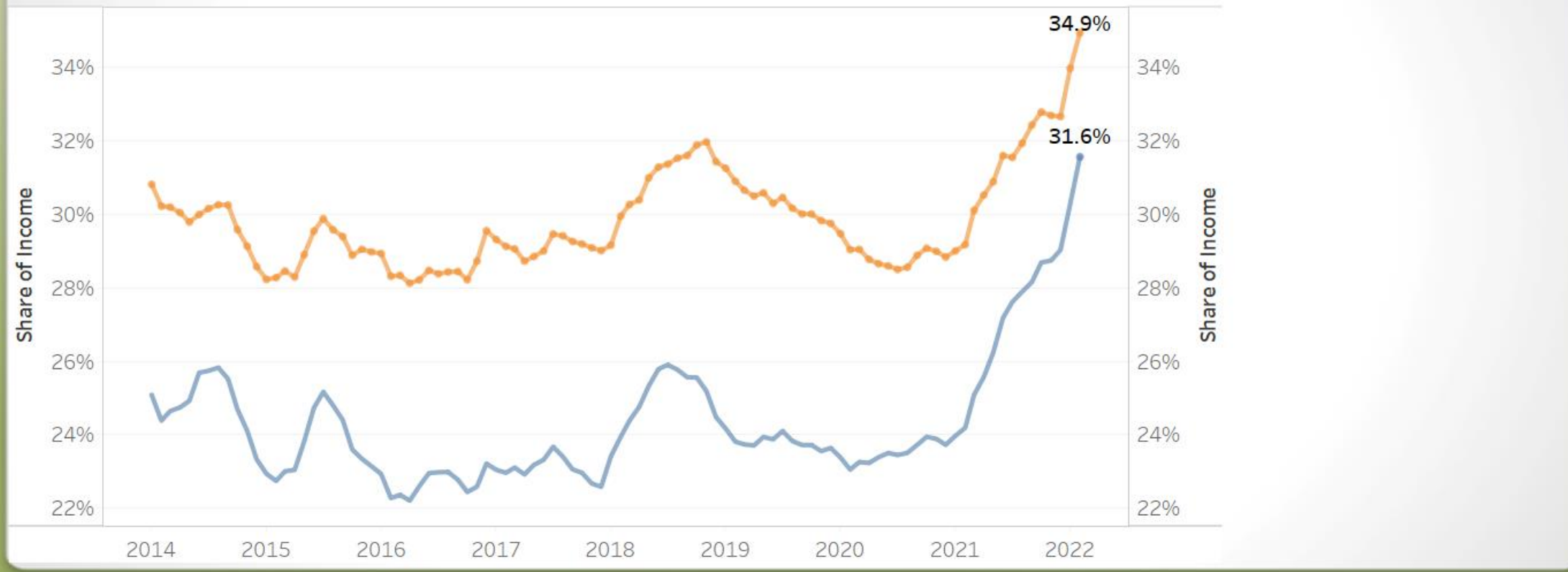
Share of Income Trend

Source: Federal Reserve Bank of Atlanta SRC - Risk Analysis Unit

FEDERAL RESERVE BANK of ATLANTA

Atlanta-Sandy Springs-Roswell, GA

Share of Median Income Needed to Own Median Priced Home



Home Ownership Affordability Monitor (HOAM) Index

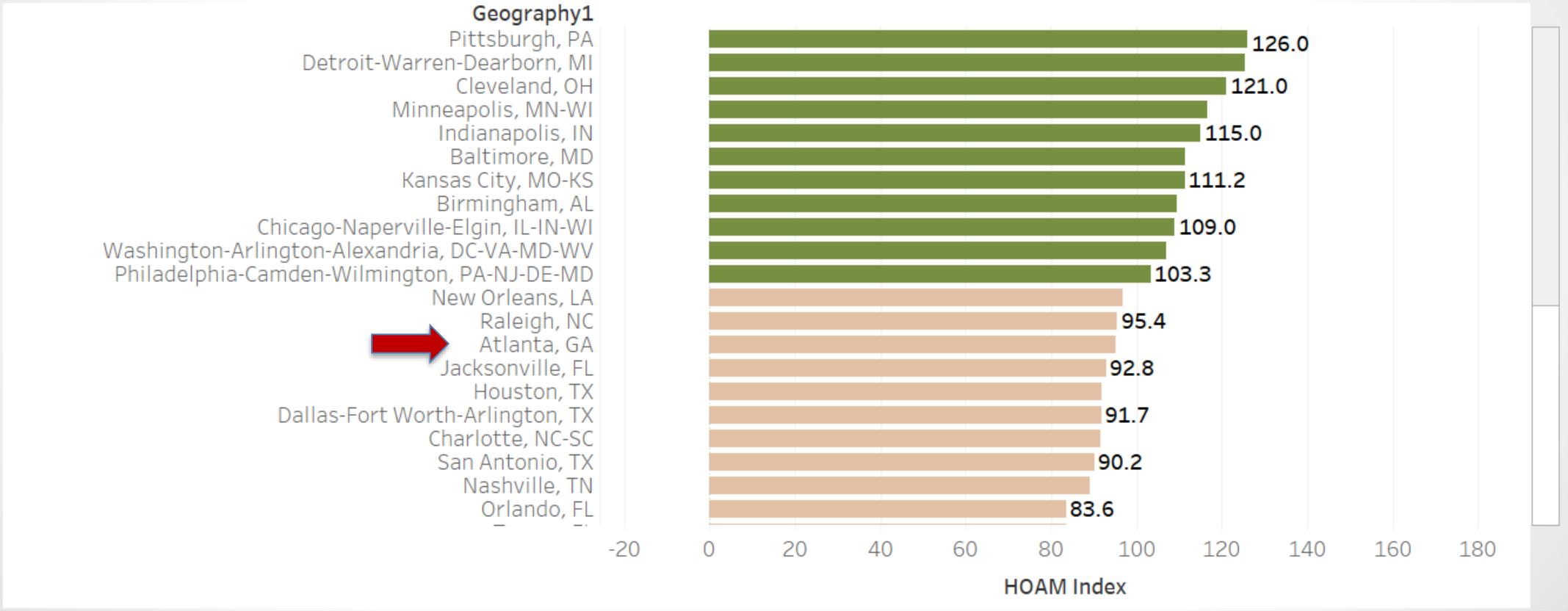
Source: Federal Reserve Bank of Atlanta - SRC

FEDERAL RESERVE BANK of ATLANTA

HOAM Index
22.0 126.0

Date: February 2022

Below 100 = Unaffordable



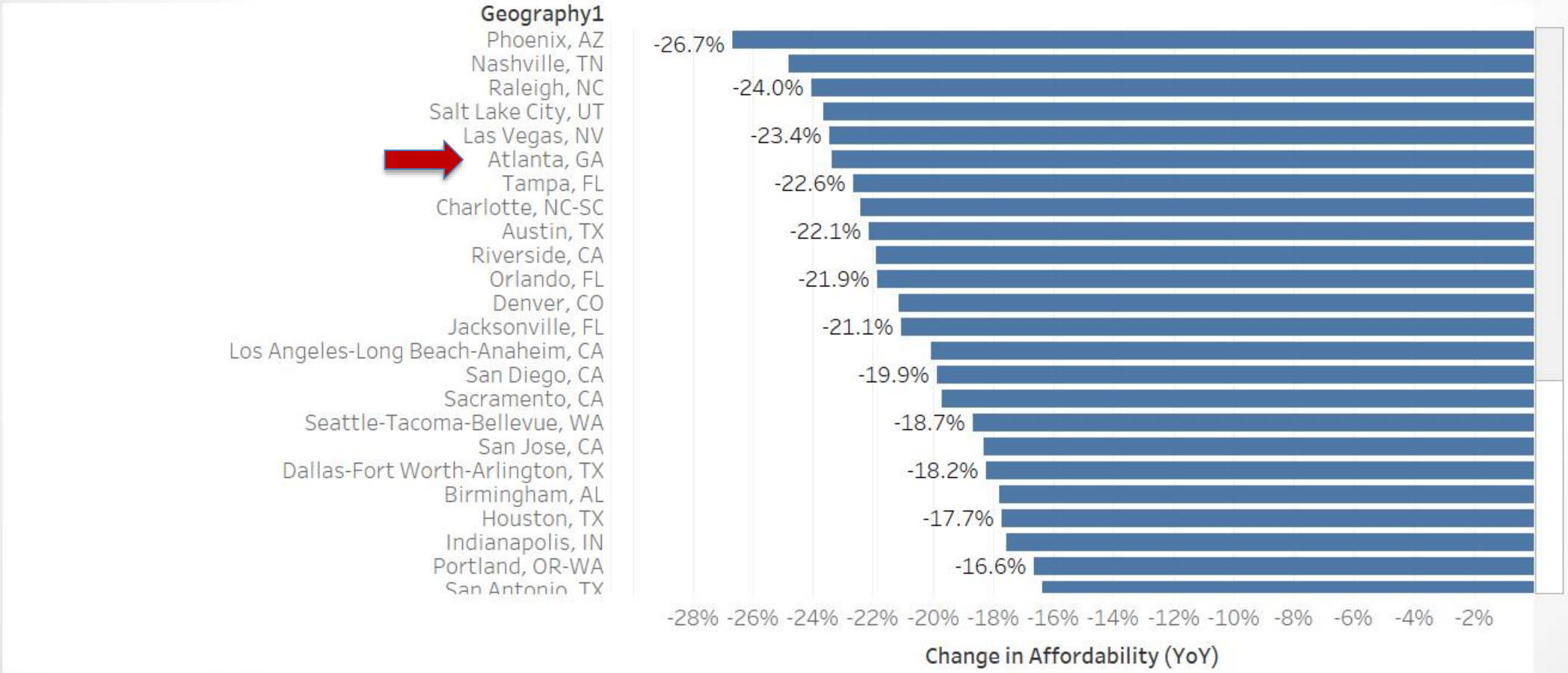
Change in Home Ownership Affordability (Year over Year)

Source: Federal Reserve Bank of Atlanta - SRC

FEDERAL RESERVE BANK of ATLANTA

Date: February 2022

Metros with Population >500,000



Home Price Trend

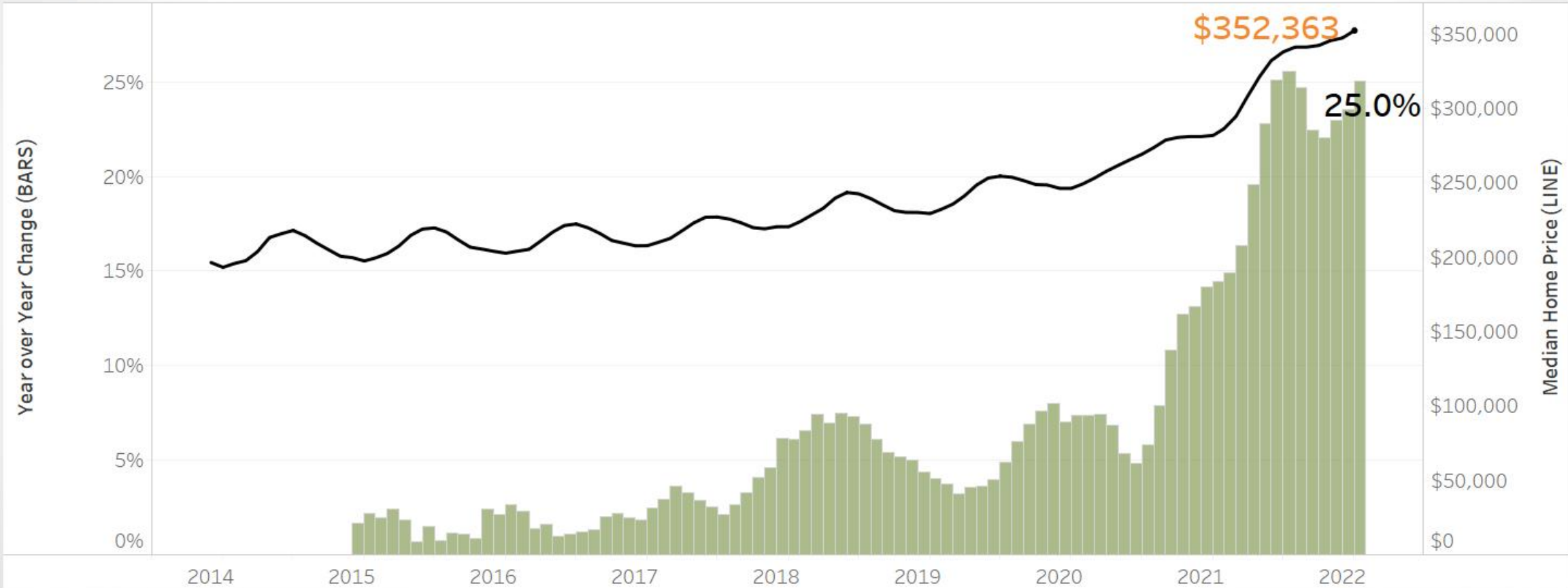
Source: Corelogic, Federal Reserve Bank of Atlanta - SRC

FEDERAL RESERVE BANK of ATLANTA

Atlanta-Sandy Springs-Roswell, GA

Change in Median Home Price (Year over Year)

Select Geography
Atlanta-Sandy Springs-Roswell, GA



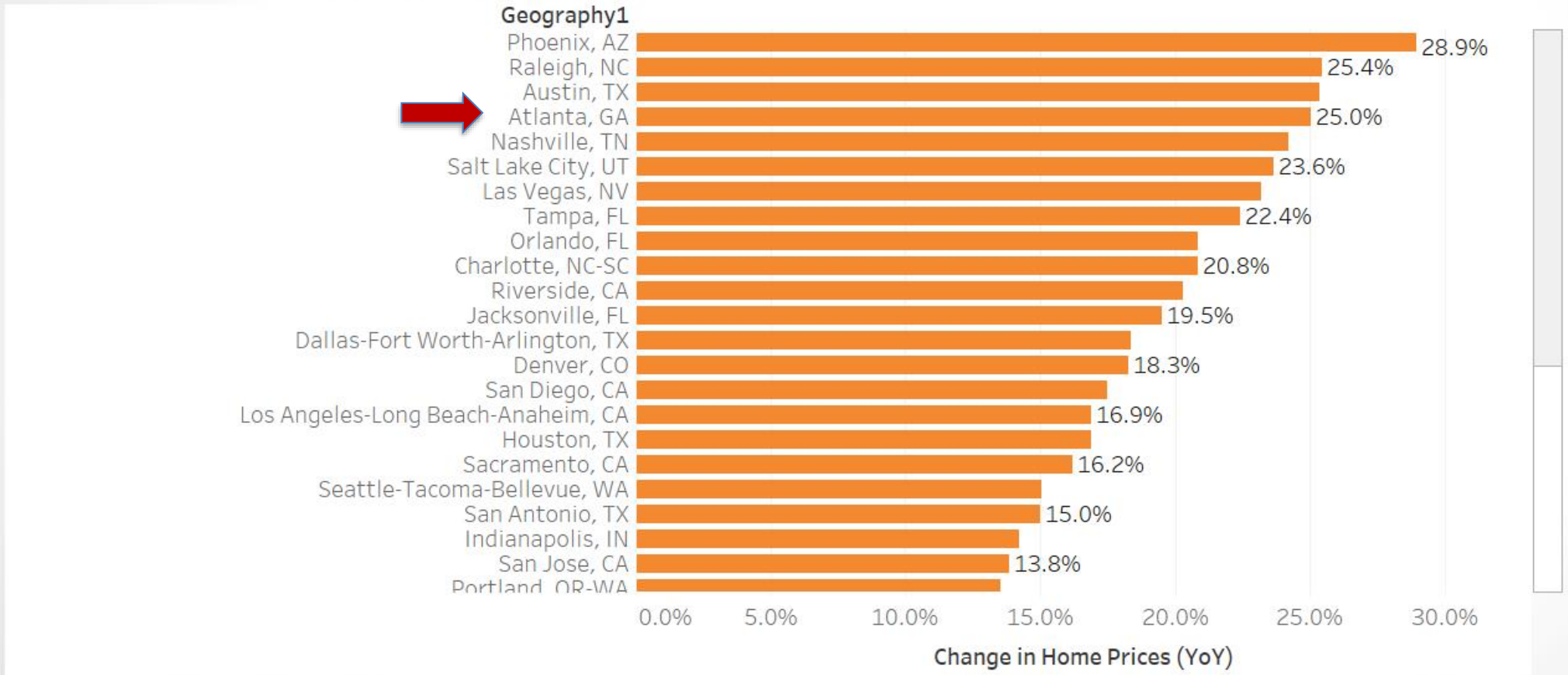
Change in Home Sales Price (Year over Year)

Source: Federal Reserve Bank of Atlanta - SRC

FEDERAL RESERVE BANK of ATLANTA

Date: February 2022

Metros with Population >500,000



Metro Median Home Prices

Source: Zonda Analytics, Coregloic

FEDERAL RESERVE BANK of ATLANTA

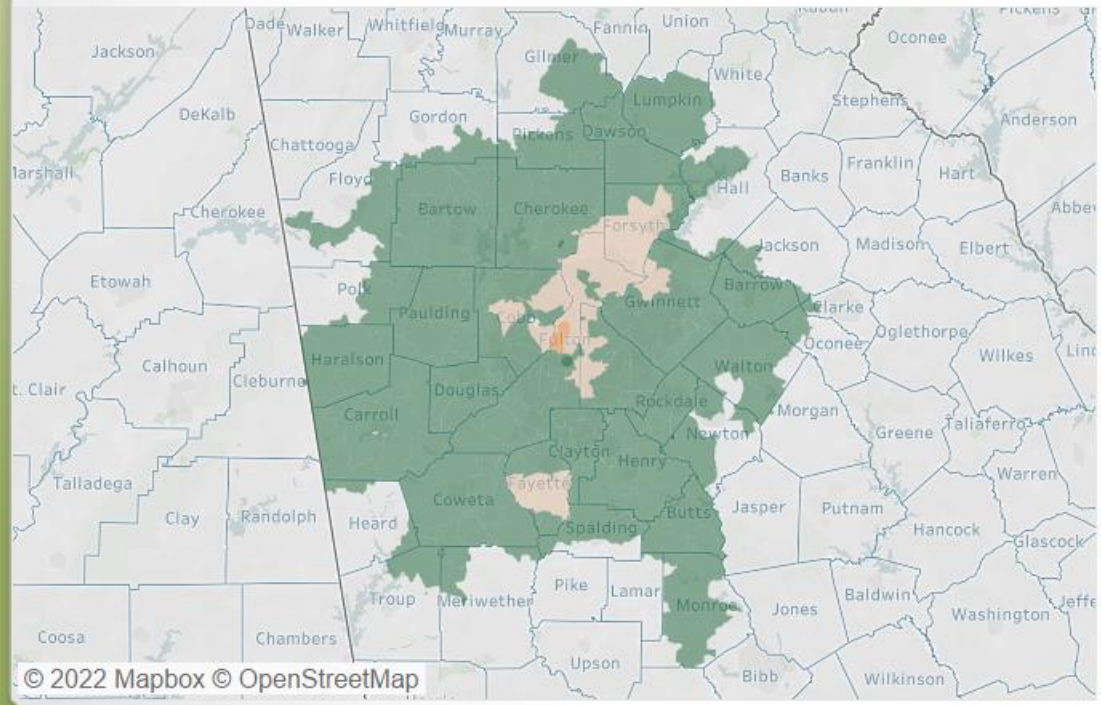
Atlanta-Sandy Springs-Roswell, GA

Median Home Sales Price

Source: Zonda Analytics, Federal Reserve Bank of Atlanta

Median Home Price Above $300,000

January 2020



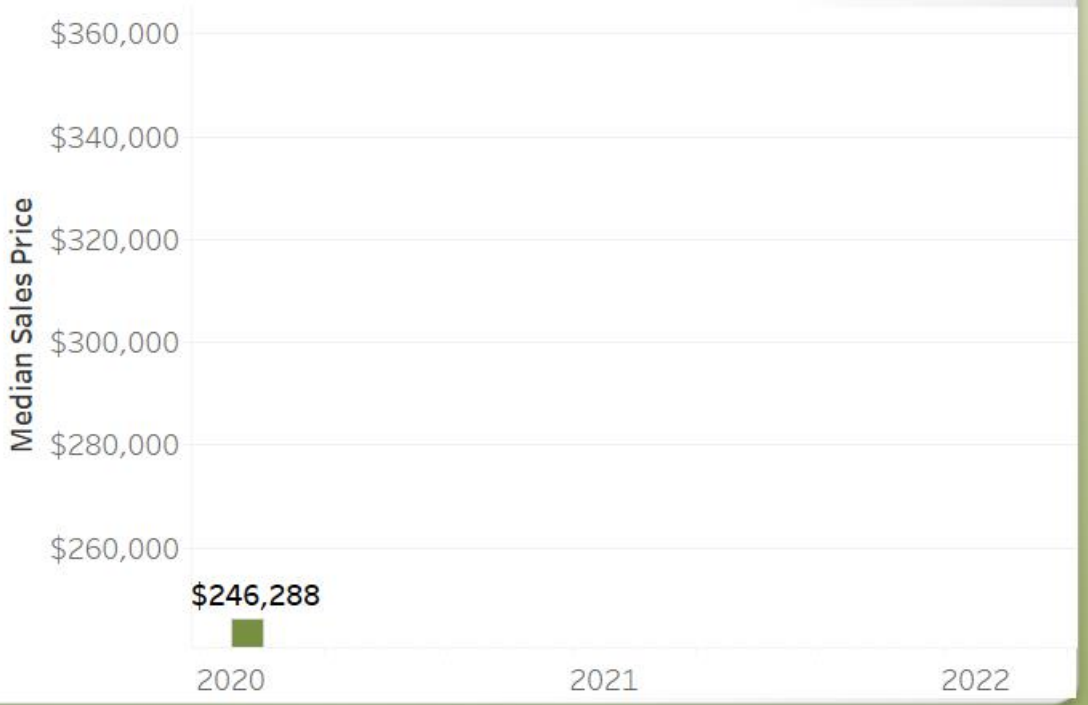
Atlanta-Sandy Springs-Roswell, GA

Median Home Sales Price

Source: Corelogic, Federal Reserve Bank of Atlanta - SRC

Median Home Price Above $300,000

January 2020



Metro Median Home Prices

Source: Zonda Analytics, Coregloic

FEDERAL RESERVE BANK of ATLANTA

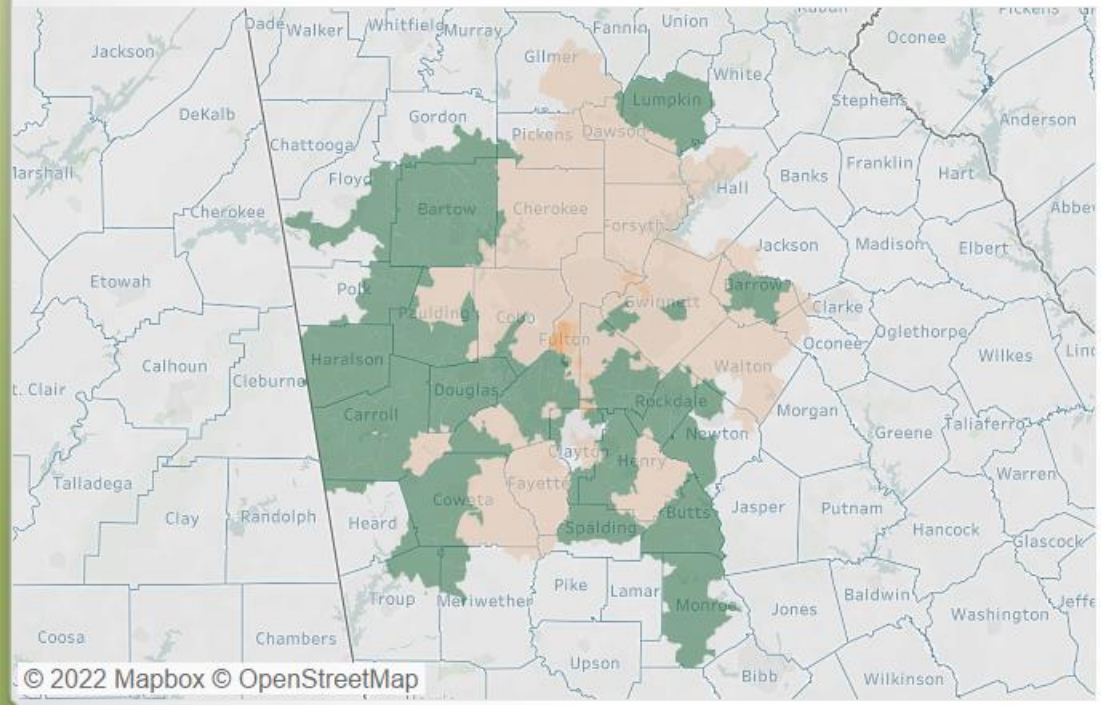
Atlanta-Sandy Springs-Roswell, GA

Median Home Sales Price

Source: Zonda Analytics, Federal Reserve Bank of Atlanta

Median Home Price Above $300,000

January 2022



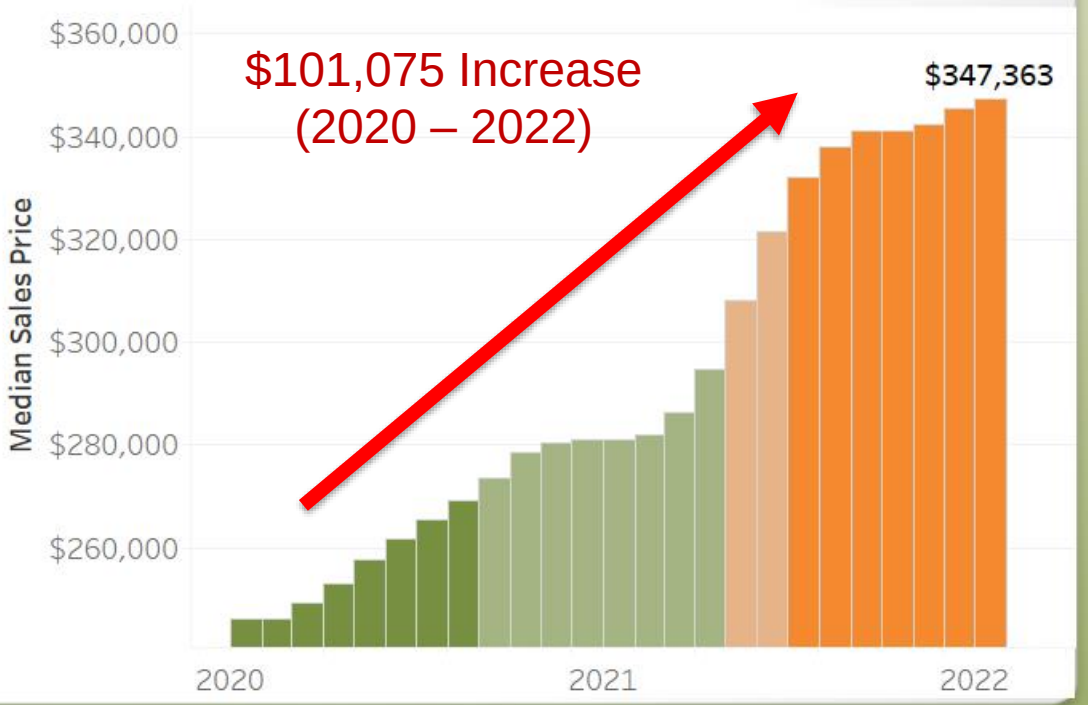
Atlanta-Sandy Springs-Roswell, GA

Median Home Sales Price

Source: Corelogic, Federal Reserve Bank of Atlanta - SRC

Median Home Price Above $300,000

January 2022



Home Ownership Affordability Monitor (HOAM) Index

Source: Federal Reserve Bank of Atlanta - SRC

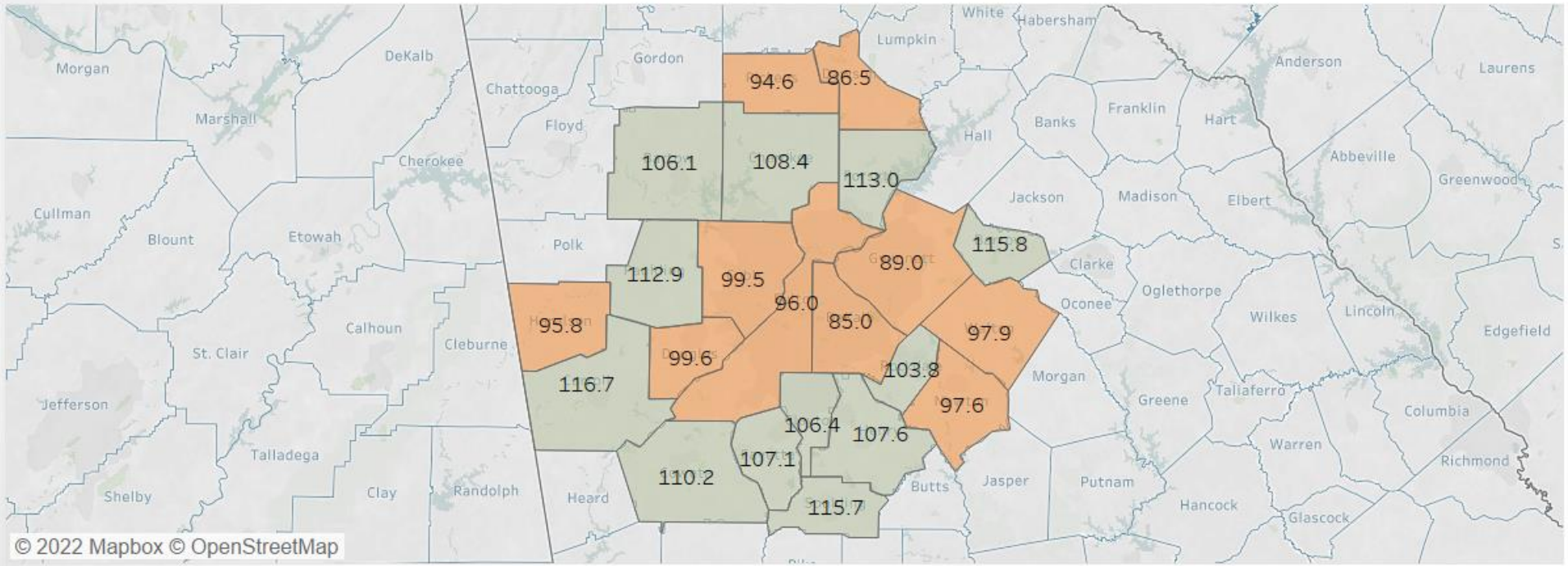
FEDERAL RESERVE BANK of ATLANTA

Atlanta-Sandy Springs-Alpharetta, GA

Affordability by County

February 2022

Index Less than 100 = Unaffordable



HOAM Index

68.0 — 195.9

Cbsa

Atlanta-Sandy Springs-Alpharet..

Date

February 2022

Show history

Home Ownership Affordability Monitor (HOAM) Index

Source: Federal Reserve Bank of Atlanta - SRC

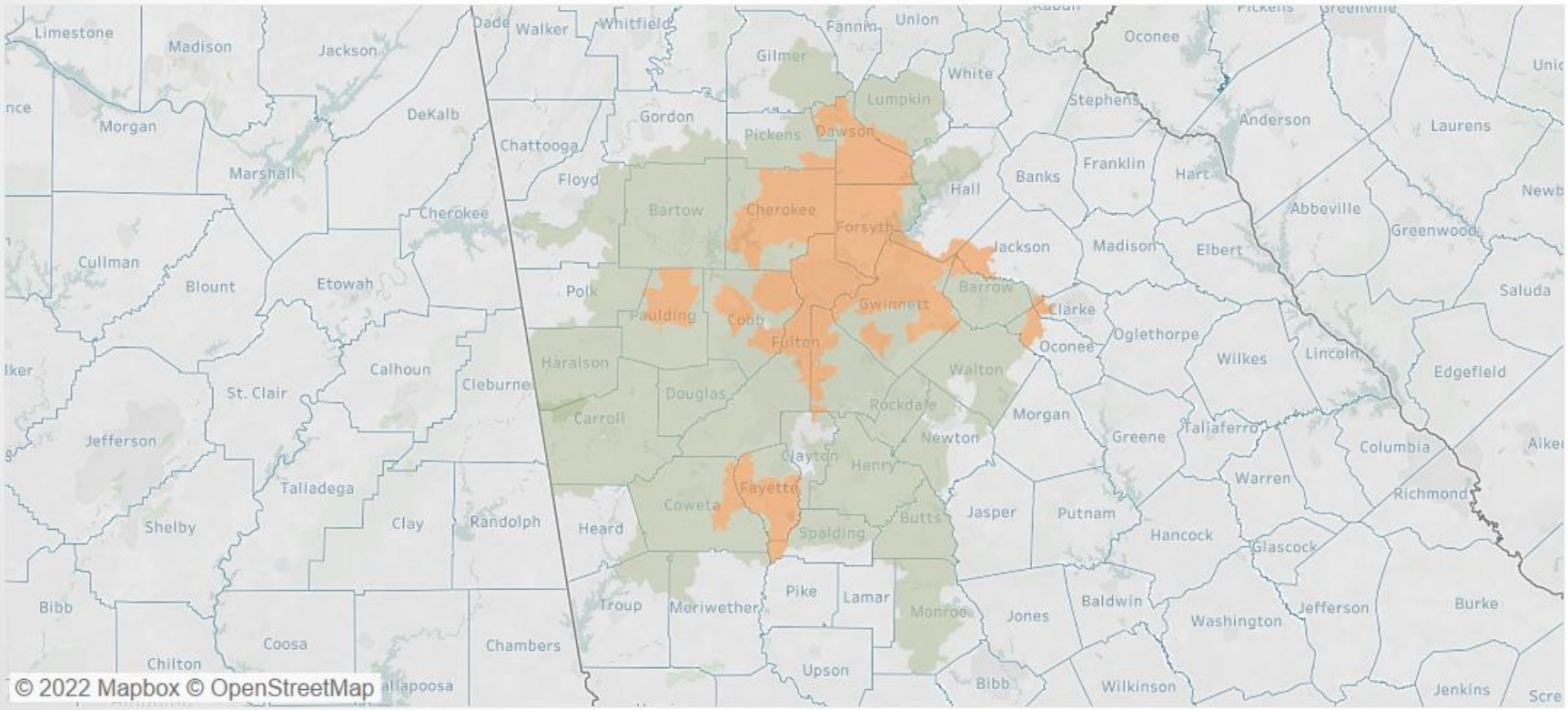
FEDERAL RESERVE BANK of ATLANTA

Atlanta-Sandy Springs-Roswell, GA

Where the Median Income Household Can Afford to Buy (by Zip Code)

Index Less than 100 = Unaffordable

January 2022



CBSA Name

Atlanta-Sandy Springs-Roswell, GA

January 2022

☐ Show history

Metro Median Income

$73,402

Declining Affordability

Impact on Consumers

Median Priced Home
$350,000

Payment in Jan 2022 @ 3.8% = **$1,981**

Payment in April 2022 @ 5.0% = **$2,204**

Difference = $223

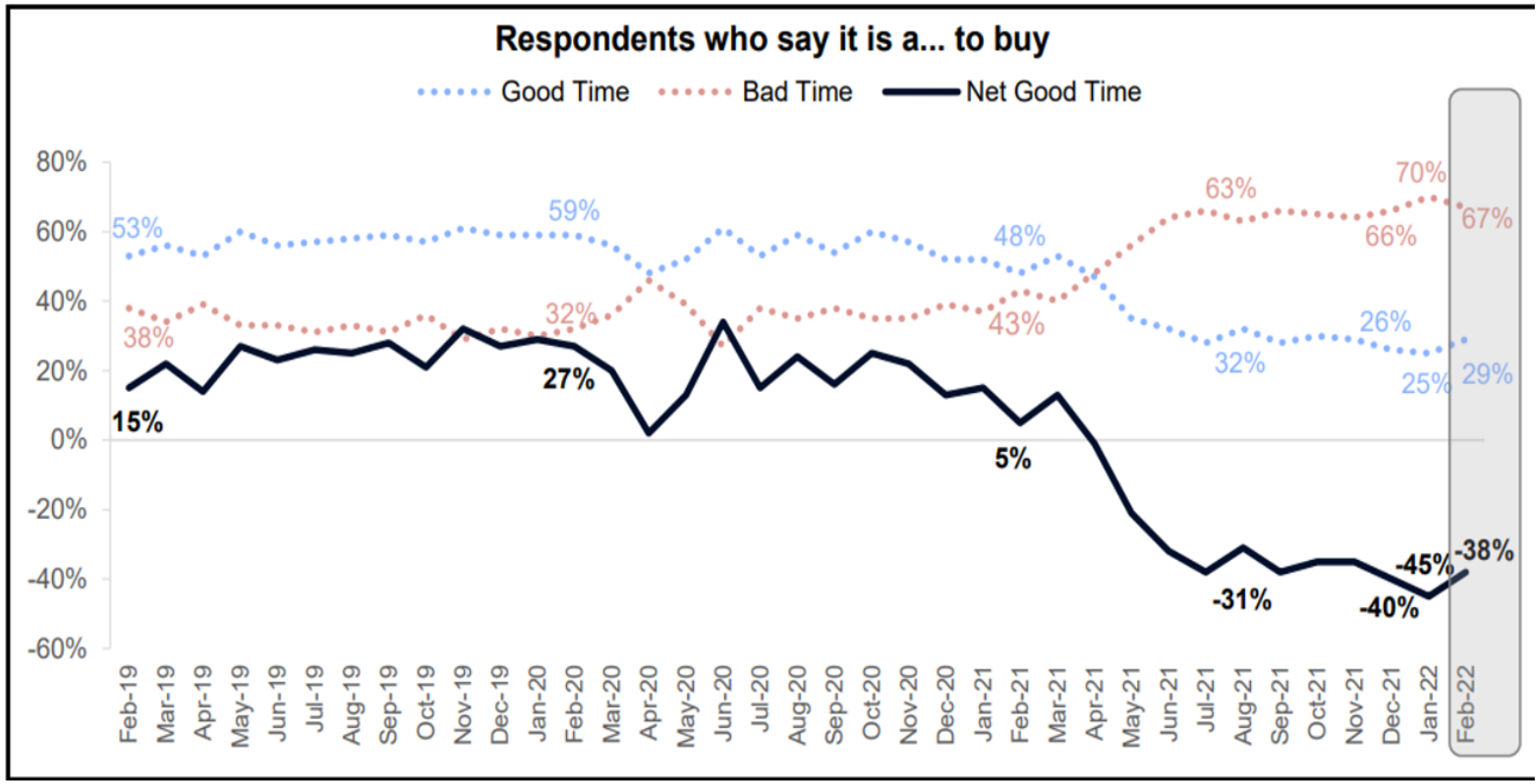
Declining Affordability

Impact on Consumers

FEDERAL RESERVE BANK of ATLANTA

Home Buyer Sentiment Index

Source: Fannie Mae



- **67 percent** of consumers believe it is a **BAD** time to buy.
- Consumers concerned about **declining affordability** & **challenges finding a home** to purchase.
- Payment sensitive buyers more adversely impacted.
- Demand from cash buyers and investors remains stronger.

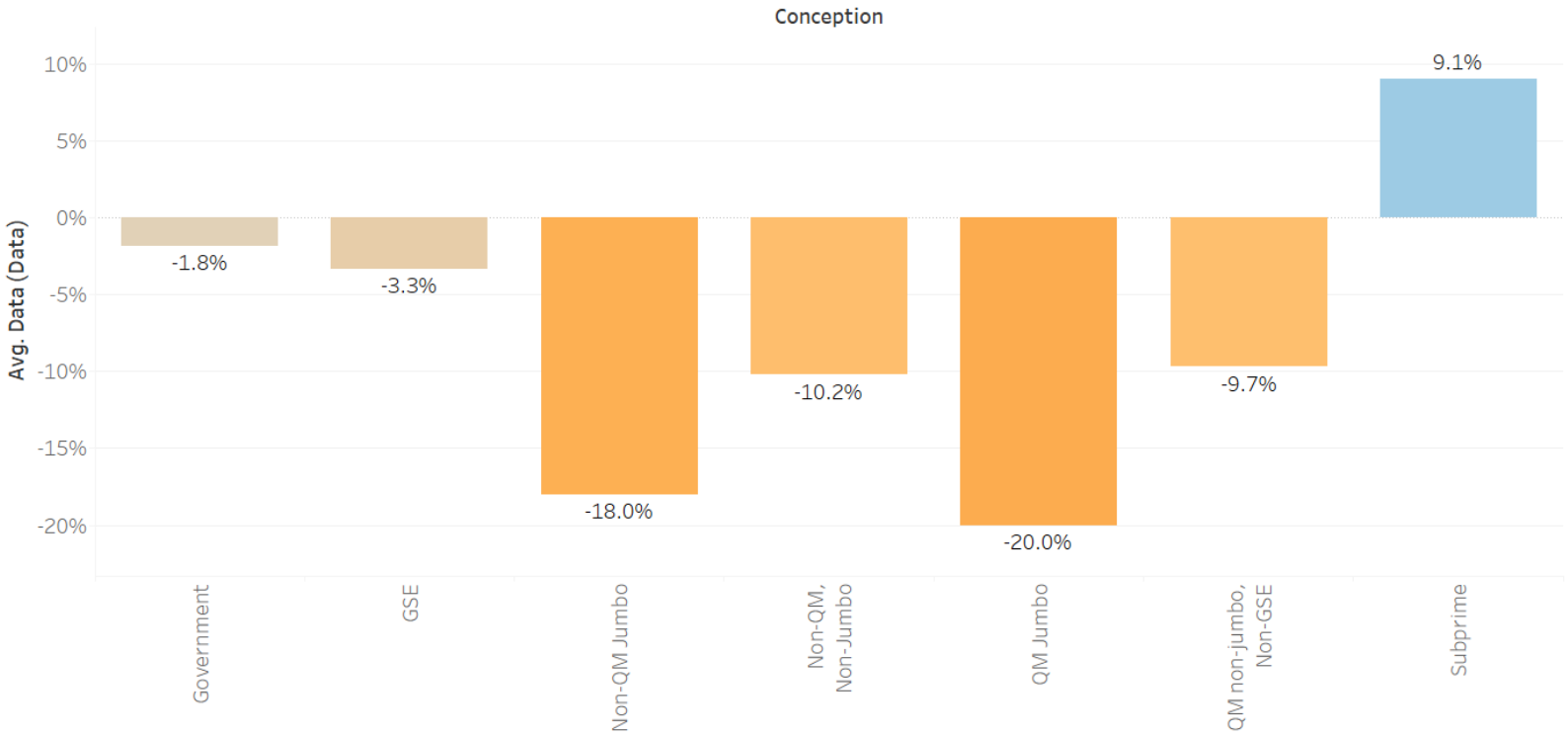
Declining Affordability

Impact on Credit

Net Percentage of Domestic Respondents Tightening Standards for Mortgage Loans

Source: Senior Loan Officer's Survey, Federal Reserve Board

Date: JANUARY 2022



- Credit loosening for mortgages that are typically used to purchase more expensive homes **(i.e., non-QM/Jumbo mortgages)**.
- Though credit quality concerns are limited, these loans **pose additional risk due to their greater complexity**.

Note: Conventional loan limit for 2022 is $647,200

Soft Landing

- Low supply levels.
- Large amount of home owners locked in at low rates that are disincentivized to sell.
- Large amount of potential buyers with cash.

Hard Landing

- Little margin for consumers to absorb higher prices and rates.
- Compound effect of high inflation.
- Sharper correction in demand than anticipated.

Federal Reserve Bank *of* Atlanta