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Housing Morsel

The Great Slowdown

29 July 2022

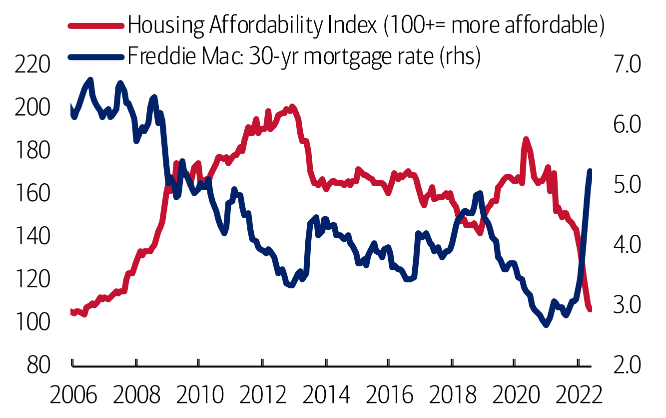
Key talking points

- After two years of record growth, the US housing market has reached a turning point as elevated home prices and surging mortgage rates weigh on affordability and demand.
- As a result, home sales are slowing and Bank of America internal data shows that residential mortgage originations for consumers contracted by 29% year over year (YoY) during the second quarter. Declining sales have contributed to a better balance between supply and demand in the housing market, though solid home price appreciation suggests there is further room for supply to catch up.
- Regionally, the West and the Northeast are seeing the biggest drop in home sales for the three month period ending June 2022. Similarly, Bank of America card spending per household at furniture and home improvement stores is also the weakest for these two regions on a %YoY basis.

The past two years have been a wild ride for the housing market. A burst in housing demand, boosted by elevated savings, historically low interest rates and migration away from dense urban areas, drove both home sales and home prices in the US to record high levels. On the inventory side, months' supply for existing homes and new single family homes dropped to a record low 1.6 and 3.3 months, respectively, in 2020. This year, however, marks a turning point for the housing market and the outlook has become much more challenging.

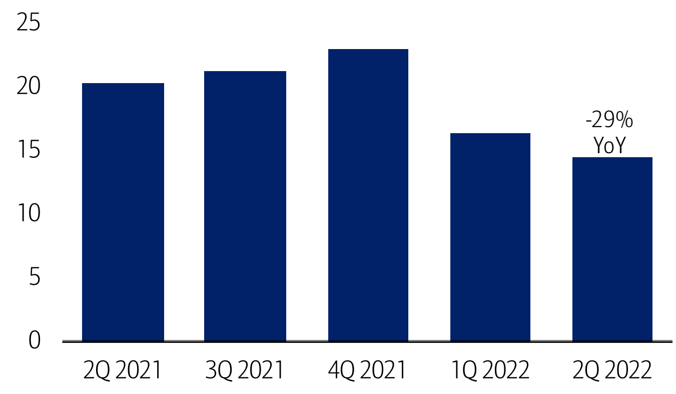
Since January of this year, 30-year mortgage rates increased by more than 200 basis points, reaching the highest level since 2008. Higher borrowing costs in addition to booming home price appreciation means housing affordability also plunged to the lowest level since 2006 (Exhibit 1). As we discussed in a previous Consumer Morsel, people with existing mortgages will see a limited impact from rising rates given that the majority of mortgages in the US are fixed rates. However, lower affordability does mean that demand for new purchases will be lower. In fact, according to Bank of America internal data, residential mortgage originations for consumers totaled $14.5bn during the second quarter (2Q), 29% lower than 2Q 2021 (Exhibit 2).

Exhibit 1: 30-yr mortgage rate and Housing Affordability Index
As mortgage rates surge, housing affordability has plunged to the lowest level since 2006



Source: Haver Analytics

Exhibit 2: New consumer residential mortgage originations from Bank of America ($bn)
Bank of America residential mortgage originations moderated in 2Q



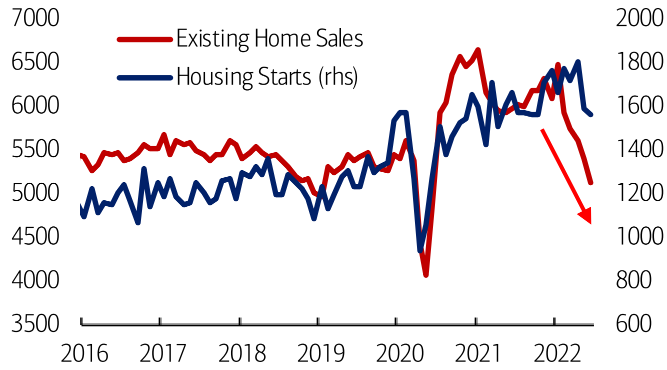
Source: Bank of America internal data. Note: this data was published in the Bank of America 2Q earnings release.

Data from the National Association of Realtors also shows a steep slowdown in existing home sales in recent months. Existing home sales contracted 14% YoY in June, the 11th consecutive month of YoY contractions. Meanwhile housing starts, which measure new residential construction, peaked in April and have been on a downward trend since (Exhibit 3). In June, housing starts came in at 1.56mn units on an annualized basis, which was 2% lower from the prior month and 6.3% lower than June

2021. Slowing sales means housing inventory is growing. Months' supply for new single family homes jumped to 9.3 in June 2022, the highest level since 2010 while that for existing homes also increased to 3 in June, the highest since Aug 2020. That said, national home prices continue to grow at a very solid pace, up 20% YoY in May compared with the average rate of 5% between 2012 and 2019. Despite improving supply and demand balance, strong home price appreciation suggests that demand continues to outstrip supply and that there is further room for supply to catch up before the housing market is in balance.

Exhibit 3: Existing home sales and housing starts (thousands, seasonally adjusted, annualized)

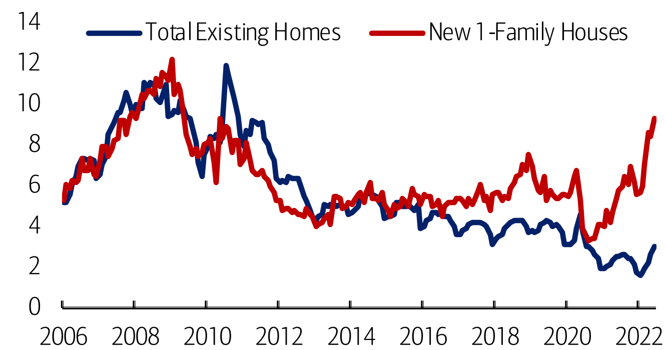
Both existing home sales and housing starts peaked earlier this year



Source: Census Bureau, Haver Analytics

Exhibit 4: Months' supply for existing homes and new single family homes (# of months)

Slowing sales means improving supply and demand balance as months' supply for both existing and new homes picked up in recent months



Source: Census Bureau, Haver Analytics

The wild wild West

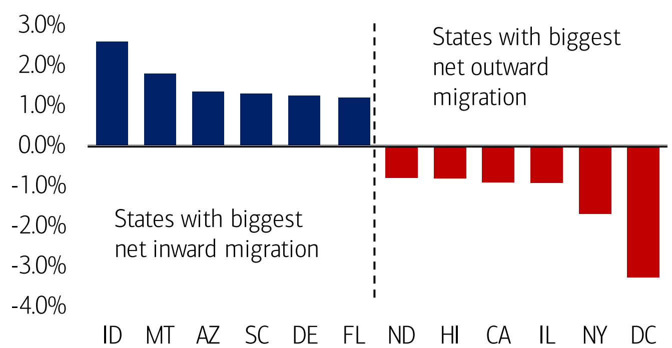
Throughout the pandemic the US saw a jump in domestic migration between US states, which also had meaningful impact on regional housing markets. Based on Census Bureau's definition of regions, states in the West (ID, MT, AZ) and the South (SC, DE, FL) saw the biggest inward net migration relative to their state population in 2021(Exhibit 5). Meanwhile states with dense urban areas such as DC, NY, IL and CA saw the biggest net outward migration.

Given the large amount of population influx to the West and the South, home sales in these regions saw a big surge in 2021. Specifically, existing home sales grew 11% YoY and 10% YoY for the South and the West, respectively, in 2021, compared with 5% and 8% for the Midwest and the Northeast. That said, as the housing market cools down nationally, we are seeing signs of payback in home sales across all four regions (Exhibit 6). For the three-month period ending June 2022, the West saw the biggest drop in existing home sales on a YoY basis, down 13%, followed by the Northeast, which saw 11% YoY drop.

The most direct impact from a slowing housing market is the slowdown in home-related spending. Using the internal Bank of America aggregated credit and debit card data, we find that spending per household at furniture and home improvement stores has been declining on a YoY basis nationally since March this year. Breaking down the data further by region, furniture and home improvement spending is particularly weak in the West and the Northeast, down 7.4% and 8.1% YoY, respectively, for the 28-day period ending July 23 (Exhibit 7). This is in line with the fact that both of these regions are seeing the weakest existing home sales on a YoY basis, as mentioned above.

Exhibit 5: States with the most inward and outward net migration in 2021 (% of state population)

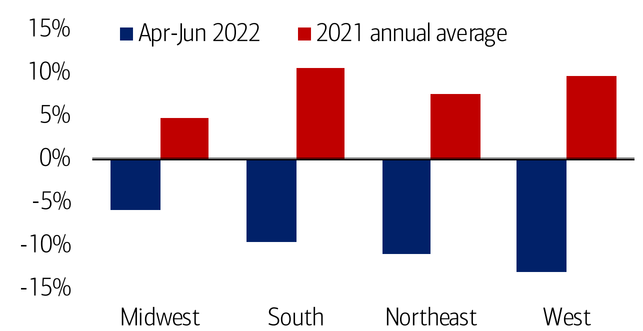
States in the West and the South saw the biggest inward migration in 2021



Source: Census Bureau

Exhibit 6: Existing home sales %YoY by region

After showing strong home sales in 2021, the West is seeing the biggest contraction on a %YoY in recent months



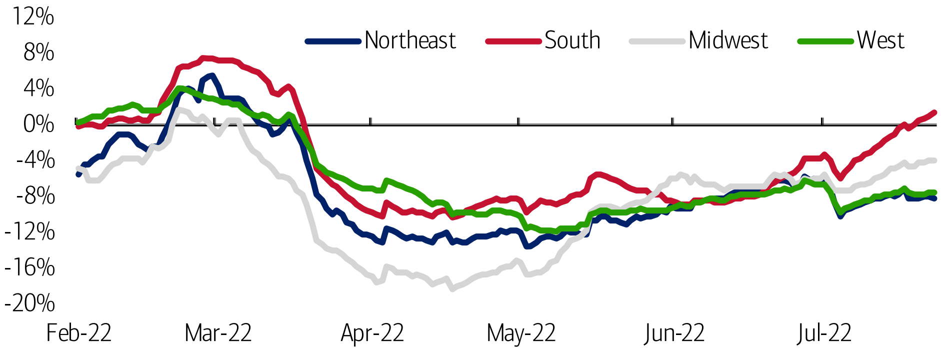
Source: Haver Analytics

The bottom line

After two years of record growth, the US housing market has reached a turning point as elevated home prices and surging mortgage rates weigh on affordability and demand. As a result, home sales are slowing and Bank of America internal data shows that residential mortgage originations for consumers contracted by 29% year over year (YoY) during the second quarter. Declining sales have contributed to a better balance between supply and demand in the housing market though solid home price appreciation suggests there is further room for supply to catch up. Regionally, the West and the Northeast are seeing the biggest drop in home sales for the three month period ending June 2022. Similarly, Bank of America card spending per household at furniture and home improvement stores is also the weakest for these two regions on a %YoY basis in recent months.

Exhibit 7: Card spending per household at home improvement and furniture stores by region (%YoY, 28-day moving average)

Card spending per household on furniture and home improvement is the weakest in the West and the Northeast



Source: Bank of America internal data. Data as of July 23 2022.

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Sources

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Methodology

Selected Bank of America transaction data are used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used are not comprehensive; they are based on aggregated and anonymized selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Bank of America credit/debit card spending per household include spending from active US households only. Only card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards are excluded. Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

Additional information about the methodology used to aggregate the data is available upon request.

Disclosures

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