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Consumer Morsel

Haunted housing

19 October 2022

Key talking points

- Rising house prices and mortgage rates are making housing less affordable, forcing some to rent instead. But there's little relief in renting: our data shows a large rise in rental payments, impacting young customers in particular.
- A slowing housing market affects the wider economy, but surveys suggest consumers aren't completely spooked and don't expect a collapse in house prices that might cause them to slash spending. If housing starts and permits remaining robust, if supply holds up as the market cools, this could improve affordability and ultimately lift historically low home-ownership rates.
- In some areas of the US, Bank of America internal data shows rent growth is even outstripping mortgage payment growth – there's a clear North/South divide, with this trend witnessed in two-thirds of Southern Metropolitan Statistical Areas.

An affordability Fright Night?

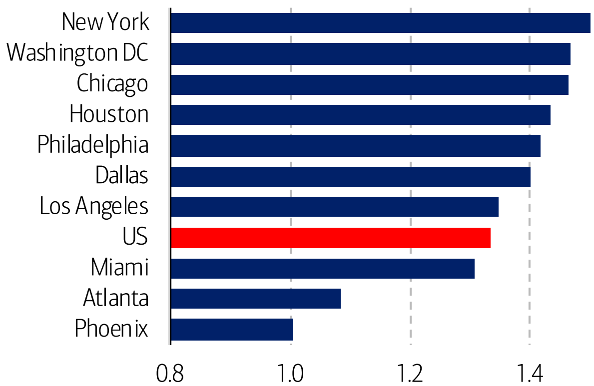
Rising house prices and mortgage rates are key drivers of the slowdown in the owner-occupied housing market, deterring new buyers in particular.

The US Federal Housing Finance Agency House Price Index rose 21% year-over-year (YoY) in 2022 Q2 and is nearly 40% higher than in 2019 Q4. Meanwhile the 30-year fixed-mortgage rate, according to Freddie Mac, reached 6.92% in the week ending October 13th, more than double that in the first week of 2022.

This means potential new buyers face the prospect of larger mortgages and higher monthly repayments. Bank of America internal data shows that the median mortgage payment for customers rose 8.8% YoY in September 2022, though this may also have been boosted by voluntary overpayments and local taxes. Existing buyers, on fixed rates, generally won't have been impacted by rising mortgage rates.

Exhibit 1: Relative median mortgage payments compared to median rent payments across the 10 largest MSAs

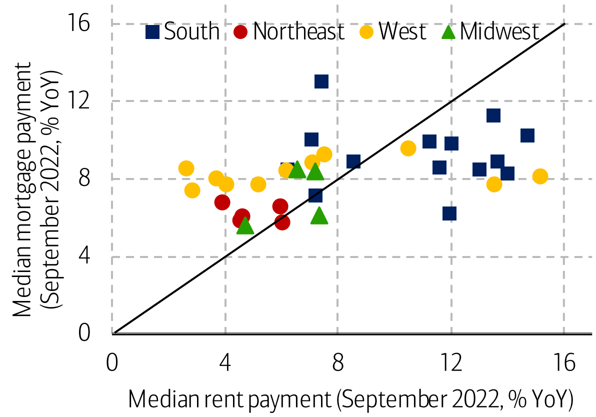
Median mortgage payments tend to be higher than median rent payments, but for New York, Washington and Chicago this is particularly so



Source: Bank of America internal data. Note: mortgage payments include payments across automated clearing house, bill pay, checks and an internal transfer

Exhibit 2: Median rent payment and median mortgage payment growth in September 2022 in Bank of America data across 35 MSAs (%, YoY)

Over two-thirds of MSAs in the South are seeing higher rent growth relative to mortgage payments growth than vice versa



Source: Bank of America internal data.

The rising costs of entering the owner-occupied housing market have pushed some potential new buyers into (or kept them in) the rental market. The cost of buying a home is particularly prohibitive in certain cities. Exhibit 1 shows the ratio of median mortgage payments to median rent payments in the US and for the 10 largest US Metropolitan Statistical Areas (MSAs). In the US, the median mortgage payment was around 30% higher than the median rent payment, while in New York it is 50% higher.

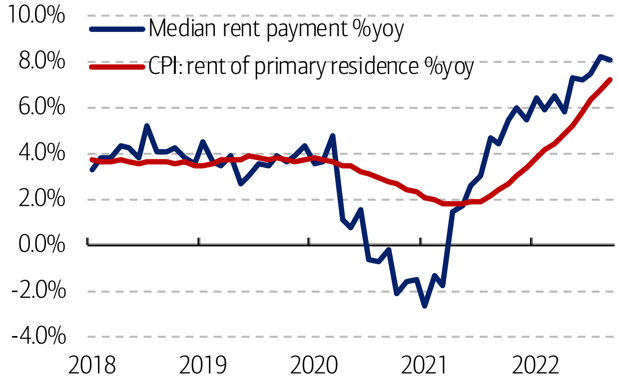
With existing renters unable to buy and potential home buyers entering the rental market, a fairly inelastic supply of rentals has led to meaningful upward pressure on rent prices. In September, Bank of America customer data showed that median rent payments across ACH (automated clearing house), debit/credit cards and bill payments increased by 8.1% YoY, in line with 8.2% YoY in August (Exhibit 3).

When we break down the data by age, we find it is younger generations who are experiencing some of the fastest rental payment increases, Exhibit 4. For Generation Z, the median rise in the year to September was 15.6% and for Younger Millennials 11.1% YoY. Some of this will come down to 'churn', as younger people likely move more often, so they are more exposed to rising rents.

Looking at the regional breakdown, Bank of America internal data suggests that rent growth appears to be outstripping mortgage payment growth mostly in the South. Exhibit 2 shows a scatter plot of median rental payment increases against median mortgage payment increases across 35 Metropolitan Statistical Areas (MSAs) where there are a significant number of customer transactions in Bank of America data. In over two-thirds of the MSAs in the South, median rent payments are outstripping the rise in median mortgage payments, while in all other regions the reverse is true. This is likely due to limited rental supply in the South: vacant rental units as a share of total housing units in the South dropped by the most among all four regions since 2019.

Exhibit 3: Median rent payments in Bank of America internal data and rent inflation based on Consumer Price Index (CPI) (%YoY)

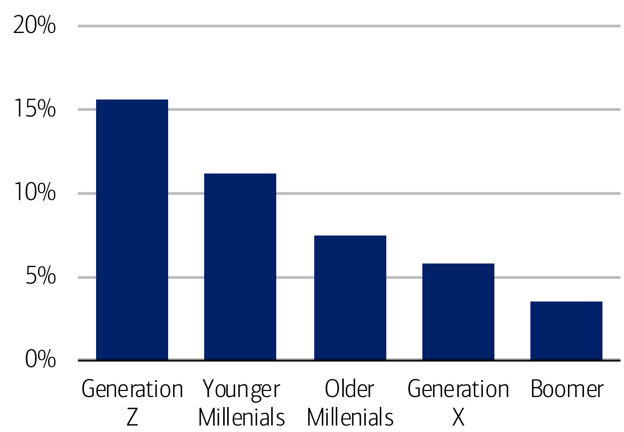
Median rent payments for Bank of America customers increased 8.1% YoY in September



Source: Bank of America internal data, Bureau of Labor Statistics. Rent payment data as of September, CPI data as of August.

Exhibit 4: Median rent payments in Bank of America internal data by age group (%YoY)

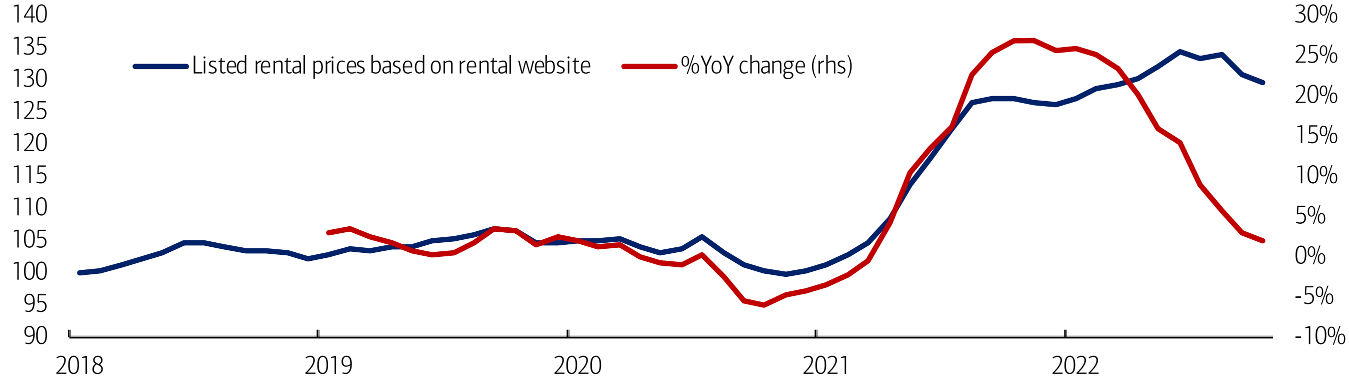
Younger generations have been experiencing faster rent growth



Source: Bank of America internal data.

Overall, the costs of both buying and renting a property will probably need to adjust downwards over time to more affordable levels for households. And there are some tentative signs of this, most obviously in owner-occupied housing, where price growth appears to be slowing, but also in reports that rents have peaked in some cities. Listed prices on rental websites, which tend to lead the overall rental market price pressure, have already peaked based on our calculation using data from Thinknum in 19 MSAs (Exhibit 5).

Exhibit 5: Listed price for rental units seems to have peaked in major US cities (weighted average of major 19 MSAs)
Listed rental prices on rental websites, which tend to be leading the overall rental market price pressure, have already peaked



Source: Calculation by Bank of America Institute based on data from Thinknum

Nightmare on Main Street?

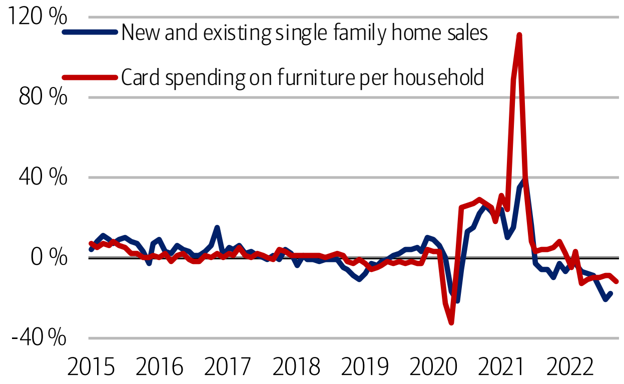
Does a slowdown in the housing market spell HORROR for the consumer?

Any housing market slowdown is often looked at through the prism of its overall macroeconomic impact. There are a number of channels through which it can impact the broader economy. Perhaps most obviously, fewer housing market transactions may mean less consumer spending on the things people do when they move into a new place. Exhibit 6 and Exhibit 7 show that, according to Bank of America internal card data, there is already a fairly clear slowdown in furniture spending and housing-related services. This latter category includes things like skilled contracting services, gardening and landscaping services and roofing.

A housing slowdown can also impact the economy through other channels. Consumers may feel uncertain about the future value of their home, particularly if house prices are falling, which could make them reluctant to spend as much out of their current income. Construction of new homes also tends to weaken as builders react to lower sales and market uncertainty.

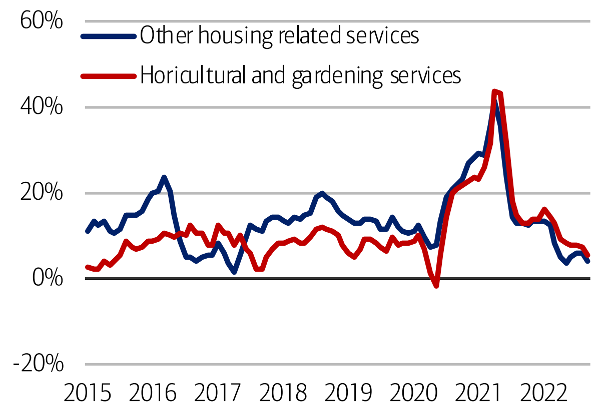
The good news is that while many of these factors are at play, they do not seem too dramatic. For example, while the Home Work survey from BofA Global Research suggests weakness in home-related spending will likely persist next year, homeowners still appear inclined to spend more on home improvement in the next 12 months. Surveys also suggest that while people expect house price inflation to cool, they are not anticipating the sort of sharp decline that might encourage them to retrench their spending, Exhibit 8. Finally, while data on new house construction, such as starts and permits, are weakening, they are still at fairly strong levels.

Exhibit 6: Bank of America credit and debit spending per household on furniture (% YoY) and new and existing single-family home sales (% YoY)
Both housing sales and furniture spending have been on a weakening trend in 2022



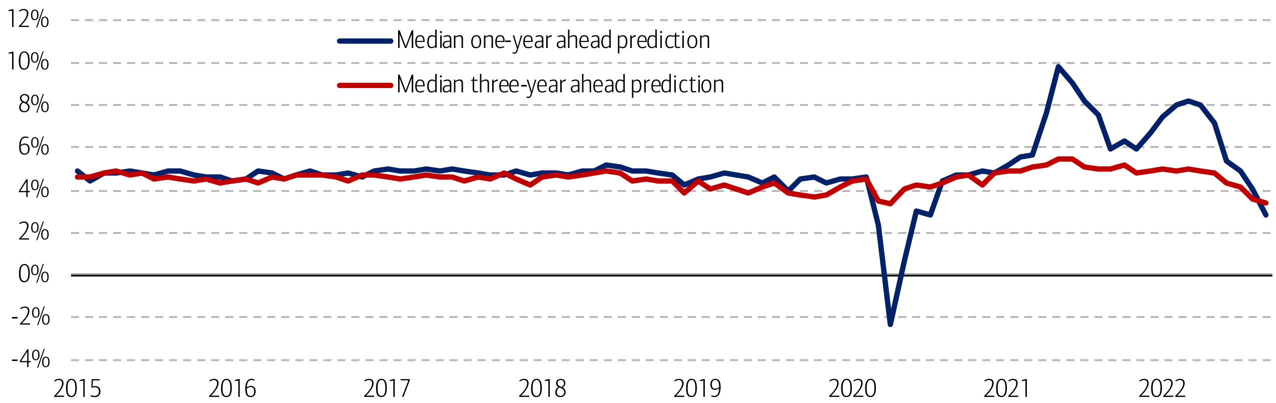
Source: Bank of America internal data, Census Bureau, National Association of Realtors

Exhibit 7: Bank of America credit and debit spending per household on housing-related services (3-month moving average, % YoY)
Spending on housing-related services has been weakening



Source: Bank of America internal data

Exhibit 8: One-year and three-year ahead house price expectations according to FRB consumer survey (%YoY, monthly data as of September 2022)
Consumer house price expectations have softened but remain for positive growth in 1 and 3 years' time

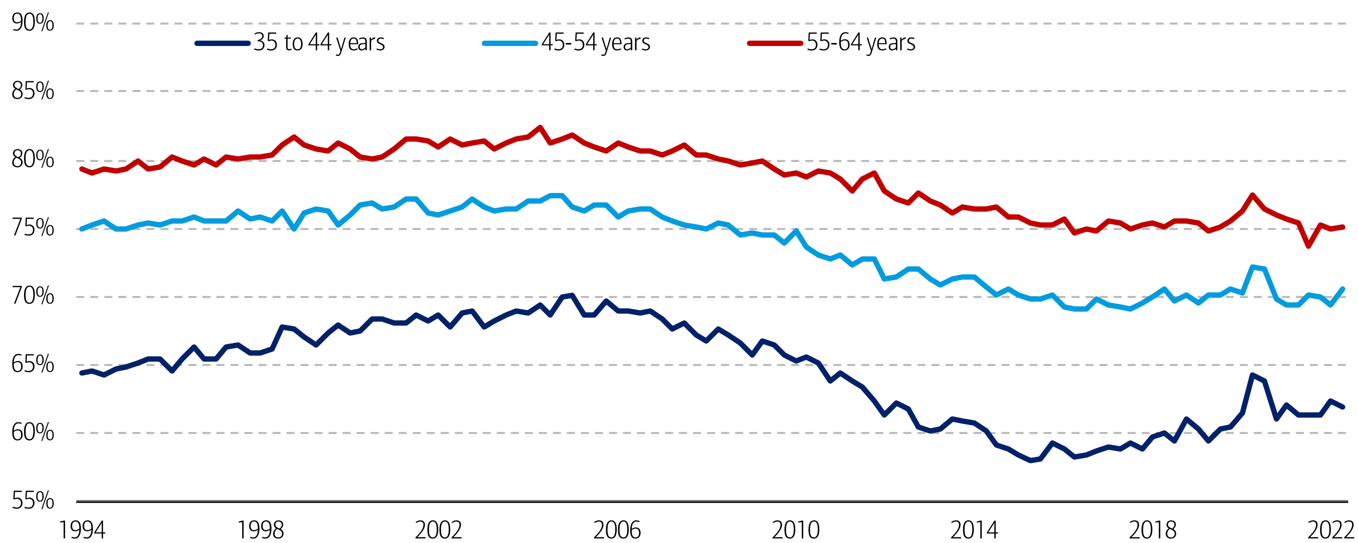


Source: Survey of Consumer Expectations, Federal Reserve Bank of New York (FRBNY).

Final Destination: a happy ending?

From a medium-term perspective, some slowdown in the housing market, particularly if it eventually leads to an improvement in affordability, may also be a positive. Exhibit 9 illustrates that home ownership rates have not fully recovered in the US from the 2007-2009 financial crisis. This fall in home ownership is reflected in younger and lower-income people being stuck in the rental market. Addressing this will likely require a continued focus on boosting housing supply even as demand for housing cools for a time.

Exhibit 9: US Home ownership rate by age of householder (%)
Home ownership rates fell after the financial crisis and have not recovered their previous levels



Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, August 2, 2022.

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Methodology

Selected Bank of America transaction data is 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 is not comprehensive; it is 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.

The household consumer deposit data based on Bank of America internal data is derived by anonymizing and aggregating data from Bank of America consumer deposit accounts in the US and analyzing that data at a highly aggregated level.

Bank of America credit/debit card spending per household includes 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 7 financial services companies. The data is 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.

The utility spending data in this report covers ACH, credit, debit and bill pay payment channels.

The Bank of America and CivicScience survey was conducted between August 31 to September 7, asking 16,773 adults, 'Have you, or someone in your household, recently missed or been late on a utility payment due to financial difficulty?'

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

Disclosures