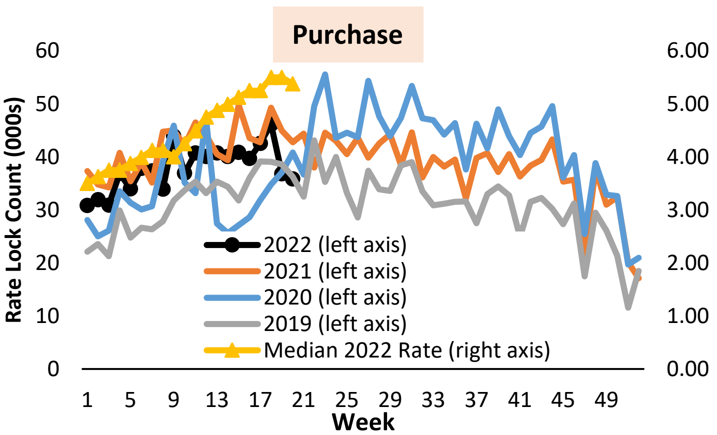
AEI Housing Center

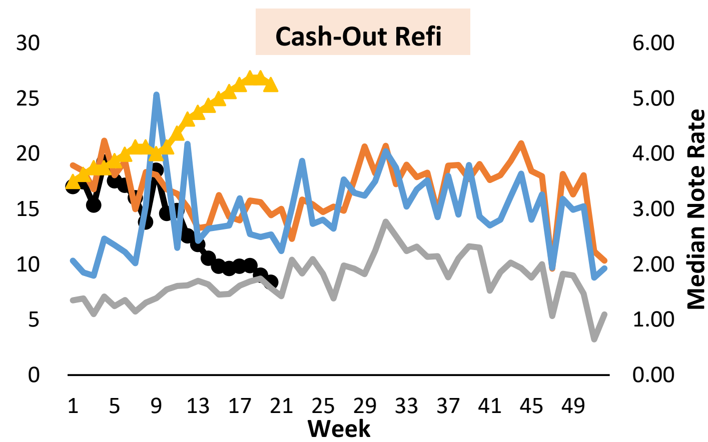
# Housing Finance Watch

**2022 Week 20**
May 14– 20

**We continue at an inflection point in both purchase rate lock volume and home price appreciation (HPA):** With rates 188 basis points above 2022 Week 1, purchase volume for 2022 week 20 came in below 2019's level for the second week in a row. Additionally, HPA for June 2022 is projected at 14.6%, down from the May projection of 16.8% and April's estimated 17.3%. Active listings increased slightly, but remained at the series' low for the month of April. While we still have a long way to go to get to a healthy, more balanced market (including seeing a significant increase in supply), the last two week's of data indicate a change beyond seasonality. The Fed should hold the course on rates and undertake aggressive quantitative tightening, as a mortgage rate of at least 6% is in order to slow HPA to 3-4% by 2023.

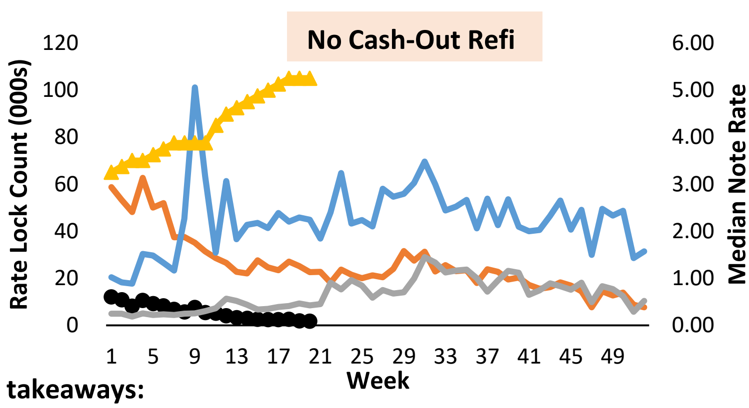
- <u>**Purchase rates**</u> moderated slightly to 5.375% in 2022 week 20.
- <u>**Purchase volume**</u> in 2022 week 20 continued to decline, down 16% and 1% for 2021 and 2019, respectively, while interest rates are up 2 1/4 ppts and 1 ppts compared to the same week in 2021 and 2019, respectively. Year-to-date 2022 volume is down 8.9% over the same period in 2021.
- <u>**Cash out volume**</u> is down 42% over 2021 and about to reach the low levels of 2019. **FHA share is now 27%, up 17 ppts from 10% in 2022 week 1. This indicates that higher risk borrowers are experiencing more stress due to inflation-- not a healthy trend.**
- <u>**No cash out volume**</u> is now at its lowest level of the 2019-22 period, due to rates having nearly doubled (+2 5/8 ppts) since the beginning of 2021, resulting in refi burnout. Volume in 2022 week 20 is down 92% compared to the same week in 2021.

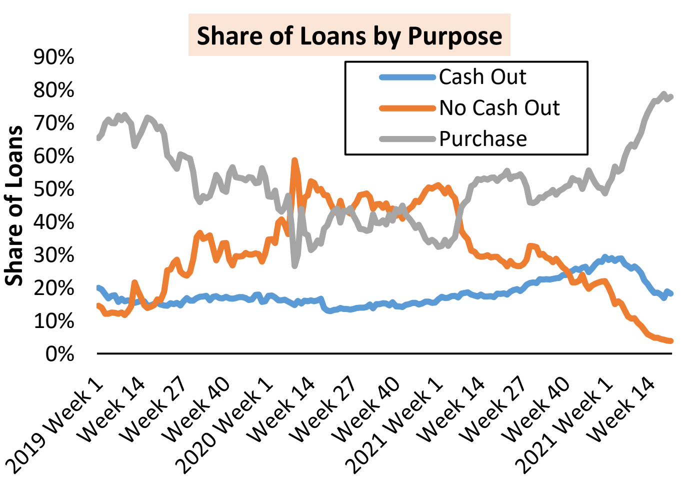



### Share shifts toward purchase loans continued

The purchase loan share of the entire origination market stabilized at an elevated level of 78% after a period of rapid growth since the start of 2022, as refi volume declines have begun to level out. This is up from 32% in early 2021 and 51% in 2022 week 1.-Volume in week 20 for all loan purposes was 46,012, about a quarter of the series' weekly high of 172,400 set in week 9 of 2020. With both no cash-out and cash-out refis now declining, many lenders reliant on refis will be sorely tested in the months ahead.




**Key takeaways:**

The 10-year old seller's market continues, evidenced by:

- Strong volume, in spite of a cumulative 38% increase in constant quality home price appreciation (HPA) since January 2020,
- Historically tight supply,
- The work from home revolution, and
- Arbitrage opportunities due to wide intra-metro, regional, and national pricing differences.

Purchase volume for week 20 is down 16% and 1% over 2021 and 2019, respectively, and HPA is projected to moderate in June. However, unless supply increases, we expect y-o-y HPA to remain high until rates are at 6% or more. At that point, demand should drop, and supply should grow, with the greatest HPA slowdown felt at the high end of expensive markets and low end of some FHA markets.

Note: Rate locks are limited to lenders who joined Optimal Blue Dec. 2018 or earlier. Source: Optimal Blue and AEI Housing Center, www.aei.org/housing.

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# Inflation Watch

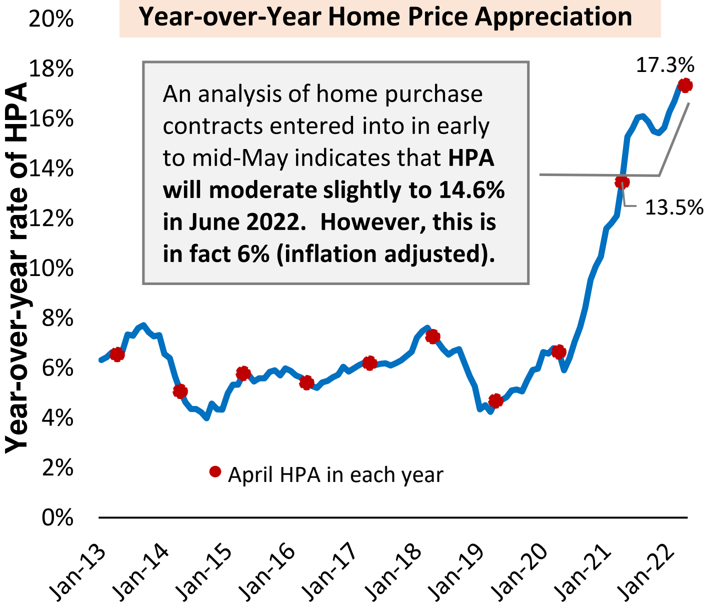
**2022 Week 20**
May 14– 20

**The Fed's accommodative monetary policies of near-zero interest rates and quantitative easing have resulted in an ongoing wealth effect from $13 trillion in stock market and home price appreciation gains. This effect is driving strong demand pull inflation. These policies are also making homes increasingly unaffordable for potential low-income homebuyers. At the same time, general inflation is driving up the cost of food, energy, and other necessities.**

## Home Price Appreciation Gains

Based on Optimal Blue rate lock data, HPA is projected to remain in the mid-teens through May at 17% and moderate slightly in June 2022 to 15%. Relatively low rates (5.375% is historically low), along with supply constraints, a strong wealth effect from monetary stimulus, and the Work from Home revolution continue to fuel high HPA. Without more inventory or a mortgage rate of 6%, HPA (y-o-y) is expected to remain in the low- to mid-teens for the remainder of 2022, with December 2022 and 2023 (y-o-y) HPA expected to be 12% and 9%, respectively (note: a forecast change).

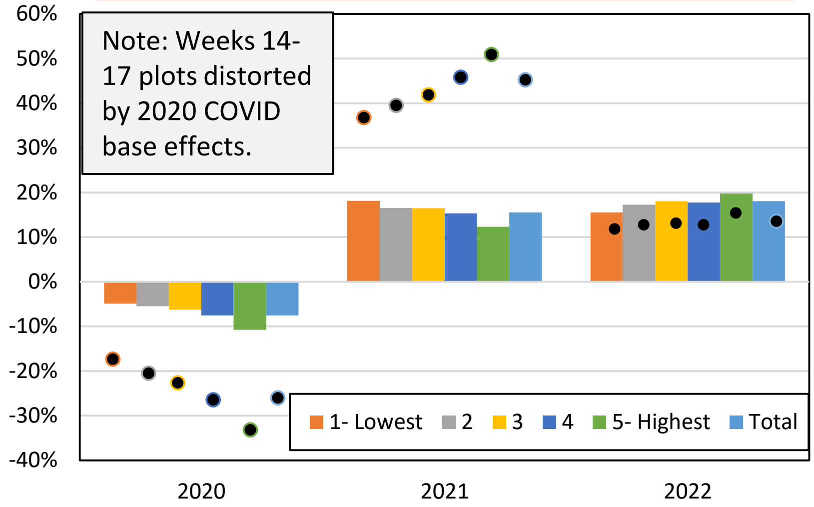
**Year-over-Year Home Price Appreciation**




## High Income Group Demand, Fueled by the Wealth Effect, Is Helping Drive 2022 Inflation

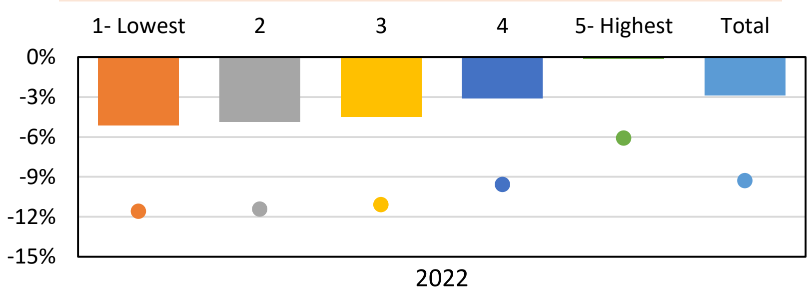
**In weeks 14-17 of 2022, inflation-adjusted spending for income quintiles 4 & 5 was up 13% & 15% (y-o-y), respectively, vs. 12% (y-o-y) for quintile 1 and has shown no signs of a slowdown in the last 4 weeks.*** Quintiles 4 & 5 will continue as strong contributors to demand pull inflation** in 2022 due to the continuing wealth effect. Black Knight reports that total home equity withdrawal hit $80 billion in Q4 2021, while tappable home equity grew by [$446 billion](). These numbers are expected to grow in 2022, fueling demand pull inflation. If we are correct that y-o-y nominal HPA will average 12% for Dec. 2022 (and a still high 9% for 2023), this will fuel demand pull inflation well into 2023.

**Y-o-Y Change in Total Spending in Weeks 1-17, Adj. for Inflation (Weeks 14-17 shown in dots) by Relative Income* Quintiles**




Lower income homeowners face increasing stress as general inflation, especially gasoline and food inflation, eats into budgets. Consumers are compensating by increasingly cutting non-essential, inflation-adjusted spending. Income quintiles 1 and 5 are down 12% and 6% respectively (Weeks 14-17). For highly leveraged homeowners, inflation's corrosive effect on budgets may lead to either a voluntary or forced home sale. We would then expect a softening of home prices, especially in areas with concentrations of highly leveraged FHA loans.

**Y-o-Y Change in non-necessity spending*** in Weeks 1-17, Adj. for Inflation (Weeks 14-17 shown in dots) by Relative Income* Quintiles**




With April inflation at 8.3% and June HPA projected at 14.6%, rates need to rise to about 6% to get HPA down to 0.5%-1% above the Fed's 2% target inflation rate (that would be a nominal HPA of about 3%, not the projected June rate of 15%).

* We assign each ZIP code to a quintile based on its ratio of income to area median income (AMI). The lowest quintile had a median income of 63% of AMI, while the highest quintile had a median of 136% of AMI. Note: Total spending refers to national household credit and debit card spending. Total spending accounts for about 45% of all Personal Consumption Expenditures (PCE). All data are in nominal dollars.
** Demand Pull Inflation is when aggregate demand in an economy strongly outweighs the aggregate supply causing prices to go up.
*** Non-necessity spending includes spending on Interior Furnishing Stores, Electric Appliance Stores, Clothing Stores, Hardware Stores, Department Stores and Sporting Goods/Toy Stores.
Source: American Community Survey (ACS) 2019, HMDA, Commerce Signals, a TransUnion business, and AEI Housing Center, [www.aei.org/housing]().