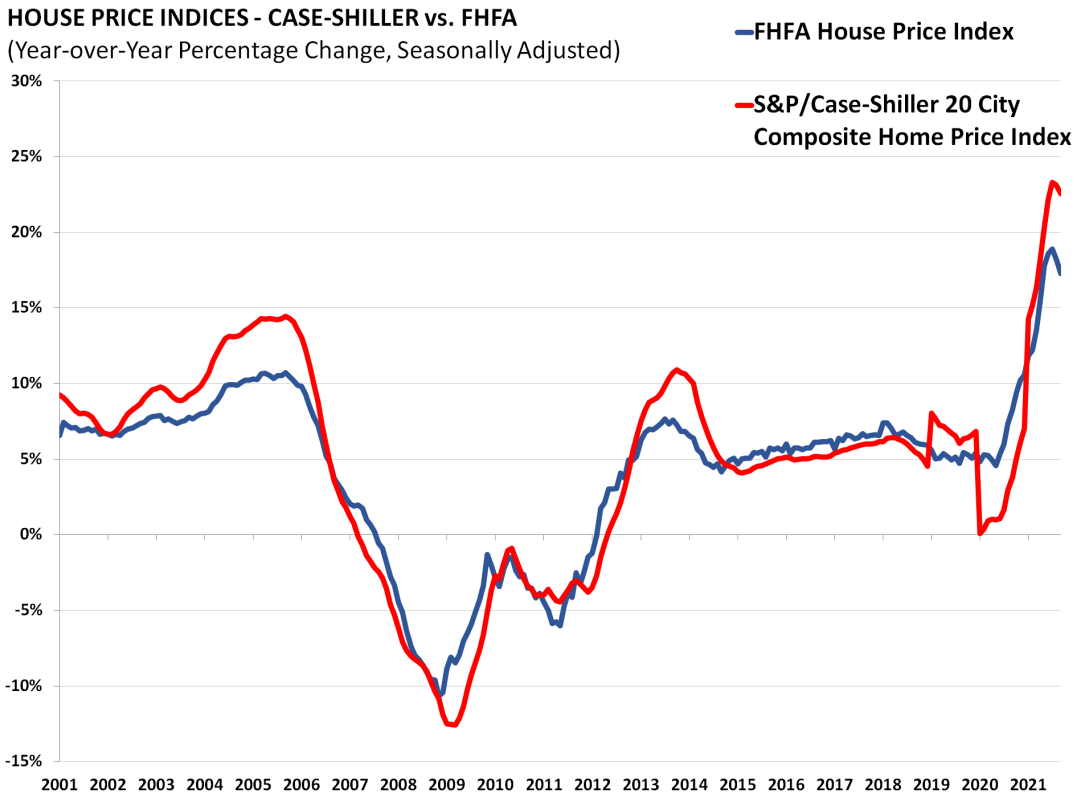
The Daily Dish

House (Price) on Fire

DOUGLAS HOLTZ-EAKIN | DECEMBER 2, 2021

Thomas Wade has posted the latest iteration of the AAF Housing Chartbook, this one containing data through the 3rd quarter of this year. If you are a housing market aficionado, you probably don't need to study a chartbook. If you are not, one thing jumps right out: House prices are rising very, very rapidly. The chart, below, is reproduced from the chartbook and displays two measure of housing prices: the FHFA House Price Index and the S&P/Case Shiller 20-City Price Index. They tell a very similar tale, with house prices rising at just under 20 percent from one year ago. Indeed, house price inflation has been accelerating since early 2020 and is now well above the peak growth rates during the house price bubble earlier in the century.



A big difference is on the supply side (a recurring theme in the COVID economy). Housing permits and starts remain well below the levels reached during the housing bubble. This has helped fuel the rise in prices (and corresponding rise in homeowner equity), but limits the links to the broader economy. Put differently, if this housing market were to cool sharply, there would be less fallout than during the bursting of the housing bubble prior to the Great Recession.

The second major difference is that there has been no rise in mortgage delinquencies. People are buying to own and live in – not "flip" – houses and have the financial capacity to do so. Accordingly, this has been a good period for the mortgage origination business because there are lots of mortgages with few non-performing loans.

With the disappearance of large-scale stimulus like the CARES Act or the American Rescue Plan and the plan for the Federal Reserve to begin to normalize policy, the housing market will be a focal point in 2022 and thereafter. And the AAF Housing Chartbook will keep you abreast of developments.