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# Is U.S. Housing Ready to Crumble?

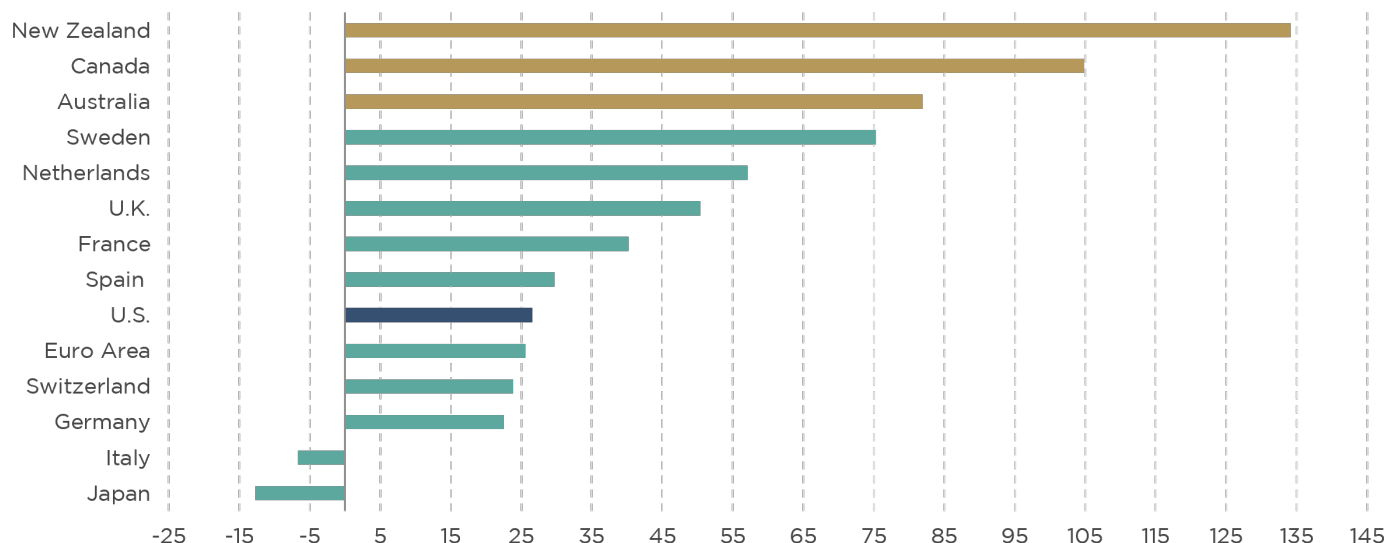
Tracy Chen, CFA, CAIA |

Housing markets in many developed countries, including the U.K., New Zealand, Canada, Australia, Sweden, and the U.S., had a spectacular run (see Chart 1). Fueled by easy monetary policies and fiscal stimulus post-COVID, these markets recorded double-digit appreciation rates. Now, many fear a reckoning akin to the Global Financial Crisis (GFC) may be coming, particularly in the U.S. as the Federal Reserve (Fed) aggressively targets out-of-control inflation. New Zealand, Canada, Australia, and Sweden are starting to see housing price declines. Given the importance of housing to the U.S. economy due to its multiplier effect, is the U.S. housing market headed for a slowdown or a meltdown?

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## Home Prices Have Risen Most in New Zealand, Canada, and Australia

% increase vs. 1980-2019 Avg., As of 12/31/2021

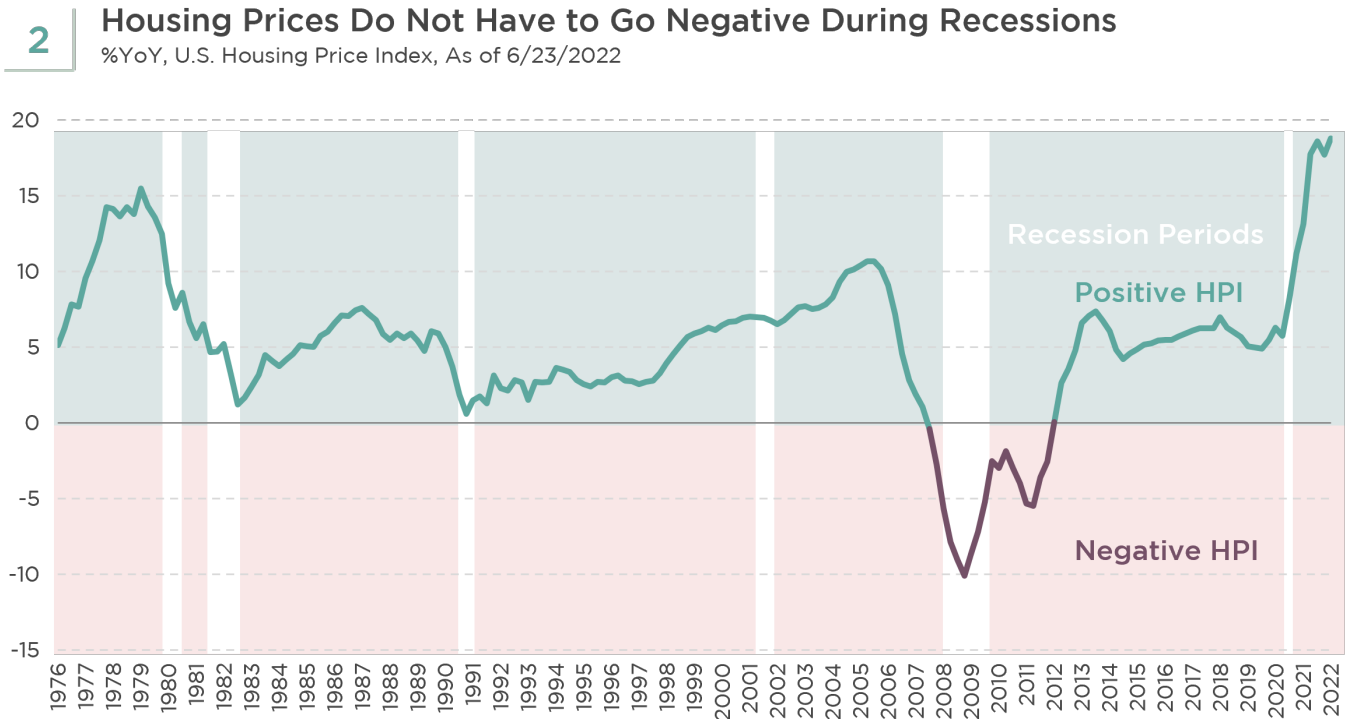


Source: Haver Analytics, Goldman Sachs Global Investment Research

Mortgage rates in the U.S. have almost doubled, rising by roughly 300 basis points since their low in February 2021. Meanwhile, housing affordability has worsened due to double-digit price appreciation and higher monthly principal and interest payments, which have increased by approximately 50% since the beginning of 2022. As a result, U.S. housing activities have slowed sharply, including pending, new, and existing home sales, and market sentiment has become increasingly pessimistic. Will housing prices turn drastically negative soon? Conventional wisdom holds that the housing market, given its interest rate sensitivity, will be the first to go as the Fed tightens. We believe that view is not a foregone conclusion, and the truth is probably subtler. During most past recessions, the U.S. Housing Price Index did not turn negative (see [Chart 2](#)). Furthermore, the current U.S.

housing market is strikingly different from the one leading up to the GFC. Lending standards remain very conservative and even tightened further post-COVID (see [Chart 3](#)). Additionally, it is hard to go from boom to bust without extreme leverage in the housing market. Since the GFC, mortgage borrowers delevered, and household balance sheets generally remain on solid footings (see [Chart 4](#)).

We do expect housing price appreciation to moderate, but also contend that it can remain positive in 2022, with no foreseeable price collapse. For a complete analysis on the state of the U.S. housing market, read our latest white paper [“U.S. Housing: Slowdown or Meltdown?”](#) We examine the differentiated factors, including unique supply and demand conditions, that currently still support housing prices and should prevent any softening from becoming a full-blown collapse.

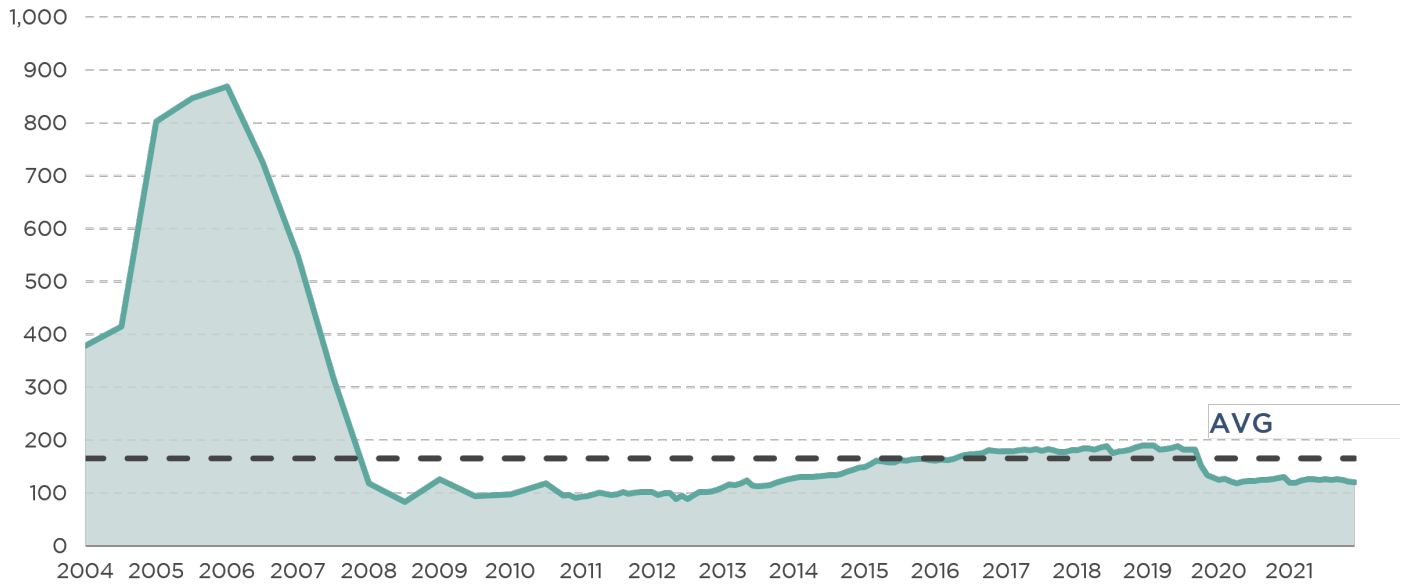


Source: Bloomberg (© 2022, Bloomberg Finance LP), Brandywine Global

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### Mortgage Credit Availability Index

Index, As of 5/31/2022

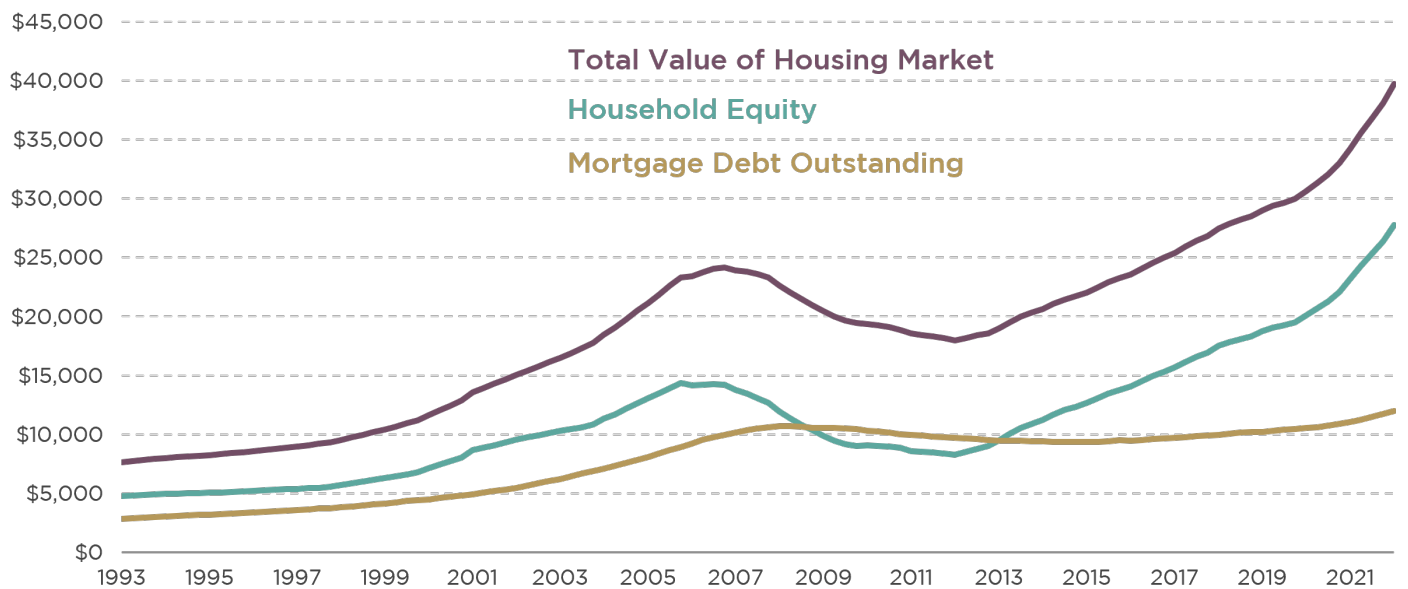


Source: Bloomberg (© 2022, Bloomberg Finance LP)

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### Household Owners' Equity Reached \$27.5 Trillion USD

Billions, As of 12/31/2021



Source: Brandywine Global, Haver Analytics

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