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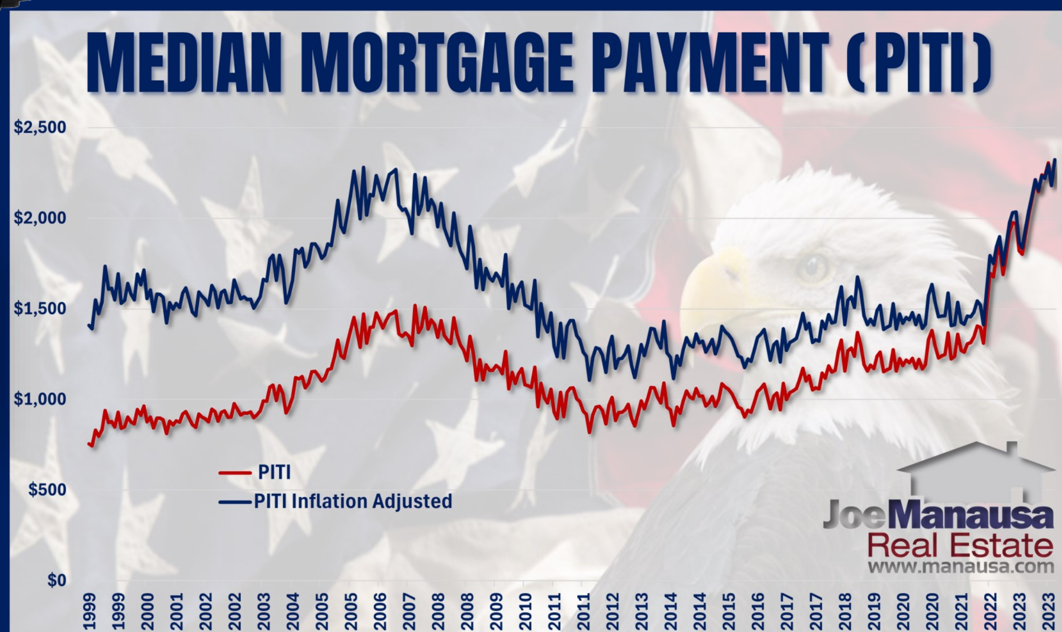
Wage-Adjusted Mortgage Payments Skyrocket



☑ Source: ❶ Historical mortgage interest rates provided by Freddie Mac Primary Mortgage Market Summary. ❷FRED: Federal Reserve Economic Data - Median Sales Price of Houses Sold for the United States ❸ Annual millage rate data from the Leon County Property Assessor's office was used to calculate annual taxes (homestead tax was not factorered) ❹ U.S. Bureau of Labor Statistics, Producer Price Index by Industry: Premiums for Property and Casualty Insurance: Premiums for Homeowner's Insurance [PCU9241269241262], retrieved from FRED, Federal Reserve Bank of St. Louis ❺ U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Wage Earners and Clerical Workers: All Items in U.S. City Average [CWUR0000SA0], retrieved from FRED, Federal Reserve Bank of St. Louis.

Today's report stems from a reader question (thank you "DK") about mortgage payments. Most reports you see on long-term mortgage payments only use data on principal and interest (P&I), whereas consumers consider mortgage payments in a broader scope, encompassing principal, interest, taxes, and insurance (PITI), as all four elements contribute to the total monthly housing costs.

This graph plots the median mortgage payment (PITI) over time in red and then it adjusts the payments for inflation in blue.

Adjusting payments for inflation in terms of 2024 dollars is a method used to account for the change in purchasing power of money over time due to inflation.

Wage inflation is when workers' average salary or wages in an economy increase over time. This means that a dollar today will not buy the same amount of goods or services (or houses) in the future.

When adjusting inflation payments, we are essentially recalibrating the value of money to a common point in time (in this case, 2024) to compare or analyze financial figures across different years accurately.

Today's median home payment, when adjusted for wage inflation, is the highest since 1981. Despite the growth in income, people today are spending a greater share of their income on housing than in the past 40 years.

We are in a home affordability crisis, and it's not going away any time soon!

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