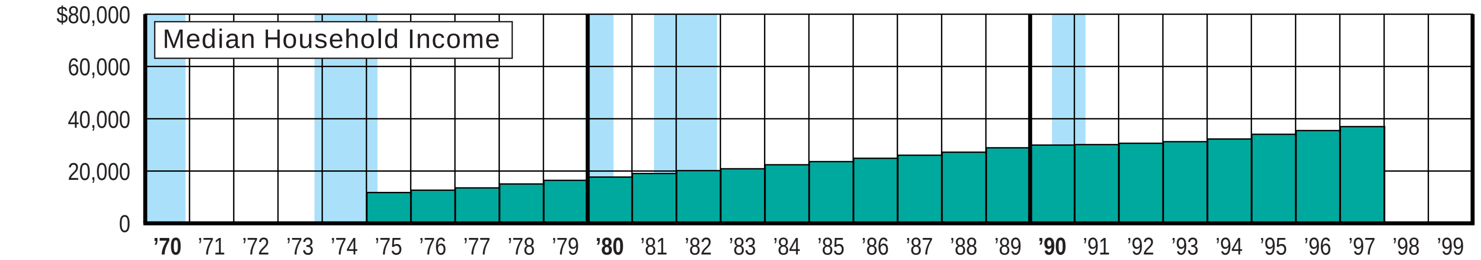
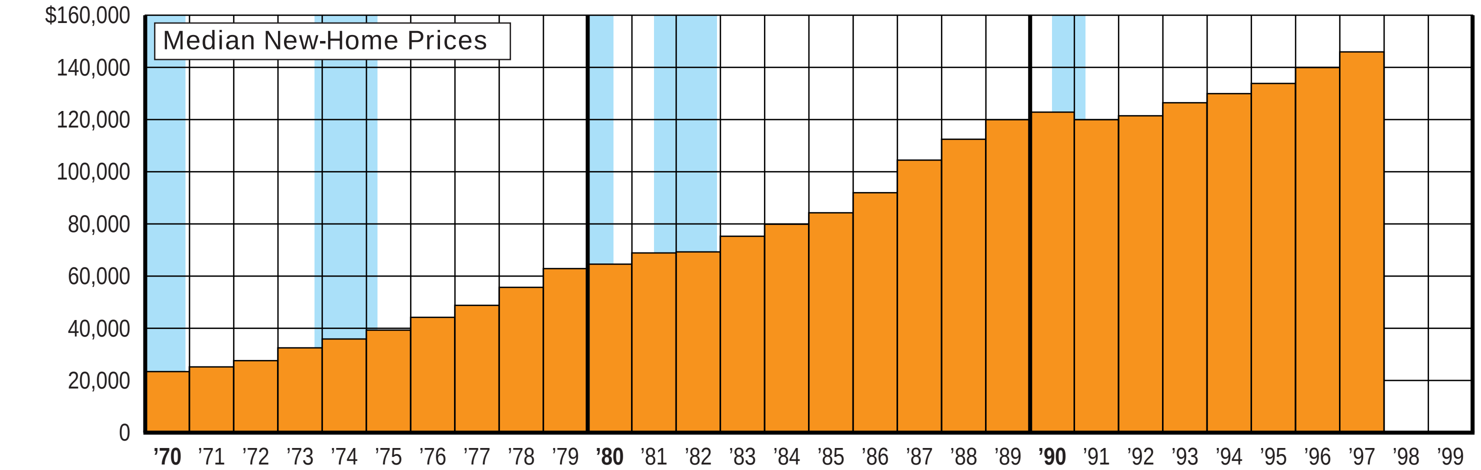
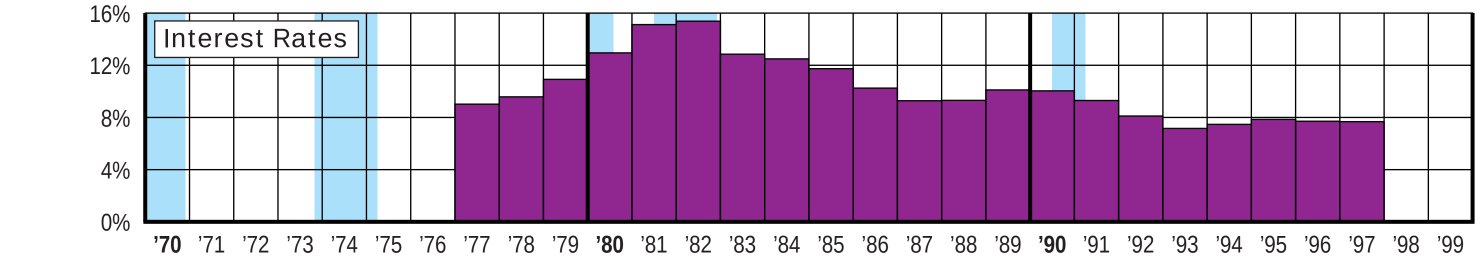
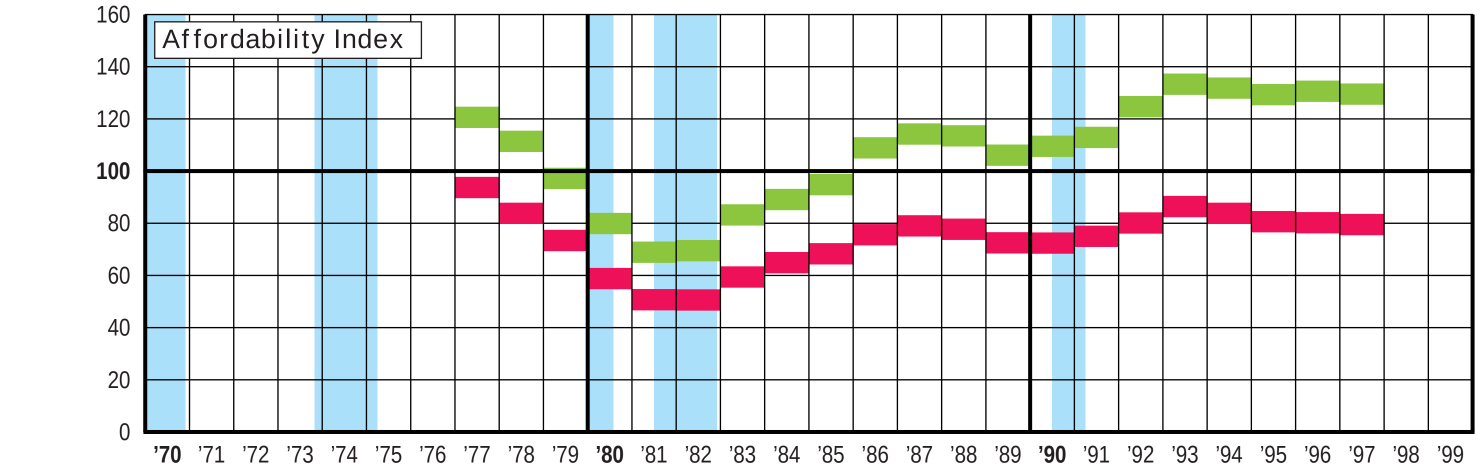
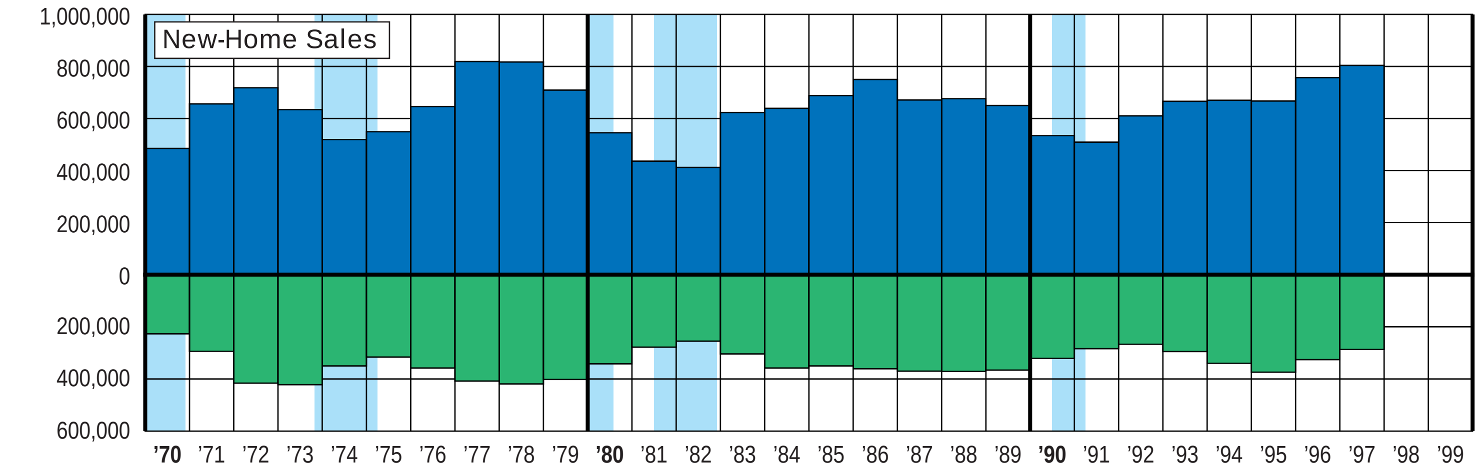










Income, Home Prices and Interest Rates

Many economic factors affect a consumer's ability to buy a home. Three of these factors are annual income, home prices and mortgage-interest rates, which are shown in the top three charts on the left.

The scale for all the charts on these pages is to the left, while the light-blue shaded areas represent economic recessions in the U.S.

Median Household Income

The top chart illustrates median household income in the U.S. in current dollars for each year from 1975 to 1997. Median household income is the middle level of incomes earned by households.

From 1991 to 1997, median income in the U.S. jumped to $37,005 a year from $30,126 a year, a rise of nearly $7,000, or 23%. This increase has helped fuel the boom in the housing market in the 1990s.

Mortgage companies are especially interested in knowing how much a person earns annually since the person applying for the loan must be able to make monthly payments.

Median New-Home Prices

This chart shows median prices for new homes from 1970 to 1997.

In 1997, the median price for a new home in the U.S. hit a record high of $146,000, up $6,000, or 4.3% from the year before.

Despite rising home prices, other factors, including higher median income, have made it easier for many people to afford a new home.

Another important factor in affordability is the interest rates people must pay on their mortgages.

Interest Rates

The third chart shows effective interest rates on loans closed on existing homes from 1977 to 1997, as reported by the National Association of Realtors.

When interest rates are low, as they have been in recent years, it is easier to buy a home because mortgage payments will be lower.

But no matter what the economic conditions, the one question people always ask themselves is: How much house can I afford?

Affordability Index

This chart illustrates the National Association of Realtors Housing Affordability Index from 1977 to 1997. This index shows the ratio of the median family income to the income needed to qualify to buy a median-priced, existing single-family home. The association says the affordability index assumes that the buyer's down payment is 20% of the home price and that a 30-year, fixed-rate loan is available to the buyer at a rate equal to the effective interest rate.

According to the association, an index of 100 or higher indicates "favorable economic conditions" for prospective buyers, and therefore favorable conditions for sellers, lenders and real-estate agents.

An affordability index significantly less than 100 is supposed to spell "trouble" for the interested home buyers, and for sellers, lenders and real-estate agents who are dependent on the single-family home market.

Composite Affordability Index (All Households)

The light-green line on this chart shows that favorable economic conditions in the 1990s have made houses generally more affordable.

Composite Affordability Index (First-Time Home Buyers)

The red line on this chart shows that it is harder for first-time home buyers in the U.S. to qualify for a mortgage on an existing home.

New-Home Sales

New Homes Sold

The blue bars on this chart represent the number of new homes that were sold in the U.S. from 1970 to 1997. In 1977, sales reached a record 819,000 new homes. Relatively low interest rates and a recession-free economy contributed to this housing boom.

New Homes Still for Sale At Year-End

The green bars show the number of new homes still for sale at the end of the year from 1970 to 1997. Despite the record sales in 1977, note that some 400,000 new homes remained unsold at the end of the year.

Demographics

The chart at the bottom of these pages shows the U.S. population for the years 1970 to 2029 for two age groups that are important to U.S. home sales. (The dotted lines for both groups are projections.)

People 25-to-34 Years Old

The red line represents 25-to-34-year-olds, the age range at which most people begin buying homes.

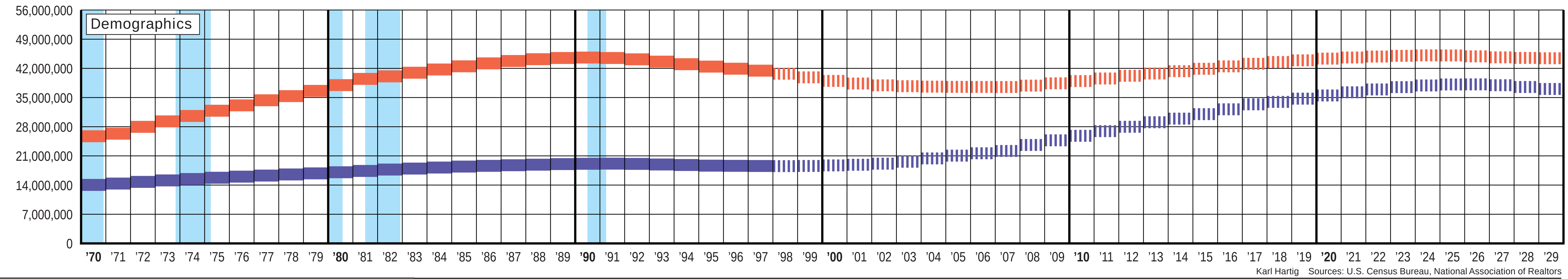
Consider the late 1970s. As baby boomers began entering their first-home buying years, new-home sales rose significantly, then dropped when recessions hit the U.S. in the 1980s.

Home sales picked up again after the 1981-82 recession ended, as interest rates fell and incomes rose. Following another recession that stalled the economy again in the early 1990s, favorable economic conditions once again made it easier for people to buy new homes.

People 60-to-69 Years Old

The blue line represents 60-to-69-year-olds. This is the age range when most people begin selling their homes as children grow up and parents prepare for retirement. Many people in this range will move to smaller places, such as condominiums or apartments.

How do you think this will affect the housing market in the future?



Karl Hartig Sources: U.S. Census Bureau, National Association of Realtors