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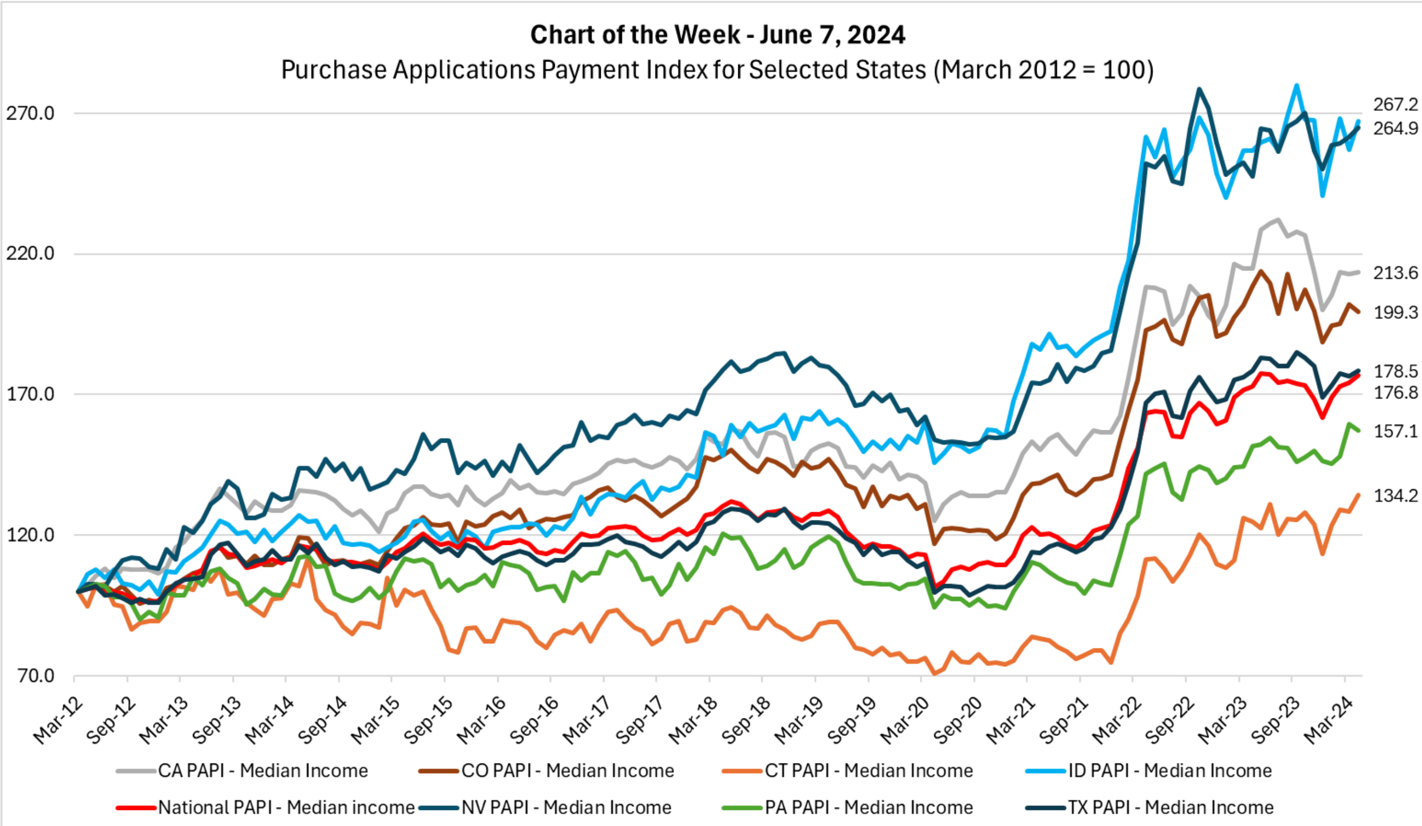

Sources: MBA Weekly Applications Survey and U.S. Bureau of Labor Statistics

Following the precipitous rise in interest rates and home prices in 2022 that starkly eroded affordability conditions for home buyers, the monthly cost burden of purchasing a new home continued to increase in 2023 and the first four months of 2024, albeit at a slower pace. MBA Weekly Applications Survey (WAS) data shows that the median monthly principal and interest payment (P&I) for loan applications eclipsed $2,000 for the first time in February 2023 and in our most recent Purchase Applications Payment Index (PAPI) release the median P&I hit a new high of $2,256—a 6.8% year-on-year increase.

In this week's MBA Chart of the Week, we show the PAPI series for the nation and seven selected states. The PAPI, which measures how new fixed-rate 30-year purchase mortgage payments (constructed using WAS data) vary across time relative to income, has increased in all states and nationally since the start of 2002 despite incomes increasing by almost 11% over the same period. For example, the red line, which shows the national PAPI series, increased by 29% from December 2021 to December 2022, reached a series high of 177.4 in May 2023, and has remained in record territory since. It was 176.8 in last week's PAPI release.

Similar patterns are evident for individual states. In Idaho, the state with the highest PAPI in April, the index is up 70% since it first overtook Nevada in the number-one spot in October 2020. However, at 267.2 in April, Idaho's PAPI has pulled back from a series high of 280.0 in September 2023. Even lower PAPI states—i.e., states where affordability has eroded the least relative to March 2012—such as Connecticut and Pennsylvania, have seen affordability levels decrease substantially since the start of 2023. For example, at the start of 2023, the PAPI in Connecticut was 108.6 (meaning that the median loan payment relative to median income was "only" 9% higher than in March 2012) but was 134.2 in April. In other words, the *real* median P&I payment is up by 24% over the last 16-months in Connecticut.

Tellingly, PAPI was higher in every state except for Delaware and Utah in April 2024 than in December 2022. The good news is that we may be near the top. MBA is forecasting that mortgage interest rates will steadily decline over the next few years and that median existing home sales prices will also decrease in the third and fourth quarters of 2024. This should reduce the PAPI and provide some relief in terms of purchase affordability.

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