The Coming Collapse in Home Prices

September 11, 2022 - There is a pattern to the way that people stop paying their bills when they can't afford them. Typically, the last bills that people stop paying are utilities, auto loans and home mortgages. The reason for this is simple. You need water and power to live. You need a car to get to your job, which you need to pay your bills. And you need a roof over your head. So when 20 million American households are delinquent on their utility bills, and as we reported in July, auto loan delinquencies have gone through the roof, it's fairly easy to predict what comes next.

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Ironically, mortgage delinquencies are currently near historic lows. The same can be said for credit card delinquencies although they have been rising since the beginning of the year. The delinquencies we're currently seeing on utility bills are likely from people who either don't have access to credit and from those who have already maxed out their credit cards and no longer have any way to make utility payments. If we're correct, then we're just seeing the tip of a very large iceberg that's approaching.

Eventually, that iceberg is going to include mortgage delinquencies. And by eventually, we mean within the next few months.

As more and more people max out their credit to make ends meet, we'll start to see a large increase in credit card delinquencies. This will be followed by more late payments on utilities and auto loans. It's likely to be a very difficult holiday season for many. And if the pattern holds true... and there is little reason to believe that it won't... by early next year we're going to see a rapid increase in mortgage delinquencies along with a subsequent decrease in home prices. In fact, it's beginning to look a lot like 2008 for real estate.

In some areas of the country, we're already seeing the collapse in prices. Boise, ID comes to mind. Nearly 70% of the homes on the market there were force to drop their price in July. Denver, Salt Lake City, Tampa, Sacramento, Indianapolis and Phoenix Aren't far behind. All of them have seen more than 50% of the homes on the market initiate price drops. Nationally, the number is 15%. Clearly all markets aren't created equally but given the fact that just a year ago all of these markets were seeing significant gains in price, the news isn't good anywhere in the country.

Unfortunately, a lot of popular economic sites area telling consumers that everything is going to be ok. That they don't see a huge drop in prices coming. They claim that there is a housing shortage and that demand for housing is still high. But that completely ignores the fact that if you can't pay your mortgage, the bank is eventually going to take your house.

That's regardless of the amount of market demand for housing.

It is also worth pointing out that because mortgage interest rates have increased dramatically, even for those who earn a good living, purchasing a house that would have been affordable just 12 months ago may no longer be an option. The mortgage rates are pricing them out of the market.

Frankly, we hope we're wrong about this. But there doesn't seem to be a graceful way out of the economic mess we find ourselves in today. Government policies - specifically the unabated printing of money - continue to drive inflation higher and higher. And the FED's policies of purchasing Treasury Bonds and now increasing interest rates to counter the effects of those purchases, are making things even worse economically for the vast majority of Americans. The inevitability of a crash in housing prices seems to be pretty clear. Now, it's just a matter of time.
by Jim Malmberg
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