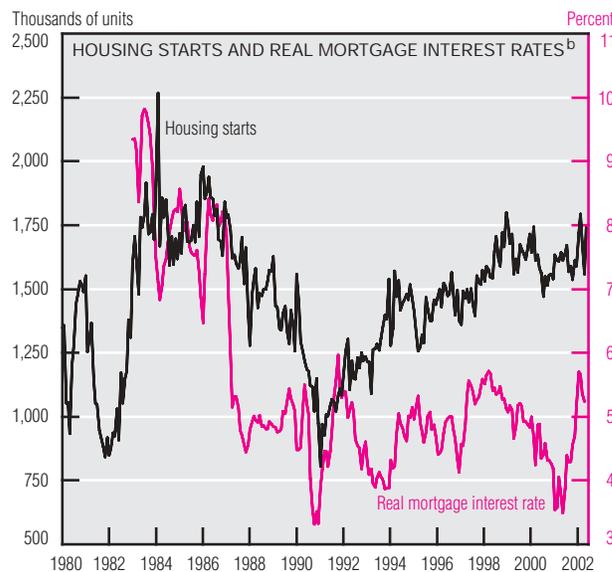
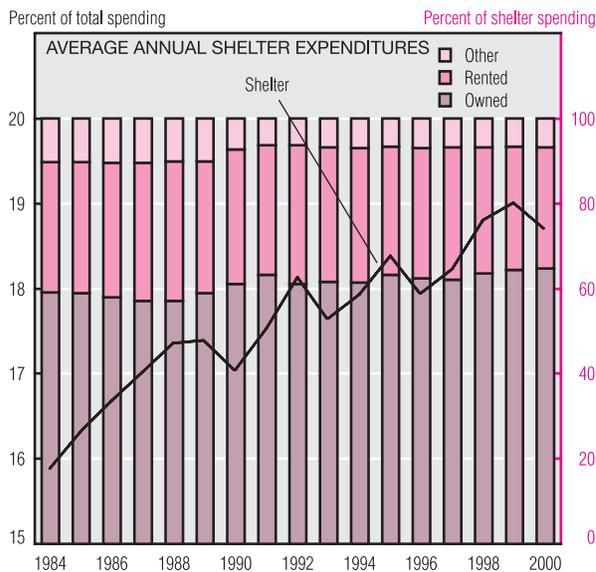
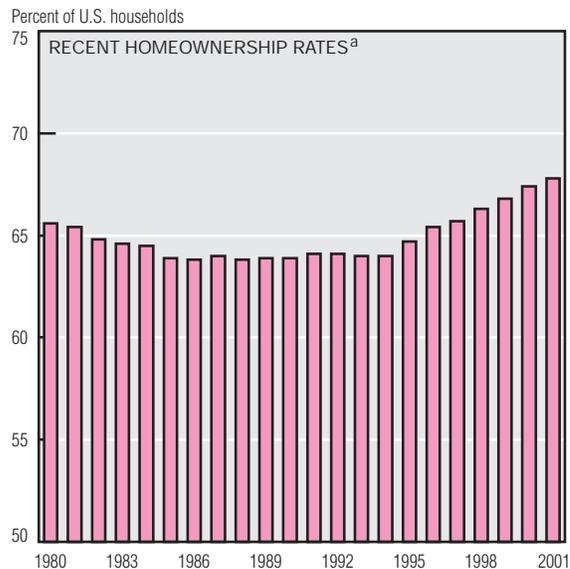
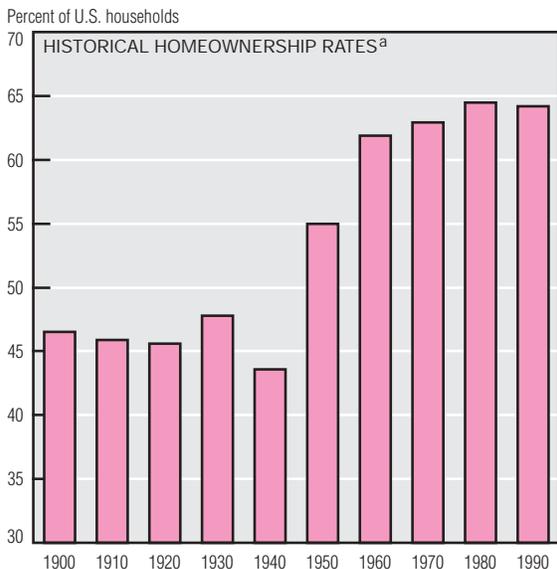


The Housing Market



a. The first chart uses data from the decennial census; the second uses an annual survey on housing. As a result, the 1990 numbers in these two charts are not equal.

b. The real mortgage rate is calculated by subtracting CPI inflation from the contract interest rate of all loans closed.

SOURCES: U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics; and Federal Housing Finance Board.

The rate of home ownership has risen considerably since the early 1900s, when just 47% of U.S. households owned their homes. It picked up in the 1920s, when strong income growth stimulated the housing sector. During the Great Depression of the 1930s, it fell back to 43% but surged again during the 1940s and 1950s, probably because the home mortgage interest deduction became more useful for minimizing taxes. Although legislated as early as 1913, the deduction did not begin to encourage home ownership until personal income tax rates and brackets were raised

significantly and became effective for a much wider segment of the population. Between 1940 and 1990, the homeownership rate rose from 43% to 64.4%. It dipped significantly in the high-interest-rate environment of the early 1980s and fell slightly again after the 1991 recession, then resumed its upward course in the mid-1990s, reaching 67.8% by 2000.

The fraction of total household spending devoted to shelter-related outlays rose from about 16% in the early 1980s to almost 19% in 2000. Outlays on owned shelter as a share of total shelter expenditures have also increased.

Housing starts hit a low point during the 1991 recession, the culmination of a five-year decline. Since then, they have increased steadily, perhaps in response to more favorable interest rates, and have stayed high despite last year's economic slowdown. Some attribute this continued strength to households' reshuffling of portfolios, which shifted assets out of a languid stock market and into housing. Whether and how long this sector will continue to prosper despite the recent spike in real mortgage interest rates remains to be seen.