

Monthly Payments for Home Buyers

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A home buyer purchasing a typical American home at the prevailing average mortgage rate today would have a mortgage payment of \$698 a month. This figure is not much different from what a home buyer would have faced 30 years ago. In 1981, home prices were much lower but mortgage rates were reaching 18 percent. Today, home prices have come down by about *33 percent* on average from the bubble years, but prices still remain comfortably higher than those of the 1980s. However, thanks to record low mortgage rates, the monthly payment obligations have been greatly reduced.

Compare the chart below on the 30 year payment growth of the overall consumer price index, rent, food prices, gasoline prices, college tuition, and medical costs, versus the monthly mortgage payment. The rapid increases in college tuition bills may also imply too much demand, perhaps even a bubble in term of students not getting their money's worth. A recent spike in college student loans is due primarily to weak job market conditions, but may also be due to 'over investment' in education in relation to the cost.

Item	Price index in January 1981	Price Index in August 2011	Percent Increase
Consumer price index	87.2	226.3	160%
Rent index	84.7	254.3	200%
Food price index	91.6	229.6	150%
Gasoline price index	103.6	308.4	197%
College tuition index	75.8	601.3	693%
Medical care index	78.6	401.4	410%
Monthly mortgage payment on a median priced home	\$598	\$698	17%

