

Household Budgets in the U.S. and Its Metro Economies: Energy and Housing Costs

Key Findings

Distribution of income in 2005

- In 2005 real median income increased, by 1.1%, for the first time this decade.
- But the median income remains below its peak level of \$47,671 reached in 1999.
- Distribution of wage gains remained skewed towards the highest income earners.
- Among quintiles, only the top 20% of households, those with incomes greater than \$92,000, saw gains in average real income.
- The share of all income earned by the top 20% of all households is now 50.4%, up from 43.3% in 1970.

Energy costs and their consequences

- 2005 marked the first time Americans spent over half a trillion dollars on energy.
- Americans are devoting a larger and larger share of their incomes to heating and cooling their homes and driving their cars.
- Consumer spending on energy was \$501 billion in 2005, almost twice as much as in 1995, just a decade ago. This represents an 18% increase over the 2004 and is the third year in a row Americans' spending on energy registered a double digit percentage increase.
- In 2006, consumer spending on energy will be \$547 billion, a 9.2% increase over 2005. In 2007, it is projected to reach \$560 billion.
- From 2000-2005, consumer spending on energy increased an average of 10.2% annually, compared to 2.9% annual increases in the 1990s.
- Higher energy costs have forced Americans to realign their budgets. In 2005, the average household spent \$4,443 on energy, or 5.7% household spending. This was up from \$3,812, or 5.4% of household consumption, in 2004 and up from 5.1% of household spending a decade earlier. That share will be even greater in 2006—5.9%—leaving Americans with decreased spending power, despite a growing economy.

Energy demand in the long run

- In 25 years the U.S. population will reach 365 million, the economy will have doubled in size to a gross domestic product of \$23 trillion.
- By 2030, America will have built 40 million new homes; and 20 billion square feet of new commercial space.
- At current rates of energy consumption, that would mean that in 2031 we would be consuming an additional 4 quadrillion BTUs of energy—a cost of \$40 billion a year.
- Over the intervening 25 years, that means the nation would be spending an additional \$500 billion in energy consumption just in our residential and commercial buildings. Reducing the energy consumption of these new buildings just 10% would save \$50 billion over the next 25 years.
- The potential financial impact of a dramatic, national move to renewable, non-carbon resources could dramatically affect the economy, could be funded out of resources the consumer is going to spend anyway, shield consumers from spikes in oil/natural gas costs from geo-political instability, and set the economy on a more secure, sustainable course.

Housing costs after the real estate boom

- In the U.S. the prevalence of adjustable rate mortgage (ARM) loans relative to fixed rate mortgage (FRM) loans increased substantially, from 14.5% in 2001 to 24.8% in 2005.
- ARM loans in Nevada jumped from 10.1% in 2000 to 45.6% in 2005, the highest increase among all states; while Colorado, the District of Columbia, California, and Arizona all saw increases of more than 20 percentage points.
- States that had a higher percentage of their household income going to monthly housing costs were mainly concentrated in these same areas. The top five states for costs as a percentage of income in 2005 were: California, Nevada, New Jersey, Florida and Hawaii. 15 of the top 20 metro areas seeing a higher burden on household budgets are in California.
- Looking forward, through the rest of 2006 and 2007, these states and metro areas will see an increased burden on household budgets as monthly housing costs rise at rates faster than income is growing. Among the top 5 states for increase in ARM loans, three are among the top 5 for increase in percent of household income spent on monthly housing costs: Arizona, Nevada, and California.
- Among metro areas, those that have seen recent surges in home price appreciation, such as Bend, OR; Phoenix, AZ; and St. George, UT, will see an increase in the percentage spent on monthly housing costs.