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S&P Sustainability Insights: Rising Insurance Costs And Mounting Affordability Challenges Could Weigh On Some U.S. Governments' Creditworthiness

Key Takeaways

- With economic losses from Hurricanes Helene and Milton estimated to exceed $60 billion, S&P Global Ratings expects homeowners' insurance premiums will continue to rise in many regions of the U.S.
- Higher insurance premiums and diminishing coverage and availability could exacerbate existing U.S. housing affordability issues.
- Regions experiencing a spike in the cost of living could be susceptible to demographic and demand shifts that pressure long-term tax base growth and credit stability.

Higher Housing And Insurance Costs Could Constrain Economic Growth And Weigh On Government Credit

Why it matters: By 2022, more than 55% of households earning the median income or lower were spending over 30% of disposal income on housing costs (also known as housing burdened), according to the U.S. Census Bureau's American Community Survey data. Existing affordability challenges are amplified when combined with costs from increasingly frequent and damaging storms and flooding. And weaker economic growth and property value decreases could occur in the long term without offsetting tax-base growth. This confluence of events could lead to a downward credit trend for some U.S. governments.

What we think and why: When higher insurance premiums compound existing housing affordability problems, it can affect location and purchase decisions for homebuyers and employers. If these conditions persist, it could lead to lower taxable property values, affecting local government revenues and long-term growth. Playing catch-up to replace losses keeps governments from pursuing new economic growth and can affect long-term financial stability.

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