

Housing Price Forecasts

Illinois and Chicago MSA, February 2010

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The Housing Market

The national economy continues to tease with mixed signals about the potential for a sustained recovery. The unemployment rate declined to 9.7% (from 10.0%) in January but job losses continued albeit very modestly with a loss of 20,000 jobs. However, the Bureau of Labor Statistics noted that the number of long-term unemployed (those jobless for 27 weeks and over) continued to trend up in January, reaching 6.3 million; since the start of the recession in December 2007, the number of long-term unemployed has risen by 5.0 million persons. Those marginally attached to the labor force increased from a year earlier but those working part-time for economic reasons (i.e. individuals who wanted to work full-time but were unable to find positions) declined last month. Since the recession began in December 2007, over 8.4 million jobs have been eliminated. The Institute for Supply Management noted that the manufacturing sector had grown for the sixth consecutive month in January as the Purchasing Managers' Index rose to 58.4 percent, its highest reading since August 2004 when it registered 58.5 percent. This continued an upward trend and suggests that the manufacturing sector is in recovery. Both the New Orders and Production Indexes are above 60 percent, indicating strong current and future performance for manufacturing. This month, 13 of 18 industries reported growth, up from nine industries last month, and this is a good indication that the impact of the recovery is expanding. Employment in manufacturing inched up in January and the last several months have witnessed some recovery in sectors such as the automobile industry.

The Federal Reserve expects to complete the purchase of \$1.25 trillion mortgage-backed securities by the end of March; in combination with the shoring up of Fannie Mae and Freddie Mac (estimated to be \$112 billion), the Fed has signaled a strong commitment to the housing market. For the first time since 2005, residential construction added to gross domestic product in the third quarter of 2009. Across many metropolitan regions, home-price declines have either slowed or reversed; inventories of unsold homes have also declined. NAR reported that home prices actually rose in more than one-third of US metropolitan areas in the last quarter of 2009.

However, in Chicago and Illinois, the inventories increased in January after several months of modest declines. Nationally, preliminary data suggest that the number of foreclosed homes on the market has declined; Barclays Capital estimated a drop from 845,000 to 637,000 comparing November 2009 with a year earlier. The same organization still expects the numbers to rise again; in 2010, their forecast from the peak has declined from 1.2 million to 747,000. Other analysts are now talking though of a "shadow" inventory – homes that will enter the market once more foreclosures are finalized. Whether these homes enter the market will depend on how many loan modifications are enacted on the estimated 3.5 million properties whose owners are more than 90 days behind on payments.

The Commerce Department reported that homeownership rates (percentage of those owning their homes) were falling; after reaching a high of 69% in 2004, the rates in the last quarter of 2009

was 67.3%. The National Association of REALTORS® reported that at the end of 2009, the number of new homes for sale was at the lowest level since April 1971.

On an annual basis, sales continued to increase in January in both Chicago and Illinois; Chicago recorded an increase of almost 30%, while, for Illinois, the increase was 14%. The month-month sales though have been negative for the last 3 months (November and December, 2009 and January, 2010), although this pattern is not unusual.

Forecasts for the next three months (February, March and April) suggest positive changes – both on an annual basis (comparing the month this year with the same one last year) and on a month-to-month basis. In particular, the sales growth on an annual basis in Chicago is expected to be very strong (double-digit changes from 18-50%) while a little more moderate in Illinois (1 to 14%). Median prices in February in Illinois are expected to be little changes from a year ago and are expected to climb in March only to fall back slightly in April. In all three months, the levels will be between 0.14 and 1.8% below those a year ago. For Chicago, a similar pattern (growth in March and slight fall in April) is forecast; the levels will be about 6% below comparable prices for the same months a year ago. In the same months in 2009, the prices were lower by about 20% compared to the same month in 2008. In April, 2010 (2009 values in parentheses), median prices are anticipated to be \$147,303 (\$150,000) in Illinois and \$178,037 (\$191,000) in Chicago.

“Foreclosed properties continue to exert downward pressure on median prices in Chicago but much less so in Illinois,” according to Geoffrey Hewings, Director of the Regional Economics Applications Laboratory of the University of Illinois. He noted that “there is evidence that median price increases will moderate in the state, remaining about the same as those a year earlier. For Chicago, the median prices will be about 7% lower in April than a year earlier.”

The Housing Market - Bullets

- Forecasts for the next three months (February, March and April, 2010) indicate sales increasing in Illinois in the 1-14% range and in Chicago in the 18-50% range on an annual basis
- Month-to-month sales growth will be positive in all three months; for Chicago, the range will be 5-28% while for Illinois that range will be from 5-31% with March the strongest months for both areas.
- Median prices in Illinois and Chicago will fluctuate, climbing through March but dropping back slightly in April.
- Median prices by April 2010 (2009 values in parentheses) are expected to be \$147,303 (\$150,000) in Illinois and \$178,037 (\$191,900) in Chicago

The Economy

- Job declines in December were revised upward and the January number indicate little change (a loss of 20,000); the unemployment rate declined from 10% to 9.7%

- Illinois has recorded 25 months of job declines since the recession began in December 2007; December's loss of 16,300 jobs was higher than previous months (the average for 2009 was 19,800)
- Illinois' unemployment rate increased to 11.1% in December.
- The Chicago Business Activity Index (CBAI) was 84.4 in December 2009, up slightly from 82.8 in November. The recent movement of the index implies that the improving trend in the regional economic activities has been maintained.
- Forecasts for employment indicate a further erosion of 110-130,000 jobs over the next twelve months (these forecasts do not consider the potential impacts of federal and state stimulus programs).

Longer-term Outlook

- The Conference Board Consumer Confidence Index®, which had increased in December, improved further in January. The Index now stands at 55.9 (1985=100), up from 53.6 in December. The Present Situation Index increased to 25.0 from 20.2. The Expectations Index increased to 76.5 from 75.9 last month.
- Continued expansion in the manufacturing sector augurs well for the economic recovery, indicating that inventories have been depleted to levels that have generated increased demand (especially in the automobile and auto supply chain sectors)
- Job growth continues to lag, dampening chances for significant stimulus from consumers over the next several quarters
- Housing inventories, fueled by continuing additions of foreclosed properties continue to dampen housing price recovery in the Illinois and Chicago markets

About REAL the IAR Housing Forecast

Economists from the University of Illinois [Regional Economics Applications Laboratory](#) (REAL) developed the Illinois housing price forecast using an augmented distributed lag model as the framework to relate house pricing and the economic business cycle. This "ARIMA" model is considered a highly accurate forecasting method and one that can be easily updated with data provided by the Illinois Association of REALTORS® each month and quarter and selected monthly economic data available for the state and metropolitan regions.

Leading the research team is Dr. Geoffrey J.D. Hewings, director of REAL and chair of the Economics Department for the University of Illinois. He earned his B.A. from the University of Birmingham in the United Kingdom and his M.A. and Ph.D. from the University of Washington in Seattle.

If you have any questions about the reports, write to iarnews@iar.org or call the Communications Department at 217-529-2600.



