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Housing Price Forecasts

Illinois and Chicago MSA, July 2010



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The Housing Market

Continued strong annual sales growth characterized the months of April, May and June in Illinois and Chicago. While the pace of the gains declined over this period, the 18% surge in Illinois and 27% in Chicago provided some positive news. The monthly changes in June were in double-digits – almost 12% in Illinois and almost 20% in Chicago. On an annual basis, sales are forecast to remain positive in double digits in both markets; on a month-to-month basis, the forecasts suggest a small increase in July and declines in the 1-7% range in Illinois and 0 to 5% in Chicago in August and September.

Once again, price changes remain more stubborn with some slight upward movement in Illinois in July and August followed by little or no change in September; in Chicago, the changes continue to trend down in the 1-5% range.

The economy is certainly not helping the housing market; the loss of over 200,000 temporary census jobs overwhelmed the private sector gains of 83,000 jobs (twice the estimates for last month). The unemployment rate fell nationally to 9.5% but much of this decline could be traced to a decrease in the labor force participation rate—the percentage of the potential working population either in jobs or actively seeking jobs.

According to the US Bureau of Labor Statistics, in June, about 2.6 million persons were marginally attached to the labor force, an increase of 415,000 from a year earlier. These individuals were not in the labor force, wanted and were available for work, and had looked for a job sometime in the prior 12 months. They were not counted as unemployed because they had not searched for work in the four weeks preceding the survey. Of these marginally attached individuals, 1.2 million were designated as “discouraged workers” – workers who stopped looking because they felt there were no suitable jobs for them. The number of individuals so designated increased by 414,000 in June compared to 2009.

Illinois’ seasonally adjusted unemployment rate followed the national decline, dropping -0.4 point to 10.4 percent in June. According to the Illinois Department of Employment Security, the drop matches the April-to-May decrease and remains the largest decline since October 1983. While payroll numbers were down nationally, the Census job losses in Illinois were matched by private sector gains, resulting in virtually no net change in job numbers. Illinois payroll employment is up +59,600 jobs so far this year; if this growth is sustained for the rest of the year, 2010 would turn out to be the largest growth year in over a decade.

The New York Federal Reserve Bank has recently calculated the share of homeowners who have positive equity in the houses they own; homeownership rates peaked at 69 percent in 2006 and have witnessed a reversal of a decade-long trend, falling to 67.2% in the last quarter of 2009. The Bank has developed the concept of a homeownership gap to reflect the dramatic growth in the

number of negative equity homeowners (those who owe more on their mortgages than their houses are worth) in the current housing market. Nationally, the gap has been estimated at 5.6 percentage points but rises to 39 percentage points in some of the hardest hit metropolitan areas (e.g. Las Vegas). For Chicago, peak homeownership was 71.3%; it is now 69.5% and the NY Fed estimates the homeownership gap to be between 5.3 and 7.9%. The concern for the housing market is that many homeowners with negative equity in their homes may be at greater risk for default and thus further contribute to dampening chances of housing market recovery.

A negative statistic that may prove positive over the next year is the news that in May, new construction starts on single family homes declines 17% to an annual rate of 468,000 – the lowest in over a year. Decreases in the supply of new homes may help reduce the inventories of existing homes; however, the loss of jobs and associated ripple effects from new construction further dampen job creation especially in the construction sector that has been especially badly hit by the recession.

Further, in May, it was reported that rental leasing rates had increased about 1% from a year earlier; over time, if rental rates continue to increase, this may generate some renewed expectation that renters will explore becoming homeowners. According to Reis, Inc., the national rental vacancy rate declines from 8% during the first quarter of the year to 7.8% in June; however, one year ago, it was 7.7%. Even with historically low interest rates for mortgages, much of the activity in the market has been for re-financing rather than issuance of new mortgages.

The Housing Market – Bullets

- Forecasts for the next three months (July, August and September) indicates that sales should increase in Illinois in the 12-19% range; in Chicago, the sales are expected to grow in the 21-32% range over the same period on an annual basis
- Month to month sales will be positive in July but turning negative in August and September in the 1-7% range in Illinois and 0-5% range in Chicago

The Economy

- Private-sector payroll employment increased by 83,000 in June but total nonfarm payroll employment declined by 125,000 reflecting the decrease (-225,000) in the number of temporary employees working on Census 2010. The unemployment rate dropped to 9.5 percent but much of this can be attributed to a decline in the labor force participation rate.
- The Chicago Business Activity Index (CBAI) was 88.6 in May, showing a modest increase from 86.2 in April. The slight increase of the index in May could be attributed mainly to the increase of manufacturing employment and the positive contribution of consumption.
- Forecasts for Illinois employment growth over the next 12 months indicate a gain over 70,000 jobs; already in 2010, the state has added almost 60,000 jobs but there is some concern that the surge in employment nationally may be slowing, dampening the prospects for growth in Illinois.

Longer-term Outlook

- Consumer Confidence declined in July to the lowest level in a year; the Thomson Reuters/University of Michigan preliminary index of consumer sentiment decreased to 66.5, the lowest since August, 2009. The Conference Board Index that had been on the rise for three months, also dropped sharply in June. Consumer expectations that their incomes would rise over the next 12 months also declined, reflecting in part the slow pace of job creation.
- Housing inventories continued to trend downward, albeit at a slower pace in Chicago than the rest of Illinois

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.



