

## **Housing Price Forecasts**

### **Illinois and Chicago MSA, November 2009**

Presented To

**Illinois Association of REALTORS®**

From

R | E | A | L

Regional Economics Applications Laboratory,  
Institute of Government and Public Affairs  
University of Illinois

November 17, 2009

## **Housing Price Forecast: Illinois and Chicago MSA, October 2009**

### **The Housing Market**

The housing market seems to be settling into a recognizable pattern—annual changes in sales (comparing the month this year with the same month one year ago) appear to be moving in a positive direction. Month-to-month sales changes, however, are more volatile and generally negative. Prices, however, continue to move downwards although the forecasts for January 2010 for the state are for a slight increase.

Sales increased in both Illinois and Chicago for the months of August, September and October on an annual basis with very robust increases of 24% in October in Illinois and 33% in Chicago. Clearly, the federal incentives for first-time buyers encouraged more people to enter the market. The month-to-month sales were also positive in October – a 5% increase in Illinois and just over 6% in Chicago.

The housing market continues to defy analysts' abilities to generate a consensus about recovery; month-to-month changes in indicators – such as new home sales, construction starts, foreclosures and so forth – move in different directions. For example, a slight downturn in September in foreclosures could be traced to requirements that banks work through loan modifications according to Amherst Securities Group but most analysts think this will be a temporary lull. Zillow.com reported that within the foreclosure mix, there have been some significant changes in property types. Three years ago, 16% of foreclosed properties were in the upper third of the property value distribution; this proportion has now increased to 30%. For the lower one-third of the value distribution, only 35% of foreclosed properties were found, down from 55% in 2006. The attention to the contribution of foreclosed properties to the market may be traced to their impact on prices since, other things being equal, a buyer would obviously prefer to acquire a foreclosed property that had the same characteristics (location, number of bedrooms etc.) as one being offered through the normal transactions' process. The impacts can be seen in the different directions in which sales and prices are moving. The October data on new home starts released by the US Department of Commerce indicated a decline of just under 11% from the previous month, reflecting perhaps the uncertainty about whether Congress would extend credits to first-time home buyers.

Job losses nationally in October were 190,000, slightly higher than consensus estimates of 176,000; in addition, the unemployment rate increased to 10.2%. Since the recession began in December 2007, the number of unemployed has increased by 8.2 million; further, the number of workers who are marginally attached to the labor force has increased by 736,000 over the last 12 months; these are workers who have looked for work at least some time during the past year but are not currently part of the labor force. Although the national jobs losses continue to disappoint, the 3-month average job loss has been 188,000; the prior three-month average was almost twice as large at 357,000 and during the period from November 2008 through April 2009, the losses averaged over 645,000 per month.

Forecasts for the housing market for the months of November and December 2009 and January 2010 continue the positive news. For both Illinois and Chicago, the sales are forecast to grow at double-digit rates when the month in 2009 (2010 for January) is compared with the same month in 2008 (2009 for January). Once again, though, the month-to-month changes provide a less attractive picture with double-digit declines in the 10-30% range for November and January for both Chicago and Illinois with December offering the changes are anticipated to become positive in the 4-6% range.

Median prices continue to trend down in the 3-5% range for both Illinois and Chicago over the three months, although a modest uptick is noted for January 2010 in Illinois. These changes are in stark contrast to the double-digit declines for the same three months last year. Median prices by January 2010 (2009 values in parentheses) are expected to be \$146,225 (\$146,000) for Illinois and \$171,451 (\$185,000) for Chicago.

“Sales continue to offer some encouraging news,” noted Geoffrey Hewings, Director of the Regional Economics Applications Laboratory at the University of Illinois, “and there is an early indication of a cessation of price declines in Illinois. The volatility in a number of indicators on a month-to-month basis still makes it difficult to detect a longer-term trend.”

### **The Housing Market - Bullets**

- Forecasts for the next three months (November, December, 2009 and January 2010) indicate sales increasing for Chicago in the 30-60 % range while those for Illinois will be in the interval of 20-50% range on an annual basis (comparing the same month a year ago).
- Month-to-month sales will be negative for November and January but positive in December.
- Median prices will decline but at a much slower rate in all three months in both Illinois and Chicago and there is a forecast of a slight uptick in January prices in Illinois
- Median prices by January 2010 (2009 values in parentheses) are expected to be \$146,225 (\$146,000) for Illinois and \$171,451 (\$185,000) for Chicago.

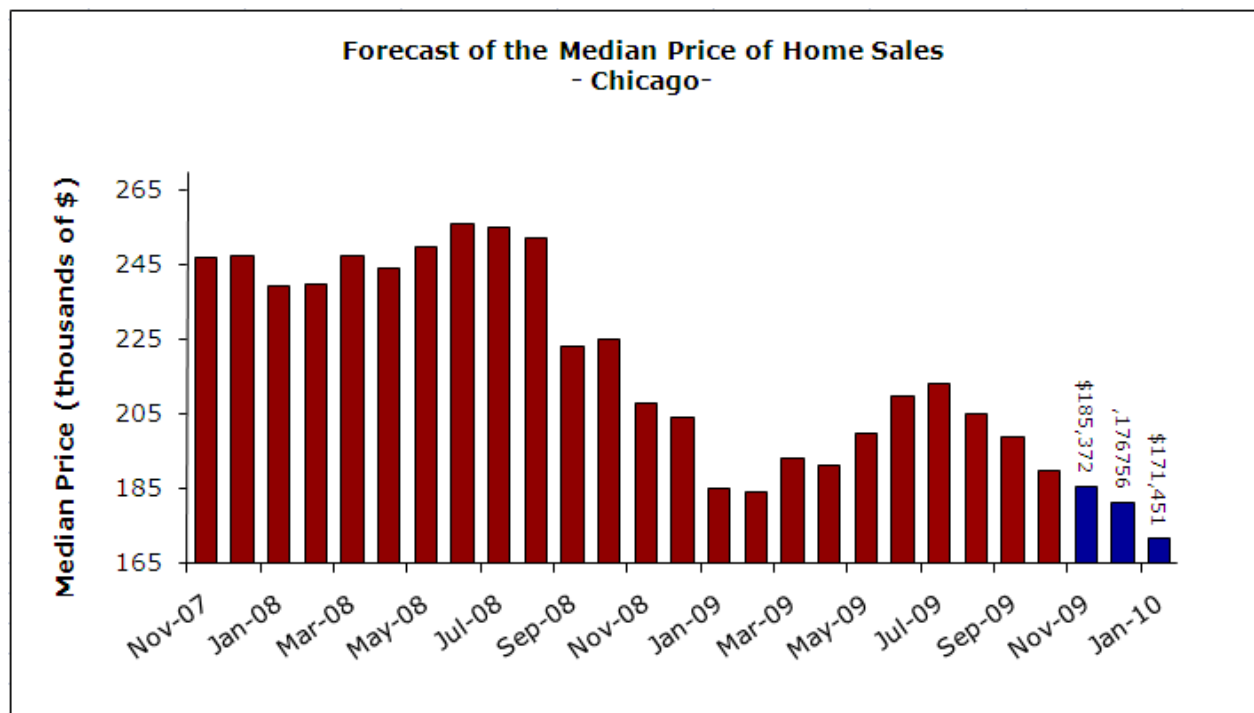
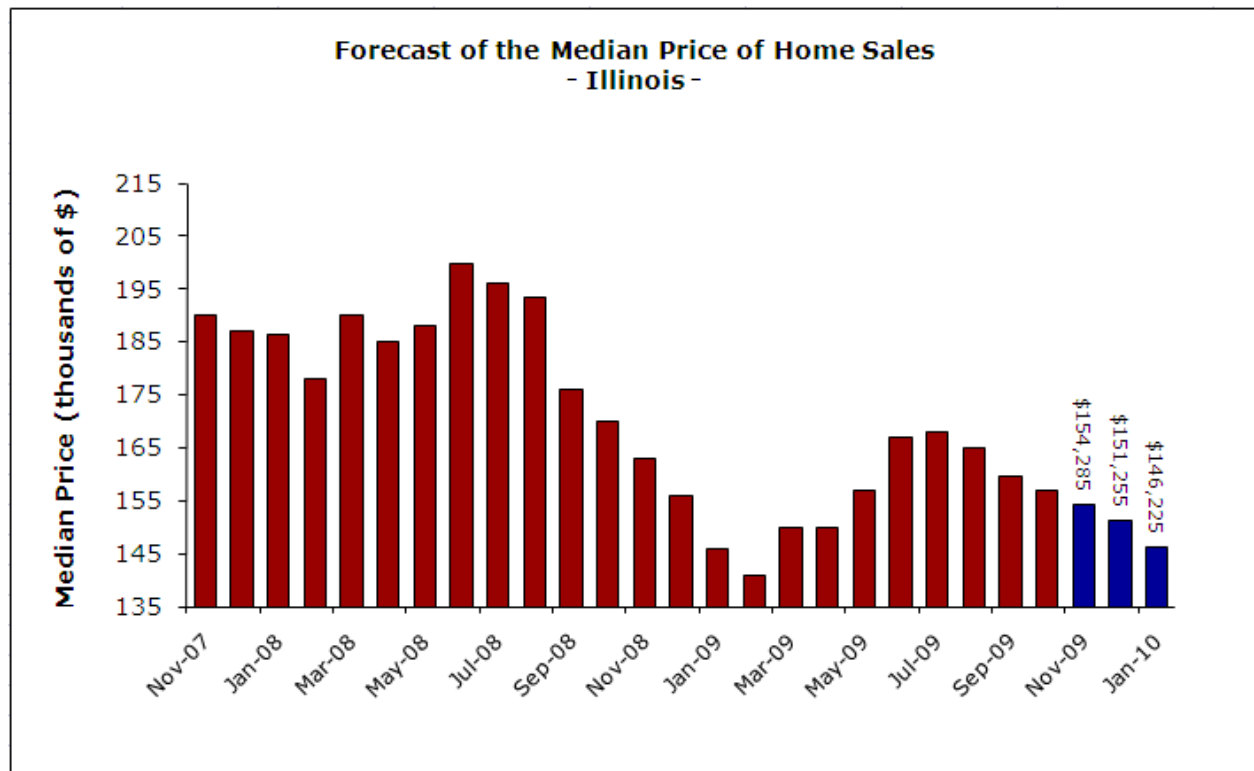
### **The Economy**

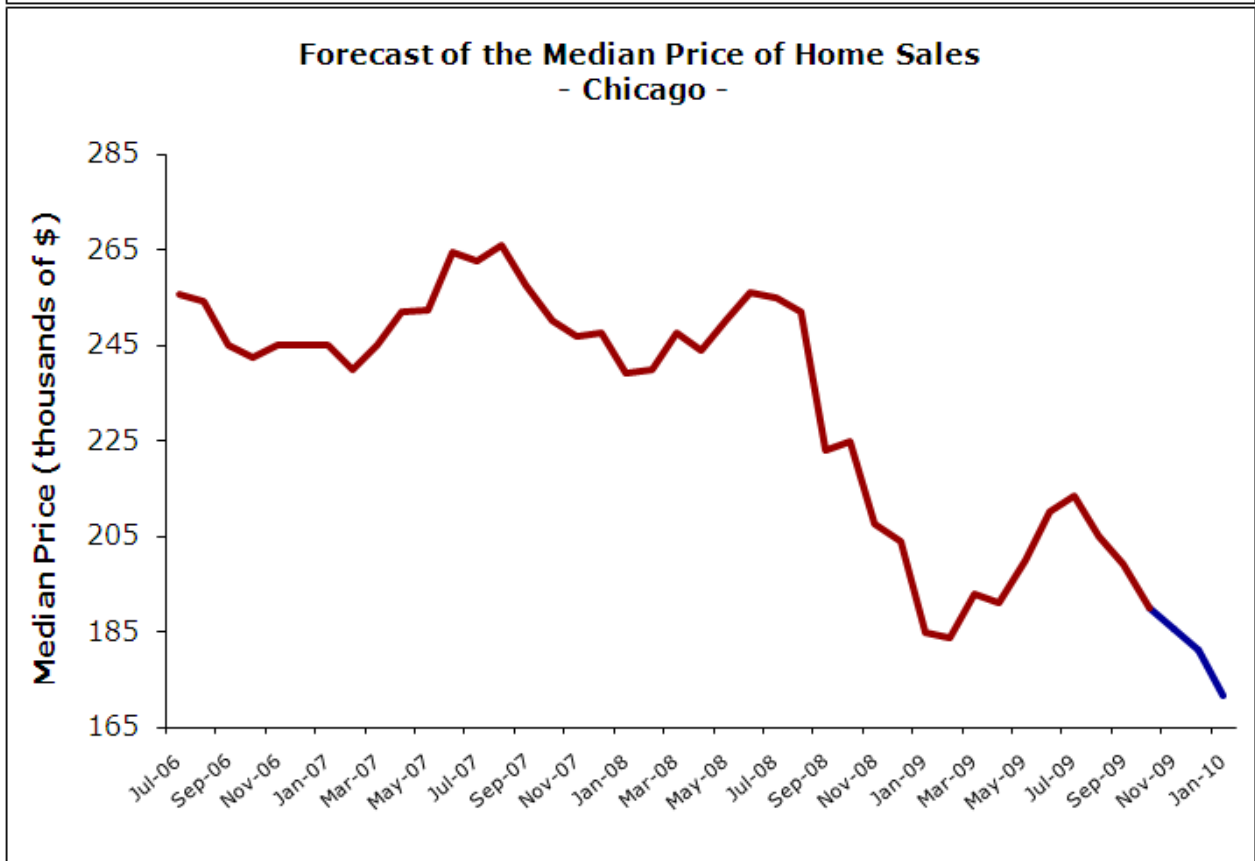
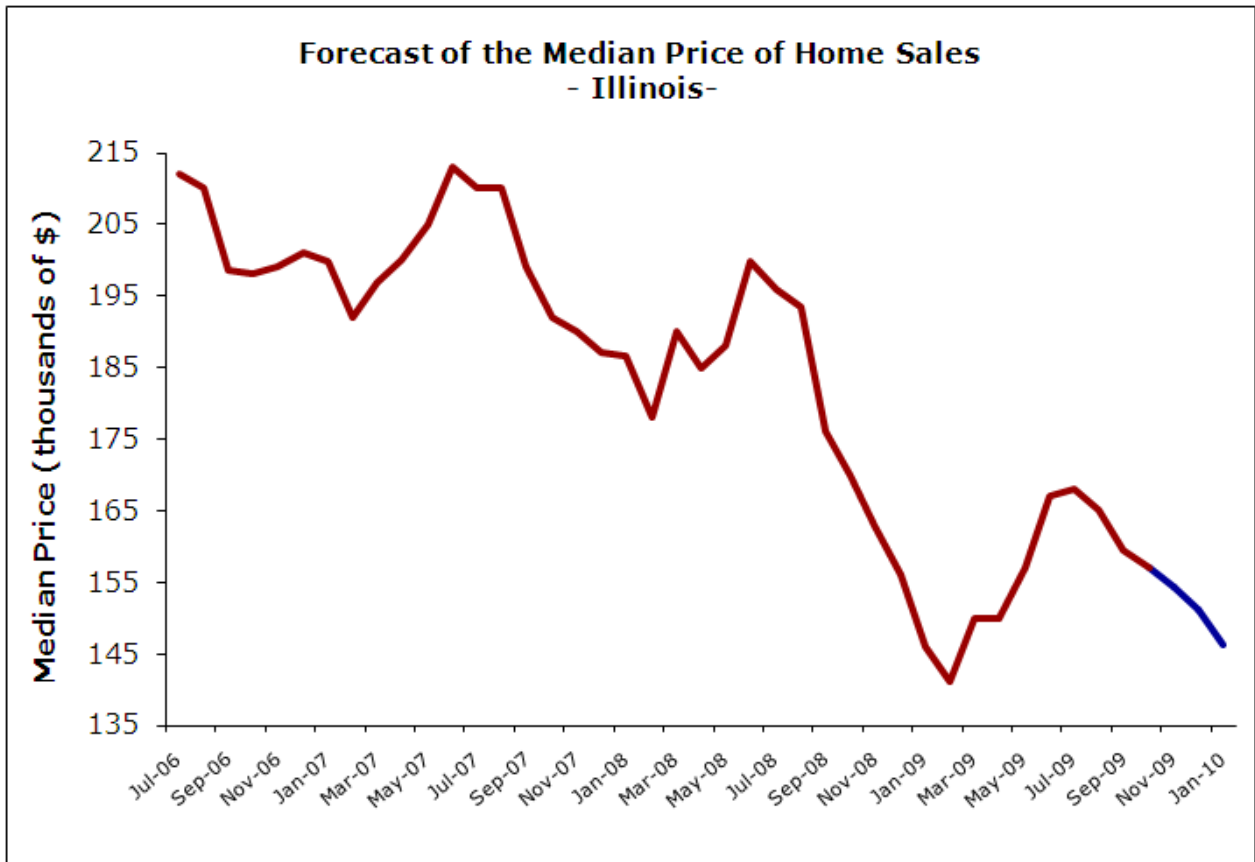
- Job declines continued nationally at a rate slightly higher than consensus estimates; the nation lost 190,000 jobs in October and the unemployment rate exceeded 10%.
- Since the beginning of the recession, Illinois has recorded negative jobs changes 22 times; through the end of September; the state has lost over 300,000 jobs in the prior 12 months and 342,800 since the recession began.
- Illinois' official unemployment rate reached 11.0% in October.
- The Chicago Business Activity Index (CBAI) was 58.3 in September, up from 49.4 in August. The recent movement of the index exhibits a favorable sign that the regional economy is maintaining an improved trend.
- Employment forecasts for the next 12 months suggest continuing erosion in the 180-

200,000 range; Illinois is now 424,700 jobs below its prior peak of November 2000 and almost half of the 10 macro sectors of the economy (including manufacturing and construction) have employment levels below those of 1990.

### **Longer-term Outlook**

- The Conference Board Consumer Confidence Index, dipped again for the second month in a row to 47.7 (from a revised 53.4 in September and 54.5 in August). The Present Situation Index also decreased to its lowest level since February 1983.
- Few clear signals have been provided by the state's leadership about ways to address the state's faltering economy, budget deficit and the enormous unfunded pension obligations.
- With interest rates at 5% for 30-year loans, housing supply strong, the uptick in sales should continue; however, many potential buyers have either too much debt or are unemployed precluding their participating in this buyers' market.
- The inventory in both Illinois and Chicago continues to hover around the national rates reflecting an average time on the market of 8-10 months





### **About REAL the IAR Housing Forecast**

Leading 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 a professor of Geography, Economics and Urban and Regional Planning.

All reports are available for members to download from the IAR Web site in Members Only Market Stats, [www.illinoisrealtor.org](http://www.illinoisrealtor.org).

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

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**Part II Background Information**


Presented To  
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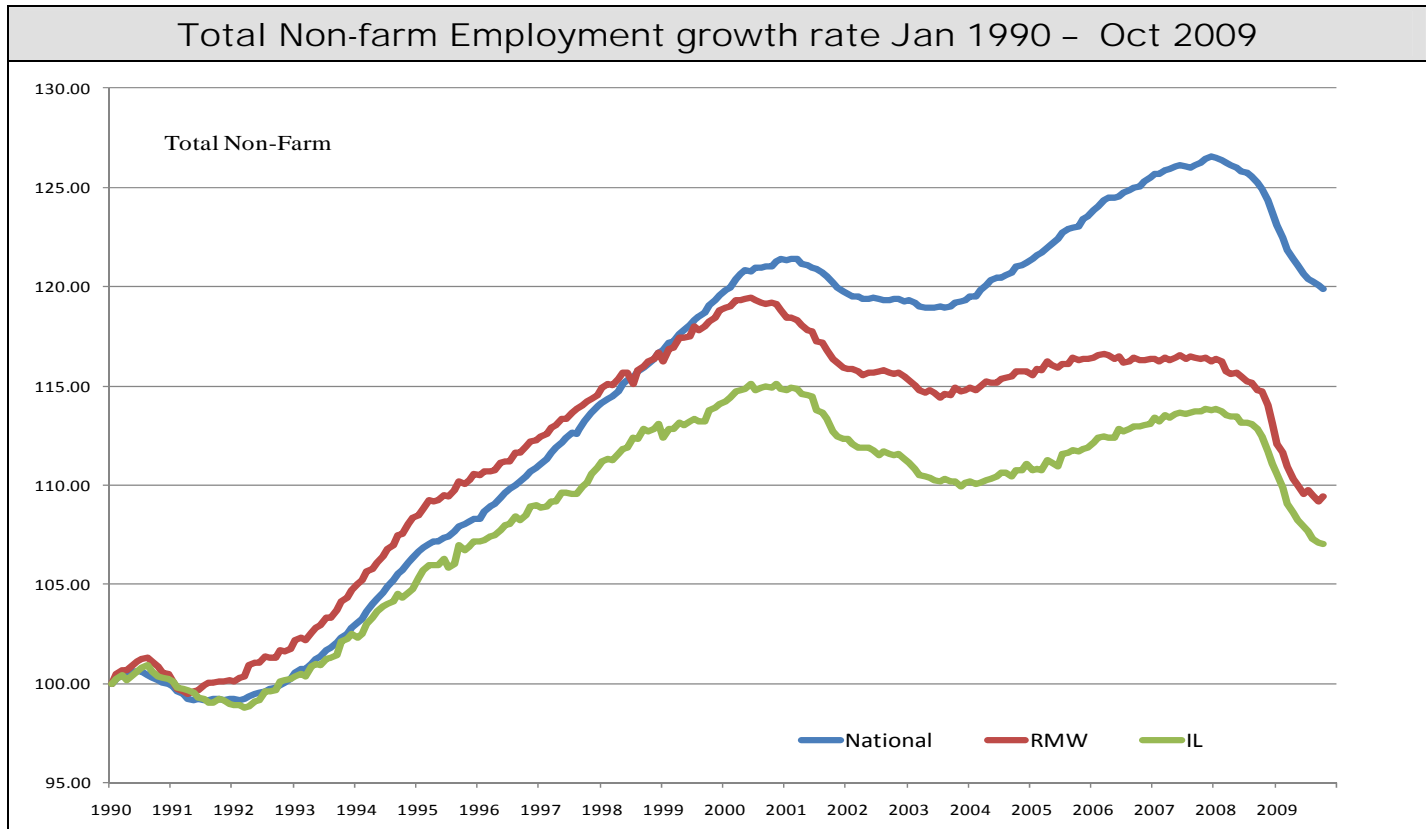
Regional Economics Applications Laboratory,  
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November 23, 2009

	Nov 2009 Negative		Sep 2009–Oct 2009		Last 12 months		Oct 2009
		Total non-farm employment	Growth Rate %	Number of Jobs	Growth Rate%	Number of Jobs	Shadow U.R. *
		Nation	-0.14	-190,000	-4.04	-5,504,000	12.3%
		RMW	0.22	41,200	-4.63	-908,000	14.5%
		Illinois	-0.06	-3,200	-4.83	-286,300	13.2%

\*REAL has estimated a *shadow unemployment rate*; this is calculated as the unemployment rate that would be observed if labor force participation rates matched the average for the 15-year period from 1990 to 2004.

Talking Points	
Illinois Notes	<ul style="list-style-type: none"> <li>▪ Illinois lost 3,200 jobs at a rate of -0.06% in October 2009, compared to a revised 10,100 job loss in September.</li> <li>▪ In October 2009, the Nation shed 190,000 jobs at a rate of -0.14%. This is much better than the average 448,000 jobs loss per month for the first nine months in 2009.</li> <li>▪ RMW added 41,200 jobs in October after a revised 54,800 job loss in September.</li> <li>▪ Since the beginning of the recession in Dec 2007, Illinois has posted negative job changes 22 times, and the state has lost 358,100 jobs in this recession.</li> <li>▪ Through 2008, Illinois lost -11,800 jobs at a rate of -0.20% on average per month. However, the average monthly loss for the first ten months of 2009 was -21,400 jobs at a rate of -0.37%.</li> <li>▪ Five sectors in Illinois have employment level in this month less than January 1990, and they are Manufacturing, Information, Construction, Trade, transportation &amp; utilities, and Financial activities.</li> <li>▪ Over the last 12 months, Illinois shed 286,300 jobs at a rate -4.83%.</li> <li>▪ Through October 2009, the cumulative job growth for Illinois, RMW and the Nation compared to January 1990 stood at 7.03%, 9.41%, and 19.88%, respectively.</li> <li>▪ The shadow unemployment rates for the Illinois, RMW and the Nation were 13.2%, 14.5% and 12.3%, compared to official unemployment rates of 11.0%, 10.7% and 10.2%.</li> </ul>
Nation Notes	<ul style="list-style-type: none"> <li>▪ The nation lost 190,000 jobs in October, compared to a revised 219,000 job loss last month. The job loss in October was much worse than economists' forecast of 175,000.</li> <li>▪ Since the last employment peak in December 2007, the nation has lost 7,184,000 jobs. However, for RMW and Illinois, they have not yet recovered from their respective peaks in 2000.</li> <li>▪ Since January 2008, the nation has posted monthly negative growth for twenty-two months with average monthly growth rate -0.25%; the average growth rate for 2007 was 0.07%.</li> </ul>



**By employment sector:**

Total Non-farm Employment growth rate by sector Jan 1990 - Oct 2009						
	Illinois				RMW	Nation
	vs. RMW	vs. Nation	Number of Jobs	Rate %	Rate %	Rate %
Construction	-	-	-7,100	-3.12	3.35	10.03
Manufacturing	-	-	-348,000	-37.68	-33.01	-34.41
Trade, transportation & utilities (TTU)	-	-	-8,700	-0.76	2.53	10.05
Information	-	-	-24,500	-18.76	-12.56	6.03
Financial activities	-	-	-3,500	-0.94	13.05	16.83
Professional & business services	-	-	216,000	37.84	47.46	54.38
Education & health	-	-	269,000	50.84	60.22	80.39
Leisure & hospitality	+	-	130,900	33.91	25.30	41.27
Other Services	+	-	51,500	25.07	17.48	27.51
Government	-	-	102,300	13.57	14.23	23.67

Sector notes	<ul style="list-style-type: none"> <li>▪ Illinois posted a job decline of -0.06% in October 2009. Seven out of ten sectors recorded net losses. Compared to September 2009, relative performance gains were recorded for Construction (-0.63% to 0.46%), Professional and business services (-0.66% to 0.17%), and Education and health Services (-0.26% to 0.45%), whereas Other services (0.78% to -0.70%), Government (0.97% to -0.05%), and Leisure and hospitality (0.02% to -0.71%) faced major losses in performance.</li> <li>▪ In October at the national level, two sectors added jobs:             <ul style="list-style-type: none"> <li>○ Education and Health Services: 45,000 (0.23%)</li> <li>○ Professional and business services: 18,000 (0.11%)</li> </ul> </li> <li>▪ Major losses at the national level in October were:             <ul style="list-style-type: none"> <li>○ Trade transportation&amp; utilities: -66,000 (-0.26%)</li> <li>○ Construction: -62,000 (-1.03%)</li> <li>○ Manufacturing: -61,000 (-0.52%)</li> </ul> </li> <li>▪ For Illinois, three sectors posted job gains in October             <ul style="list-style-type: none"> <li>○ Education and Health Services: 3,600 (0.45%)</li> <li>○ Professional and business services: 1,300 (0.17%)</li> <li>○ Construction: 1,000 (0.46%)</li> </ul> </li> <li>▪ Following are the major sectors that lost jobs in October for Illinois:             <ul style="list-style-type: none"> <li>○ Trade transportation&amp; utilities: -1,400 (-0.12%)</li> <li>○ Other Services: -1,800 (-0.70%)</li> <li>○ Leisure &amp; hospitality: -3,700 (-0.71%)</li> </ul> </li> <li>▪ For Illinois, five sectors have employment below 1990 levels. They are Manufacturing with -348,000 jobs less, Information with -24,500 jobs less, Construction with -7,100 jobs less, Trade transportation&amp; utilities with -8,700 jobs less, and Financial activities with -3,500 jobs less, than their 1990 employment levels, respectively.</li> </ul>
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**Illinois Employment Forecast Next 12 Months by Sector**

	October 2009	October 2010 (p)	Number of Jobs	Growth Rate %
Total non-farm	5,635,600	5,456,900	-178,700	-3.17%
Construction	220,300	201,500	-18,800	-8.53%
Manufacturing	575,600	520,700	-54,900	-9.54%
Trade, transportation & utilities	1,139,200	1,074,300	-64,900	-5.70%
Information	106,100	99,900	-6,200	-5.84%
Financial Activities	369,200	349,600	-19,600	-5.31%
Professional & business services	786,800	762,600	-24,200	-3.08%
Education & health	798,100	806,400	8,300	1.04%
Leisure & hospitality	516,900	519,900	3,000	0.58%
Other services	256,900	259,000	2,100	0.82%
Government	856,200	852,700	-3,500	-0.41%

