

## **Housing Price Forecasts**

**Illinois and Chicago MSA, January 2010**

Presented To

**Illinois Association of REALTORS®**

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

January 18, 2010

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### **The Housing Market**

Revised estimates of job change for November revealed that the economy had added jobs (4,000) for the first time in almost two years. However, this positive bounce from this news was somewhat deflated by the release of the employment data for December that revealed a provisional job loss of 85,000 nationally, much higher than analysts had expected. The unemployment rate held at 10.0% (in January 2008, it was 7.7%) but a decline in the labor force participation rate may have contributed to this stability. The labor force participation rate measures the proportion of the population 16 and older who are in the labor force – defined to be those seeking work or currently employed. In December 2008, this participation rate was 65.8%; a year later, it had declined to 64.6%. Four in ten of those currently unemployed have been in this position for more than 27 weeks.

There was some encouraging news within the general picture; manufacturing employment, that has declined 2.1 million since the recession began in December 2007, showed a job loss nationally of 27,000 in December. In the first six months of 2009, job losses in this sector were averaging 171,000; in the last six months, the average fell to 41,000. The Purchasing Managers Index rose in December to its highest level since April 2006; half of the 18 major manufacturing sectors reported growth in December. Nationally, the housing market has provided some mixed signals; November's pending home sales index in November declined from a month earlier—probably in response to the pending expiration of the tax credit for new homebuyers who accelerated purchases in October. However, the index was up 15.5% from a year ago.

Further, home-mortgage rates moved to 5.14% (30-year fixed rate) in the first week of January, although they retreated somewhat the following week to 5.09%. There is concern that the announcement that the Federal Reserve will cease buying mortgages at the end of March could serve to put upward pressure on mortgage rates and dampen prospects for as recovery in the housing market. A closely watched indicator, new-home sales data issued by the Commerce Department, revealed that sales declined 11.3% in November; analysts point to the impact of the expiration of the tax credit program but also cautioned that this indicator is very volatile since it is based on a small sample. Nationally, in October, it was estimated that inventories pointed to an average time on the market of 6.7 months; in Chicago in December, the inventory rose slightly more than sales and time on the market increased to 9.6 months from 7.75 months in November. The comparable data for Illinois were 8.8 (December) and 6.7 (November).

Sales (on an annual basis) continued to increase in December, albeit at slightly lower rates than those for November but comparable with rates recorded in October – 20% in Illinois and 33% in Chicago. While month-to-month sales were positive in October, they were negative in November and December in both Illinois and Chicago – a pattern that is not unusual at this time of the year.

Forecasts for the housing market for the first three months of 2010 indicate that sales, based on annual data (comparing a month in one year with the same month in the previous year), will continue to record positive changes – from 9 to 36% in Illinois and from 18 to 56% in Chicago. The month-to-month changes are forecast to be negative in January for Illinois, turning positive in February and March; in Chicago, the first two months will see negative changes (that are very close to zero in February) before turning positive in March.

Median price changes also offered some positive news; in all three months, on an annual basis, prices will be inching upwards in Illinois. In Chicago, the prices will move upward in March after a very small dip in February, but the changes still will be negative in terms of comparison with the same three months in 2009. In March 2010 (2009 values in parentheses), median prices are anticipated to be \$149,523 (\$149,000) in Illinois and \$177,667 (\$192,900) in Chicago.

“The continuation of positive changes in annual sales data recorded in the last three months of 2009 is forecast to continue through the first quarter of 2010,” noted Geoffrey Hewings, Director of the Regional Economics Applications Laboratory of the University of Illinois, “and there is evidence to suggest that median prices might be starting to inch upwards. Illinois’ March 2010 median price is forecast to be just above the level recorded a year earlier but Chicago’s price median price will be down by just under 8%.”

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

- Forecasts for the next three months (January, February and March, 2010) indicate sales increasing robustly in Illinois and Chicago on an annual basis (in the 10-50% range)
- Month-to-month sales growth will be negative in January but will return to positive values in February and March in Illinois; for Chicago, the first two months will record negative changes (with those in February close to zero) before rebounding in March.
- Median prices in Illinois will fluctuate but by March 2010, they will be slightly higher than a year earlier; in Chicago, there will be virtually no change in the first two months but an increase in March, although the value will still be 8% below March 2009.
- Median prices by March 2010 (2009 values in parentheses) are expected to be \$149,523 (\$149,000) in Illinois and \$177,667 (\$192,900) in Chicago

### **The Economy**

- Job declines in December were higher than anticipated (85,000) after a revision to the November data revealed a small 4,000 job gain; the unemployment rate remained at 10%
- Illinois has recorded 24 months of job declines since the recession began in December 2007; November’s loss of 6,300 jobs was higher than previous months (the average for the first eleven months of 2009 was 19,900)
- Illinois’ unemployment rate increased to 11.1% in December from 10.9% in November.
- The Chicago Business Activity Index (CBAI) was 80.0 in November, continuing a three-month increase (from 70.3 in October, and 58.6 in September). The recent movement of the index implies that the region’s economic activity is continuing to improve, although it is still below the long-term trend
- Forecasts for employment indicate a further erosion of 100-120,000 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 November, rose again in December. The Index now stands at 52.9 (1985=100), up from 50.6 in November. The Expectations Index increased to 75.6 from 70.3 last month. The Present Situation Index, however, declined to 18.8 from 21.2 in November.

- Low interest rates and an extension of the first-time buyers' program and an additional tax incentive for repeat home buyers continue to offer incentives for housing sales but foreclosed properties continue to dampen price recovery
- Illinois and Chicago inventories moved upward in December to the 8-9 month range (the average time on the market) putting downward pressure on price recovery

### **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 a professor of Geography, Economics and Urban and Regional Planning. Dr. Hewings is professor of Geography, Economics and Urban and Regional Planning 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.

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).

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