



Housing Price Forecasts

Illinois Metropolitan Statistical Areas

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Government and Public Affairs, University of Illinois
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July
Analysis
&
Forecast

August 18, 2011

This report provides analysis of the housing market for the month of July 2011 with forecasts for the next three months (August, September and October) prepared by economists from the University of Illinois Regional Economics Applications Laboratory (REAL). Complementary analysis of the economy is provided to put the housing market into a broader perspective.

For more information, visit www.illinoisrealtor.org/marketstats or contact Mary Schaefer, Director of Communications for the Illinois Association of REALTORS® 217-529-2600, mschaefer@iar.org.

The Housing Market

In July, Illinois and the nine-county Chicago PMSA housing sales and median prices were increasing as expected for this time of the year. However, the housing sales were slowing in July for both Illinois and the Chicago PMSA.

The economic recovery appears to be running out of steam. According to the U.S. Bureau of Labor Statistic (BLS), the nonfarm payroll employment rose by 117,000 in July, following little growth over the prior two months. The unemployment rate remained unchanged at 9.1 percent. Since April, the unemployment rate has not shown any definitive movement. Continued economic slowdown is anticipated by consumers. The Thomson Reuters/University of Michigan's Survey of Consumers reported a sharp decrease in July. Although inflation pressure fell in July, prospects for economic growth were much more negative. The current index level (63.7) is closer to June 2008's Trough (49.2) than to January 2007's Peak (87.6). Some analysts are presenting the case for a double dip recession but, once again, the evidence is not conclusive.

The housing market forecasts indicate that after the housing market reached its 2011 annual peak in June and July, the housing markets will slow down over the next three months.

The sales forecast reveal that the housing sales volume will continue to follow the seasonal pattern to slow down for the next three months, with rates in the range of -13% to -1% for Illinois and -13% to 0% for the Chicago PMSA. However, when comparing the housing market in 2011 with 2010, the sales volume from August to October of 2011 is expected to surpass the same period of 2010 by 9% for Illinois and 13% for the Chicago PMSA.

The monthly housing prices for both Illinois and the Chicago PMSA have been increasing for five months in a row now (March to July). The sales prices from August to October of 2011 are expected to be below the same period in 2010 by 1-4% for Illinois and 3-9% for the Chicago PMSA.

“The market, like the economy, continues to struggle even though interest rates and prices would appear to suggest favorable conditions for housing purchases. It would seem that until the economy signals a clear rebound – with sustained employment growth of the order of 200,000 jobs per month – can we expect to see a sustained uptick in housing sales and some modest recovery in prices”

– Dr. Geoffrey J.D. Hewings, Director, University of Illinois REAL

Housing Market Forecast – Sales

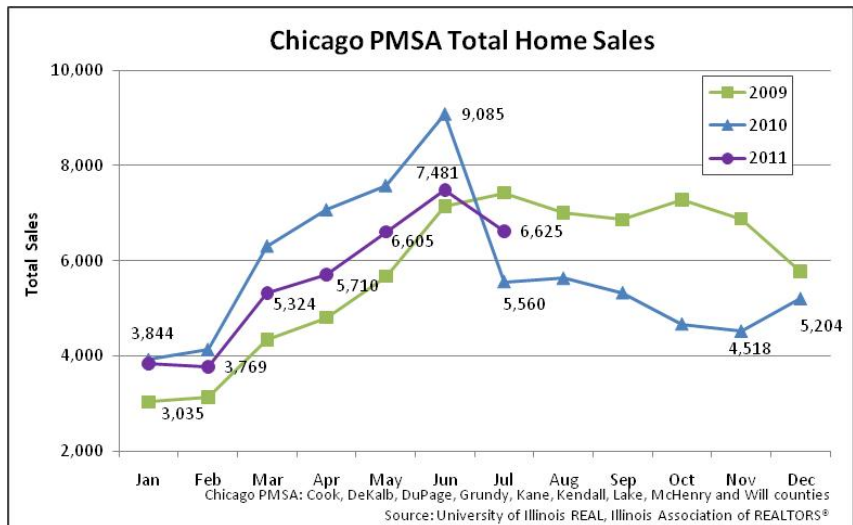
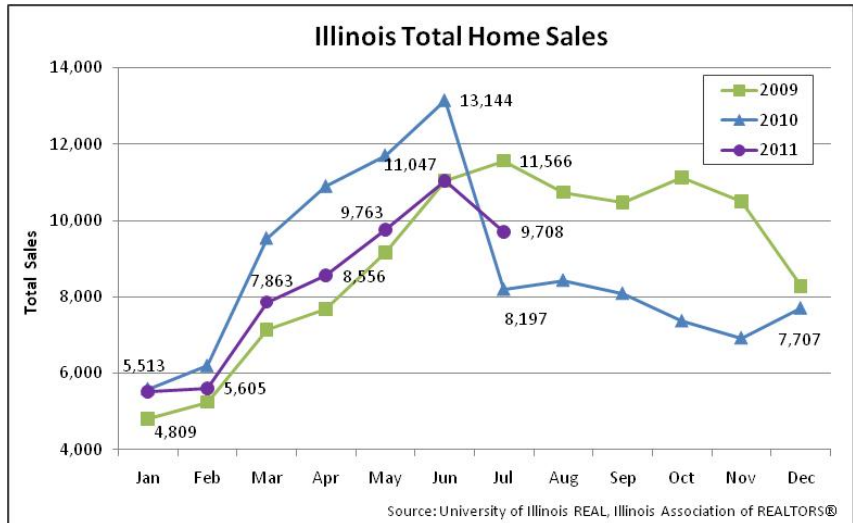
In July, Illinois and the Chicago PMSA housing sales and housing prices were increasing as expected for this time of the year.

In Illinois, 9,708 houses were sold, down 12.1% from last month but up 18.4% from last July.

The comparable figures for the Chicago PMSA were 6,625 houses sold in July 2011, down 11.4% from June 2011 although up 19.2% from July last year.

Forecasts for the next three months (August, September, and October 2011) for Illinois and the Chicago PMSA suggest that the 2011 housing market along with the weather will start to cool down after the number of sales reached its usual annual peak in June, with prices peaking in July.

The good news is that positive year-to-year changes in the next three months are anticipated: 4-15% sales increase in Illinois, and 8-18% sales increase in the Chicago PMSA.



**Data for the Chicagoland Primary Metropolitan Statistical Area (PMSA) includes Cook, DeKalb, DuPage, Grundy, Kane, Kendall, Lake, McHenry and Will counties.*

The forecast over the next three months indicates good news for the total number of sales, which will be positive year-over-year in August, September and October in Illinois and the Chicago PMSA region.

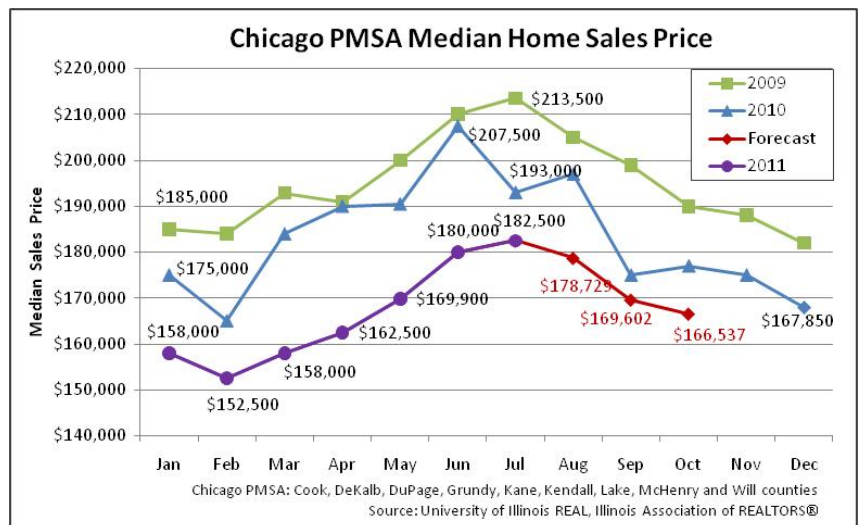
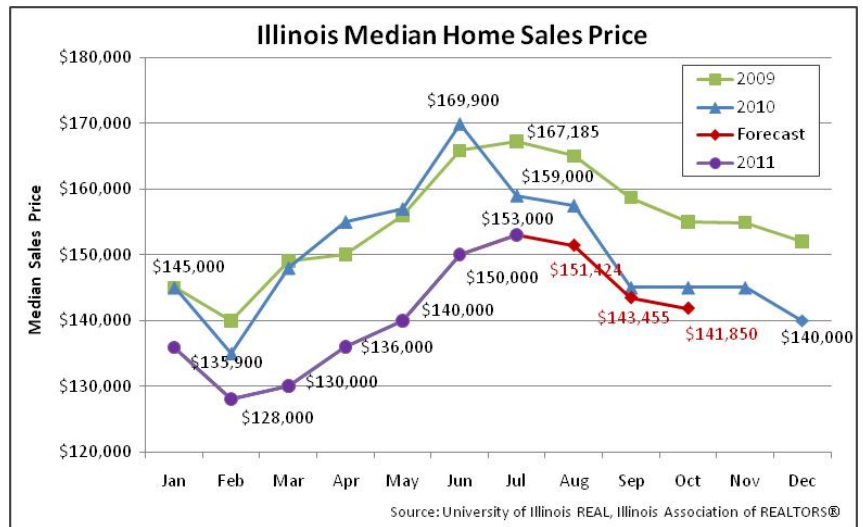
Housing Market Forecast – Median Price

The monthly housing prices for both Illinois and Chicago have been increasing for five months in a row now (March to July).

The price forecast shows that the sales price will decrease after reaching the peak in July 2011 for both Illinois and Chicago.

From August to October, the year-to-year median prices are expected to decline 1-4% for Illinois and 3-9% for the Chicago PMSA.

Median prices by October, 2011, (October 2010 in parentheses) are forecast to be \$141,850 (\$145,000) in Illinois and \$166,537 (\$177,000) in Chicago.



The Economy

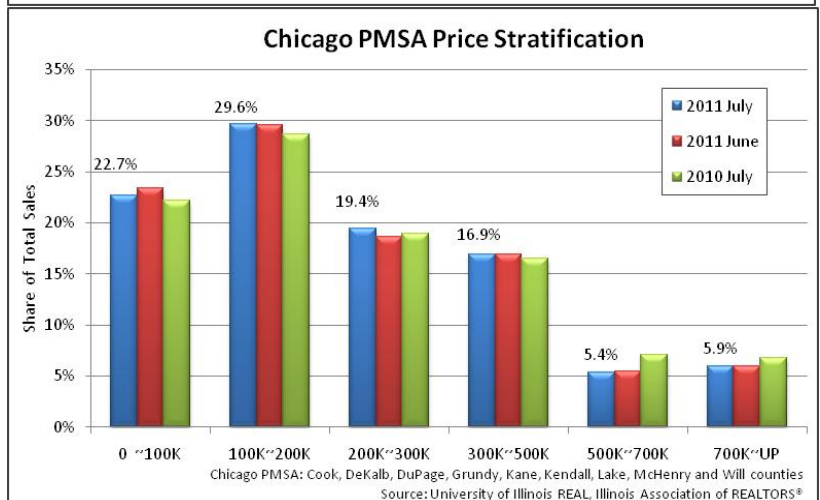
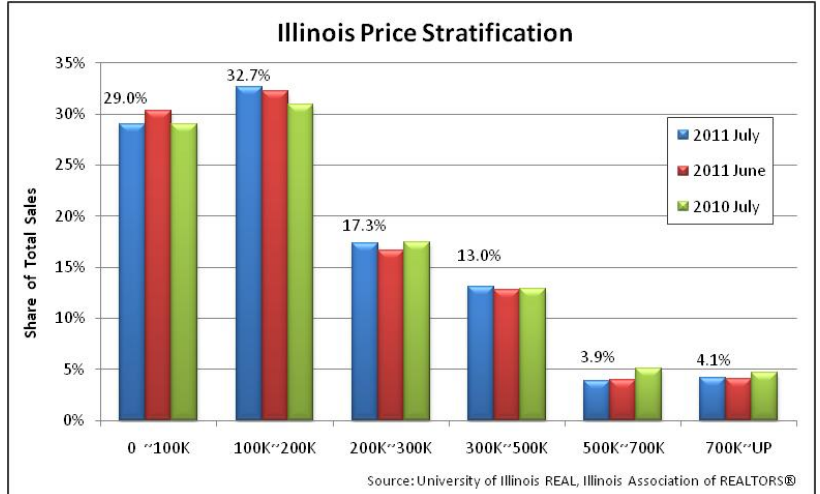
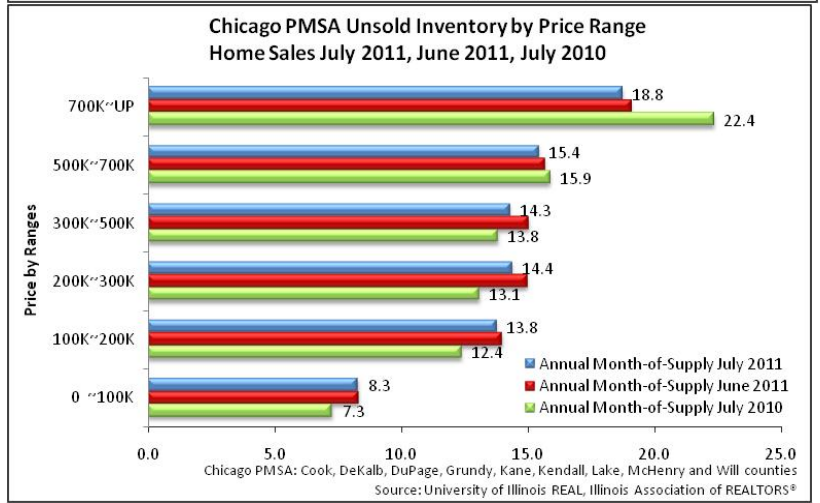
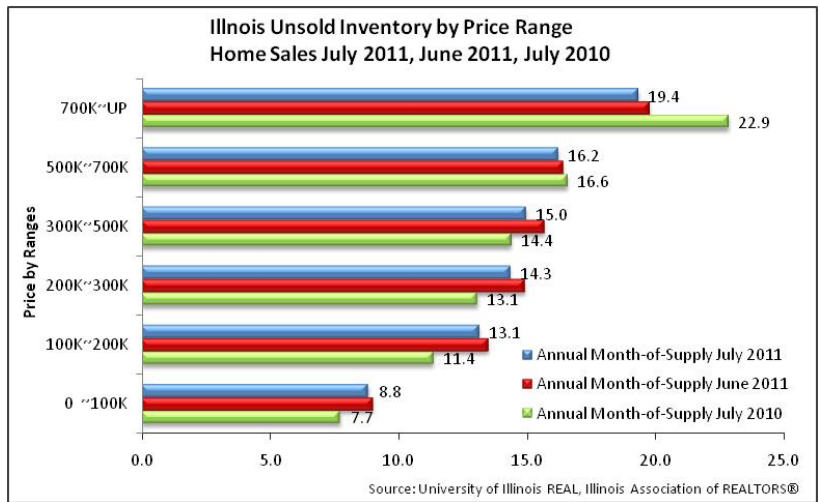
- According to the U.S. Bureau of Labor Statistic (BLS), the nonfarm payroll employment rose by 117,000 in July, following little growth over the prior two months. Government employment continued to shed jobs, while job gains occurred in health care, retail trade, manufacturing, and mining. The unemployment rate was little changed at 9.1 percent. Since April, the unemployment rate has not shown any definitive movement.
- Illinois shed 7,200 jobs in June 2011 at a rate of -0.13%, compared with a revised 4,900 job gain in May 2011.
- Since January 2010, Illinois employment growth resumed. Construction, Manufacturing, Trade, Transportation & Utilities, Professional & Business services, Leisure Hospitality and Other services have recovered 4.81%, 15.52%, 25.08%, 39.39%, 52.19%, 8.47% respectively of the jobs lost during the recession. However, Information and Financial activities continued to lose jobs leading to negative recovery rates, -62.73% and -28.75%.
- The shadow unemployment rates for Illinois, RMW and the Nation were 11.9%, 13.6% and 12.7%, compared to official unemployment rates of 9.2%, 8.7% and 9.2%. After 15 consecutive months of decline, Illinois unemployment rate increased for the second time by 0.3% from 8.9% in last month.
- The Chicago Business Activity Index (CBAI) was 90.5 in June, a decrease from 94.2 in May. The drop of the index in June could be attributed mainly to the sluggishness in national economic activity and the decrease of nonfarm employment in the Chicago region.

Comparing July to June, the housing inventories decreased -1.0% for Illinois and decreased -0.4% for Chicago.

In July, Illinois had 85,026 houses listed in the market, and the housing inventories will take 10.6 months to sell according to the current annual sales rate (down from 10.9 a month ago).

In July, 56,626 houses are listed in the Chicago PMSA, and it will take 10.5 months to sale (slightly down from 10.7 months in June). A year ago, the inventories were 11.6 months of sales for Illinois and 12.6 months for the Chicago PMSA.

Consumers entering the housing market have clearly a preference for modestly prices properties in Illinois.



Interest Rates July 2011

The monthly average commitment rate for a 30-year, fixed-rate mortgage for the North Central region was 4.59 percent in July 2011, up from 4.53 percent during the previous month, according to the Federal Home Loan Mortgage Corporation.

Last year in July it averaged 4.58 percent.

*Freddie Mac North Central region: OH, IN, IL, MI, WI, MN, IA, ND, SD

Longer-Term Outlook

- The Thomson Reuters/ University of Michigan's July reading on the overall index was 63.7, down from 71.5 in June and last July's 67.8. The July loss was especially sharp in the Expectations Index, a component of the Index of Leading Economic Indicators. Although inflation expectations fell in July, prospects for economic growth were much more negative. The negative effect from the federal debt debate could fade away after July. However, the underlying issue of aligning spending and taxes is unlikely to be resolved anytime soon.
- The forecast for Illinois employment over the next 12 months is in the +48,500 to +88,500 range; last month, the forecast was +45,000 to +106,000.

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 professor of Economics, Geography and Regional Science. 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.

Data is supplied by sales and price information is generated from a survey of Multiple Listing Service sales reported by 33 participating Illinois REALTOR® local boards and associations including Midwest Real Estate Data LLC data as of August 7 reported for the period July 1 through July 31, 2011.

The Chicagoland PMSA, as defined by the U.S. Census Bureau, includes the counties of Cook, DeKalb, DuPage, Grundy, Kane, Kendall, Lake, McHenry and Will.

Learn more about REAL at www.real.illinois.edu/.