

Housing Price Forecasts

Illinois and Chicago PMSA, June 2012

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The Housing Market

In Illinois, 11,984 houses were sold this May, 20.0% more than last month and 22.1% more than a year ago. The comparable figures for the Chicago PMSA were 8,276 houses sold in May 2012, 21.5% more than last month and 25.3% more than last May. This is the best monthly sales figures for both Illinois and Chicago PMSA after the expiration of the home buyer tax credit in the first half of 2010. Median prices in May 2012 were \$145,000 in Illinois (3.6% increase from last May) and \$170,000 in Chicago PMSA (0.1% more than last April).

The pending home sales index is a forward-looking indicator based on contract signings. This May, the pending home sales indices reached another historical high for both Illinois and Chicago. Many factors are influencing consumers' decision to buy a house. Historical low mortgage rates are one of the key factors: rates on the 30-year mortgage have been below 4% since early December and Freddie Mac reported on June 7th the average rate on the 30-year mortgage rate dropped to 3.67% which is the lowest level since the long-term mortgages began in the 1950s.

The historical low mortgage rates are associated with the yield on the 10-year U.S. Treasury note. Investors are unsure how the Europe will solve its debt crisis and the investors are buying more Treasury notes, which are considered safe investments. As demand for Treasury note increase, the yield falls along with the mortgage rates.

The biggest uncertainty for the housing market recovery in the second half of 2012 is jobs. The Bureau of Labor Statistic (BLS) downward revised March and April employment estimates by 49,000 jobs, and reported only a 69,000 jobs gain in May. The national economy only added 289,000 jobs from March to May, much less than 757,000 jobs added from last December to February. The latest weak job numbers in combination with the 642,000 new people who entered the labor force, resulted in the unemployment rate increasing by a tenth to 8.2%.

Different market forces are working in shaping the economy and the housing market. Low gas price and low mortgage rates are good to the economy and the housing market recovery. However, the low job creation rates are hurting consumers' confidence. Overall, according to Consumer Sentiment Survey chief economist Richard Curtin, the consumer confidence will remain "largely unchanged until after the November election and decisions about tax policy are made".

The housing price forecast for Illinois and Chicago PMSA shows that the year-to-year median prices are expected to increase. Median prices by August, 2012, (August 2011 in parentheses) are forecast to be \$150,450 (\$148,000) in Illinois and \$180,742 (\$176,750) in the Chicago PMSA. The forecasted total sales from June to August is 4-9% higher than the total sales from March to May for both Illinois and Chicago PMSA, and it is 4-11% higher than the total sales from June to August last year for both Illinois and Chicago PMSA.

“For the first time since the recession began, median house prices are increasing on an annual basis and are forecast to continue this trend through the end of the summer,” noted Geoffrey Hewings, Director of the Regional Economics Applications Laboratory of the University of Illinois. “The weaker than expected job figures for the last few months appear not have affected the housing market; inventories are down, sales volumes are up and the pending sales index is at its highest point since 2008.”

The Housing Market – Current Condition

- In Illinois, 11,984 houses were sold this May, 20.0% more than last month and 22.1% more than a year ago. The comparable figures for the Chicago PMSA were 8,276 houses sold in May 2012, 21.5% more than last month and 25.3% more than last May. Median prices in May 2012 were \$145,000 in Illinois (3.6% increase from last May) and \$170,000 in Chicago PMSA (0.1% more than last April). (Source: for Illinois and Chicago PMSA, total home sales and home sales price figures)
- In April, at the current annual sales rate, Illinois had enough housing inventory for 8.8 months (down from 12.5 a year ago). In Chicago PMSA, the comparable figure was 8.5 months (down from 13.0 a year ago). The months' supply figures in May are significantly lower for both Illinois and Chicago PMSA for all price ranges compare to a year ago. The decreasing months' supply figures result from both low housing inventory levels and high sales rate. Houses that are priced for less than \$100,000 will only take about 6-7 months to sell in both Illinois and the Chicago PMSA. At the other end of the market, houses that are priced at more than \$700,000 will take about 15-16 months to sell in these two markets. (Source: for Illinois and Chicago PMSA, Unsold Inventory by Price Range figures)
- Comparing May to April, slightly less houses were sold in the lowest price range (less than \$100,000) and more houses were sold in higher price ranges (more than \$300,000). In Illinois, 34.3% of the sales this May were less than \$100,000, while 17.1% of the sales were more than \$300,000. In the Chicago PMSA, 28.3% of the sales were less than \$100,000, while 23.0 % of the sales were more than \$300,000. (For Illinois and Chicago PMSA price stratification figures)
- The other signal of housing market recovery is that it takes less time to sell a house. In both Illinois and Chicago PMSA, the average time on the market figures were lower than last month in most all cases except the houses sold over \$700,000. (For Illinois and Chicago PMSA average time on the market figures)

The Housing Market – Forecast and Future Condition

- The price forecast shows that the year-to-year median prices are expected to increase for both Illinois and Chicago PMSA. Median prices by August, 2012, (August 2011 in parentheses) are forecast to be \$150,450 (\$148,000) in Illinois and \$180,742 (\$176,750) in the Chicago PMSA.
- The sales forecast for the June, July, and August of 2012 suggests that the month over month sales volumes for Illinois and Chicago PMSA will be increasing in August but slightly decreasing for June and July. The forecasted total sales from June to August is 4-9% higher than the total sales from March to May for both Illinois and Chicago PMSA, and it is 4-11% higher than the total sales from June to August last year for both Illinois and Chicago PMSA.

- The pending home sales index is a forward-looking indicator based on contract signings. This May, pending home sales indices reached another highest levels for both Illinois (183.5) and Chicago (193.3) since the beginning of this index in October 2008. The historical high pending home sales indices indicates that the home sales level will be high for the next three months. The base index level (100) is the average pending home sales from October 2008 to September 2011. (For Illinois and Chicago PMSA Pending Home Sales Index figure)
- In May 2012, 8,209 houses were sent to the court for the foreclosure process in the Chicago PMSA (64.5% up from last month and 40.7% up from last year). 5,491 houses recorded have foreclosure sales action (21.1% up from last month and 122.1% up from last year). At current annual foreclosure sales, it will take 2.5 years to clear the entire active inventory and another 1.4 years to clear the limbo inventory. (For Chicago PMSA Foreclosure Activities figure)

The Economy

- According to the Bureau of Labor Statistic (BLS) Employment Situation report for May, the nonfarm payrolls increased by 69,000 with private sectors added 82,000 jobs and government shed 13,000 jobs. At the same time, BLS downward revised March and April employment estimates by 49,000 jobs. The weak job numbers in combine with 642,000 new people enter the labor force, the unemployment rate raise by a tenth to 8.2%.
- According to Illinois Department of Employment Security (IDES), in April 2012, the state of Illinois added 100 jobs, comparing to a revised 9,800 job increase in March. The Illinois unemployment rate fell to 8.7%. Illinois job performance was better than the nation in March, but was worse than the nation in April.
- Illinois has added +140,700 private sector jobs since January 2010 when job growth returned to Illinois after nearly two years of monthly losses. Since January 2010, leading growth sectors are Professional and Business Services (+77,100); Manufacturing (+36,700); and Educational and Health Services (+27,200).
- In April 2012, the one-year ahead forecast for IL total non-farm job is in a range of (10,700~64,500), similar from the previous range of (15,500 ~ 72,400). Professional and business service sector are expected to gain 5.67% jobs in the next 12 months, while construction sector are forecasted to loss -5.08% jobs in the year ahead.

Longer-term Outlook

- The Conference Board *Consumer Confidence Index*® reported a decline in consumer confidence in May, while the University of Michigan Consumer Sentiment Survey stated that the consumer confidence increased from April to May. Consumers surveyed in these two reports had different prospective about short run job outlook. However, according to Consumer Sentiment Survey chief economist Richard Curtin, the consumer confidence will “largely unchanged until after the November election and decisions about tax policy are made”.

Forecast for May 2012 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES (Illinois and Chicago)					
	Annual			Monthly	
	Illinois	Chicago		Illinois	Chicago
Mar-12	21.8%	23.8%		35.9%	34.9%
Apr-12	16.0%	19.3%		3.7%	3.4%
May-12	22.1%	25.3%		20.0%	21.5%
3 Month Avg	20.0%	22.9%		41.1%	40.6%
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES (Illinois and Chicago)					
	Annual			Monthly	
	Illinois	Chicago		Illinois	Chicago
Jun-12	2.7% 3.7%	6.0% 8.1%		-3.7% -5.0%	-2.8% -3.8%
Jul-12	6.7% 9.1%	12.6% 17.0%		-6.2% -8.4%	-4.3% -5.8%
Aug-12	1.2% 1.7%	6.4% 8.7%		2.0% 2.7%	1.4% 1.9%
3 Month Avg	3.5% 4.7%	8.2% 11.0%		3.7% 5.0%	6.5% 8.8%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE (Illinois and Chicago)					
	Illinois	Chicago		Illinois	Chicago
Jun-12	\$156,186	\$183,220	Jun-11	\$150,000	\$180,000
Jul-12	\$152,444	\$182,689	Jul-11	\$150,575	\$182,700
Aug-12	\$150,450	\$180,742	Aug-11	\$148,000	\$176,750
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE (Illinois and Chicago)					
	Illinois	Chicago		Illinois	Chicago
Jun-12	4.1%	1.8%	Jun-11	-11.7%	-13.3%
Jul-12	1.2%	0.0%	Jul-11	-5.3%	-5.3%
Aug-12	1.7%	2.3%	Aug-11	-6.0%	-10.3%











