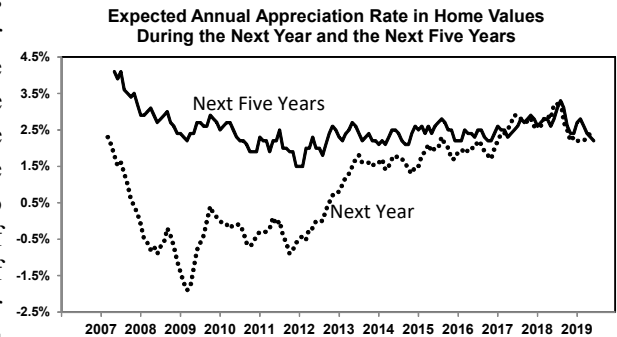


Subject: July 2019 update on housing market.

July 12, 2019

From: Richard Curtin, Director

The longest economic expansion has been accompanied by the weakest cyclical expansion in home sales. New single family home sales have averaged 0.64 million at annual rates in the 2nd quarter of 2019, well below the prior peak of 1.3 million in the 3rd quarter of 2005, while existing single family home sales averaged 4.70 million in the 2nd quarter of 2019, well below the prior peak of 6.3 million in the 3rd quarter of 2005. What accounts for the much lower sales rates? While there are a number of factors that have acted to suppress home sales, this note will focus on the anticipated rate of appreciation in home values. The primary finding is that home purchases have shifted from a joint investment/consumption decision to one that is more solely focused on consumption. The University of Michigan's surveys have included questions on the expected rate of appreciation in home values only since 2007, which was two years after the peak in home sales. Presumably, the decline in appreciation rates would have been much steeper than shown in the chart if the data had reached back to the prior peaks. The year-ahead appreciation rate fell to much lower levels in 2009, at the depths of the Great Recession, and has slowly recovered to match the levels of the longer-term expected home appreciation rate. Indeed, in the past year or so, both long and short term appreciation rates have been largely identical. Nonetheless, the home appreciation rate has stabilized at levels close to the near and long-term expected inflation rates, meaning that the rate of home appreciation when adjusted for the rate of inflation, that was expected by the same consumers, was essentially zero. In the 2nd quarter of 2019, homeowners anticipated a year-ahead increase of 2.3% and a five-year annual gain of 2.2%, compared with expected inflation rates of 2.7% and 2.4%. Note that it was a year earlier, in the 2nd and 3rd quarters of 2018, that home appreciation rates were significantly higher than at present (see the table). To be sure, there were significant variations in expected appreciation rates across regions and the value of their home as well as a significant degree of correlation with past gains.



It is of interest to note the large differences across regions which may be due in part to changes in SALT tax deductions. The appreciation rate for Western homeowners declined by 2.1 percentage points from a year ago (from 5.0% to 2.9%) and by 1.5 points over the next five years. For Northeast home owners, the one-year decline amounted to 1.7 points, and the rate over the next five years fell by 0.8 points. In contrast, for homeowners in the Midwest and South the year-ahead rate fell by just 0.2 points and the long term appreciation rate by 0.4 points in the Midwest, and 0.1 points in the South in the past year.

Evaluations of Trends in Home Prices Among Homeowners

(Cases: 2017:Q2 = 1263; 2018:Q2 = 1271; 2019:Q2 = 1318. "Same" and "DK" responses omitted from table.)

	Change in Home Value During Past Year						Expected annual change in value of home . . .														
	Decreased			Increased			During Year Ahead					During Next Five Years									
	Decrease	Increase	Mean	Decrease	Increase	Mean	Decrease	Increase	Mean	Decrease	Increase	Mean	Decrease	Increase	Mean	Decrease	Increase	Mean	Decrease	Increase	Mean
2016:Q2	9%	55%	2.0	8%	46%	2.0	9%	64%	2.3	9%	64%	2.3	9%	64%	2.3	9%	64%	2.3	9%	64%	2.3
2017:Q2	7%	62%	2.9	6%	55%	2.9	9%	68%	2.5	9%	68%	2.5	9%	68%	2.5	9%	68%	2.5	9%	68%	2.5
2018:Q2	6%	64%	3.2	7%	55%	3.2	10%	67%	2.8	10%	67%	2.8	10%	67%	2.8	10%	67%	2.8	10%	67%	2.8
2018:Q3	6%	66%	2.7	8%	54%	2.7	10%	67%	3.1	10%	67%	3.1	10%	67%	3.1	10%	67%	3.1	10%	67%	3.1
2018:Q4	6%	61%	2.3	9%	50%	2.3	10%	64%	2.4	10%	64%	2.4	10%	64%	2.4	10%	64%	2.4	10%	64%	2.4
2019:Q1	6%	59%	2.2	8%	48%	2.2	10%	67%	2.6	10%	67%	2.6	10%	67%	2.6	10%	67%	2.6	10%	67%	2.6
2019:Q2	7%	62%	2.3	7%	52%	2.3	11%	65%	2.2	11%	65%	2.2	11%	65%	2.2	11%	65%	2.2	11%	65%	2.2
Region	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2
West	2	3	5	73	81	76	4	5	7	63	70	58	4.3	5.0	2.9	10	9	13	66	73	66
Midwest	8	4	6	60	59	59	6	7	7	56	46	48	2.7	2.2	2.0	8	12	12	65	60	57
Northeast	8	6	11	55	60	45	9	7	8	43	57	38	1.6	2.9	1.2	8	8	8	66	74	61
South	9	7	6	59	61	62	5	7	7	55	54	56	2.5	2.9	2.7	9	9	10	72	66	70
Home Value	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2
Bottom Third	15	11	10	48	50	52	9	10	10	44	40	45	1.8	2.1	1.6	10	13	15	64	55	56
Middle Third	3	4	4	69	68	69	4	5	3	62	59	55	3.3	3.7	2.9	6	9	10	72	74	71
Top Third	2	2	6	72	76	67	3	4	8	63	68	55	3.6	3.8	2.5	10	8	9	69	71	69
Past Change Home Value	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2	2017 Q2	2018 Q2	2019 Q2
Declined	--	--	--	--	--	--	26	47	34	26	20	23	-0.7	-1.1	-1.3	29	31	36	47	42	29
Unchanged	--	--	--	--	--	--	6	6	8	30	30	28	1.1	1.3	0.9	7	10	11	59	54	55
Increased	--	--	--	--	--	--	3	3	3	72	70	67	4.2	4.4	3.6	7	9	9	75	75	74