

FEBRUARY 2017- HOUSING STATS TALKING POINTS

FEBRUARY HOME SALES SLIP AND PRICES RISE ON TIGHT INVENTORIES

Overview

- Wisconsin's existing home sales slipped in February even as prices continued to grow at well above the rate of inflation
- Home sales fell 2.6 percent in February 2017 relative to February 2016
- The median price rose 6.1 percent to \$154,900 compared to February 2016
- By contrast, the annual inflation rate stood at 2.5 percent in January, the most recent month available.

Sales Data

- February is not a month where we see a lot of home sales in Wisconsin, with only about 5.6% of annual sales taking place in a typical February
- However, we would have expected stronger sales given the strength of the economy and relatively low mortgage rates
 - The statewide unemployment rate fell to 3.9 percent in January, which puts it at the lowest level since December of 2000.
 - Mortgage rates have been below 4.2 percent in both January and February of 2017
- Compared to February 2016, sales were down in five of the six regions of the state. Only the Northeast region saw its sales increase (+6.1 percent). The other regions fell anywhere from 2.6 percent to 11.4 percent.
- Much of the blame for lower sales is due to tight inventories in the state.
 - Inventories naturally fall in the winter months, but this is the tightest February inventories seen since WRA began tracking available supply in 2009.
 - On a seasonally adjusted basis, Jan and Feb have been tightest inventories on record.

Price Data

The strong demand and limited supply has put significant price pressure on the existing home market

- Feb. 2017 median prices were up 6.1 percent compared to Feb. 2016.
- This has been a continuation of a recent trend
 - Median prices have been rising at annual rate of more than 6 percent since Sept. 2016.
- The market has shifted from a buyer's market just two years ago to a strong seller's market.
 - There were 7.5 mos of supply in Feb. 2015, and only 4.5 mos of supply in Feb. 2017.
 - Inventory problem even tighter in 26 metro counties – which has just 3.4 mos of supply.

Affordability

- Remarkably, housing remains quite affordable, but affordability is declining
 - The Wisconsin Housing Affordability Index measures that fraction of the median priced home that a credit worthy borrower with median family income can qualify to buy, given a 20 percent down payment and the remaining balance financed with 30-year fixed-rate mortgage.
 - The index stood at 233 in February, down from 251 in February of last year, which is a 7.2 percent decline in affordability.
- Affordability dropped due to increases in mortgage rates
 - Since July, mortgage rates have moved up nearly three quarters of a percent to 4.17 percent in February.
 - The reason mortgage rates have been increasing is the Federal Reserve is raising short term interest rates because of inflationary concerns.
 - Inflation was relatively stable over the first half of 2016, but it has definitely accelerated since that time.
 - The annual pace of inflation has more than doubled from around 1 percent for the first seven months of the year to an annual rate of 2.5 percent in Jan. 2017.

- The Fed will continue to raise short term rates
 - It has raised short term rates by a half percent over the last 4 months and is likely to increase it by at least another half percent by the end of 2017
 - This will almost certainly push mortgage rates up this year

Closing

- We've been lucky to have low mortgage rates and modest improvements in income to help offset the steadily rising prices over the last couple of years.
- However, affordability will continue to decline as the cost of credit increases.
- The key to success for buyers in this tight market is to work with an experienced REALTOR® who knows the neighborhood
- Buyers also need to be prepared to move quickly when the right opportunity presents itself