

Economic Indicator — January 25, 2022

Home Price Appreciation Moderates Ever So Slightly in November

Summary

Home Prices Are Still Rising Rapidly

The S&P CoreLogic Case-Shiller National Home Price Index (HPI) rose 1.1% in November, continuing its recent string of slightly moderating monthly gains. The year-over-year change in the National HPI slowed to 18.8%, from 19.0% the prior month. Housing was among the first areas to see a surge in prices as the economy reopened. Home prices have been pulled higher by a dramatic shift in the demand for housing and the more active role investors are playing in single-family housing markets. Markets where investors have been particularly active, such as Phoenix, Tampa, Miami, Dallas, Atlanta and Charlotte, have consistently posted some of the largest increases in home prices. These markets are also seeing strong economic growth and rapid in-migration from other parts of the country, which means home buyers are clashing with investors to a greater degree than in other markets.

Home prices are rising faster in rapidly growing major metropolitan areas than they are nationwide. The fastest growth over the past year has been in Phoenix, Tampa, Miami, Las Vegas and Dallas. These cities are attracting new residents from higher cost areas, such as San Francisco, Los Angeles, New York, Boston and Chicago. While Los Angeles and San Francisco are still seeing home prices rise in line with the nation, many other metros in the Northeast and Midwest have seen home prices rise more modestly, which is one reason why the 10-City Composite is now moderating more than the 20-City Composite.

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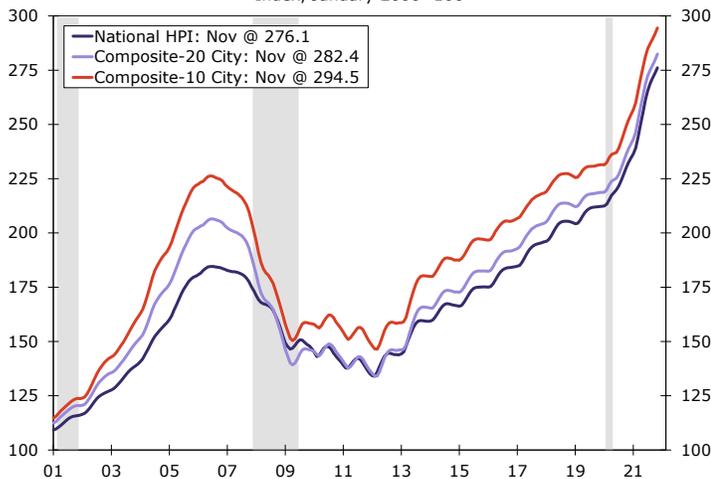
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S&P CoreLogic Case-Shiller Home Price Index

Index, January 2000=100



Source: S&P CoreLogic and Wells Fargo Economics

Home Price Appreciation Continues to Moderate

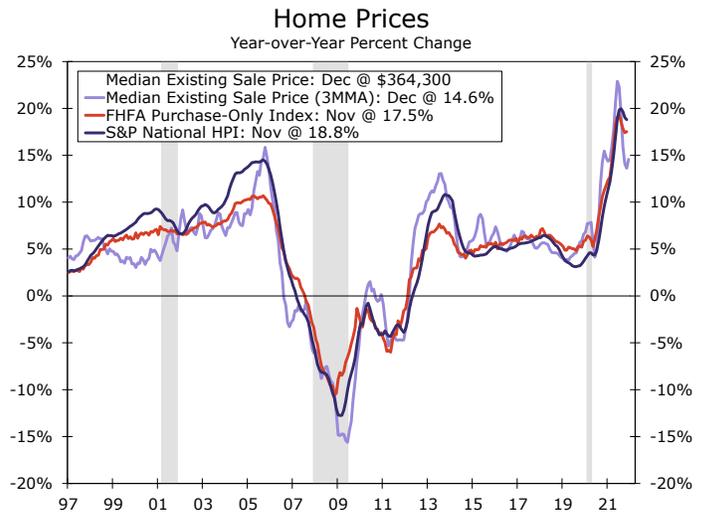
The S&P CoreLogic Case-Shiller National Home Price Index (HPI) rose 1.1% in November, which ends a string of four straight moderating monthly increases. Home price appreciation continued to moderate on a year-over-year basis, however, with the National HPI now up 18.8% from last November versus a likely peak of 20% in August. Year-over-year prices moderated in nine of the Case-Shiller's 20-City Composite markets. Prices are moderating the most in major markets in the Northeast, Mid-Atlantic and Midwest, where economic growth has been more moderate and population growth has been notably slower.

Year-over-year changes in most other price measures are also moderating. The FHFA Purchase-Only index also rose 1.1% in November, matching the prior month's increase and continuing its recent moderating trend. The FHFA Purchase-Only index is now up 17.5% over the year, down from its recent peak of 19.3% in July. Home prices have moderated somewhat more substantially in the National Association of Realtors (NAR) data, which show prices now up 14.6% over the past year, on a three-month moving average basis, down from a recent peak of 22.9% hit in June 2021.

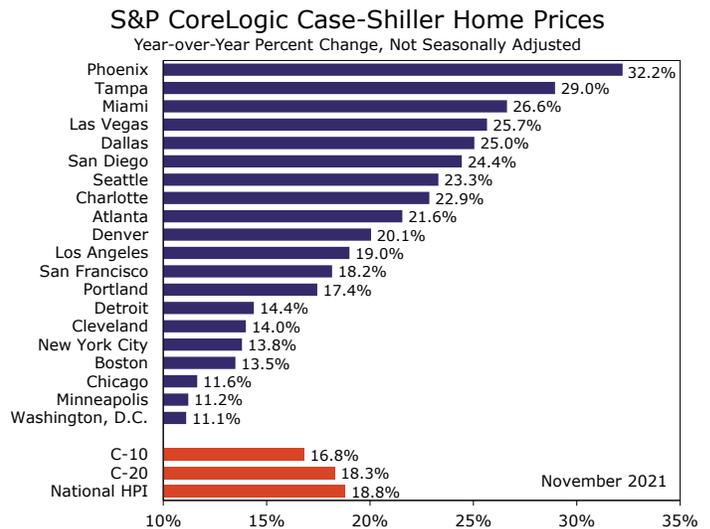
We expect home price measures to moderate this year, as higher home prices bring out more sellers and risks of contracting serious illness from COVID subside further. Changes in the NAR's measure of median home prices tend to lead the Case-Shiller and FHFA price measures.

Among the 20 cities tracked by the index, Phoenix, Tampa and Miami saw the largest year-over-year price gains. This makes sense given the affordability migration that we have seen in recent years. Metros in the South and Sun Belt have experienced an accelerated inflow of residents and businesses seeking lower costs of living, lower taxes and better quality of life. Arizona, Florida, Nevada and Texas have been among the greatest recipients of these inflows, as have Charlotte, Atlanta and Nashville, the latter of which is not included in the Case-Shiller 20-City Composite but has seen rapid home price appreciation.

The limited supply of homes available for sale in these areas has sent home prices to record levels. Notably, Phoenix has topped the list of price increases 30 months in a row. Tampa and Miami have been two of the nation's hottest economies over the past year, with an increasing number of tech companies and asset managers relocating operations to these areas. New York City, Boston, Chicago, Minneapolis and Washington D.C are on the other side of the spectrum, with the out-migration of residents taking a greater toll on their economies because immigration from overseas and net natural increase (births minus deaths) have slowed to a crawl or less.



Source: NAR, FHFA, S&P CoreLogic and Wells Fargo Economics

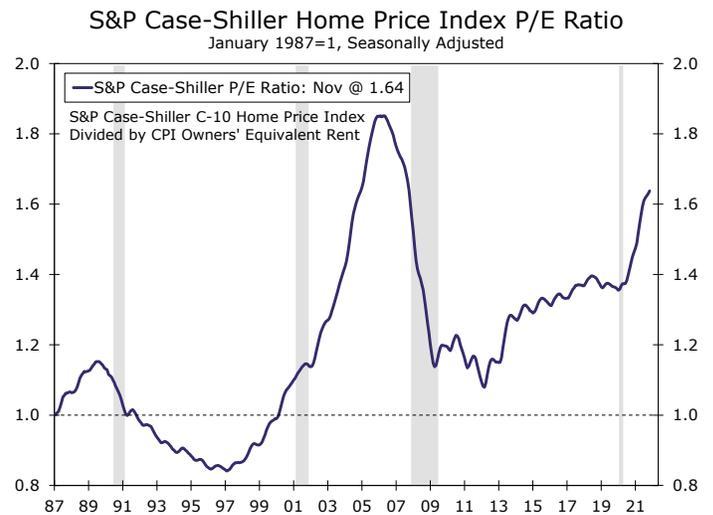


Source: S&P CoreLogic and Wells Fargo Economics

Home Prices Are Looking Lofty

This past year's rapid run-up in home prices has given rise to fears of another housing bubble. One measure that accurately captured the extent to which home prices became overvalued during the housing boom that followed the 9/11 recession was the ratio of the Case-Shiller 10-City Composite to the Owner's Equivalent Rent component of the Consumer Price Index (CPI). This ratio approximates a price-earnings ratio for the housing market. The P/E ratio topped out at 1.852 in February 2006, and then plummeted over the next two and half years. The ratio never returned to the low levels that persisted in the mid-1990s and was gradually trending higher during the years leading up to the pandemic.

The current housing market shares some similarities with the early part of the housing bubble. Both housing booms followed relatively brief recessions. Moreover, both 9/11 and the COVID pandemic were shock events that engendered a nesting instinct, boosting demand for homeownership. Investors also play an important role in both, with the housing bubble driven more by individual investors that took advantage of unusually easy mortgage underwriting. Today, investor purchases are more prevalent among larger investment pools, including institutions, that tap equity and debt markets, and mortgage borrowing is concentrated among borrowers with high credit scores. Today's investors have stronger balance sheets and more staying power. Moreover, institutional investors appear to be driving rents higher, which means the E in the home price index P/E ratio should rise faster in coming years, as home prices hopefully moderate. The net result may be a housing market where homes are overpriced for would-be homeowners but not for investors.



Source: S&P CoreLogic, U.S. Department of Labor and Wells Fargo Economics

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