

Housing and the Economy: Impacts, Forecasts and Current Research 2019 Update

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Outline

- 2018 Highlights
- Update on the economy
- Housing market and forecasts
- On-going Research:
 - Inventory
 - Fiscal Challenges for Illinois
 - Migration
 - Millennials and Rent
- Summary Comments

2018 Highlights

- As with 2017, in the last twelve months:
 - median prices maintained **positive annual growth** in each month while
 - sales experienced a **more mixed trend**.
 - the median sale prices in both Illinois and the Chicago PMSA experienced higher annual growth rate than forecasted in the first half of 2018, while
 - those in the second half year are not significantly different from the forecasts.

2018 Highlights

- Monthly growth varied 0.5 to 8.8% in Illinois; 1.2% to 8.2% in Chicago
- **Sixth consecutive year (since 2013) of positive annual growth for each month**
- The annual growth rates of sales were between -9.1% and 3.9% for Illinois and between -10.9% and 3.9% for the Chicago PMSA.
- During the last few months, both Illinois and Chicago experienced continuous negative **annual** growth rates in sales

2018 Highlights (continued)

- Examined mix in change of sales in the Chicago PMSA
- change of sales in the Chicago PMSA was characterized by overall **negative growth** in both **regular sales** and **foreclosed sales**.
- **For the regular sales**, the annual growth rates were between -10.0% and 4.9%
- **For foreclosed sales**, the comparative figures were between -22.9% and -5.6%
- Percentage of foreclosed sales out of total sales continued decreasing to a monthly average of 8.3% in 2018, about one third lower than the monthly average of 14.1% between 2009 and 2017
- **Bottom Line: Foreclosed sales are no longer major force in sales and price setting – except for local neighborhood effects**

2018 Highlights (continued)

- The median sales price in December 2008 has been adjusted to 2018 values to enable calculation of the housing price recovery considering the effects of inflation.

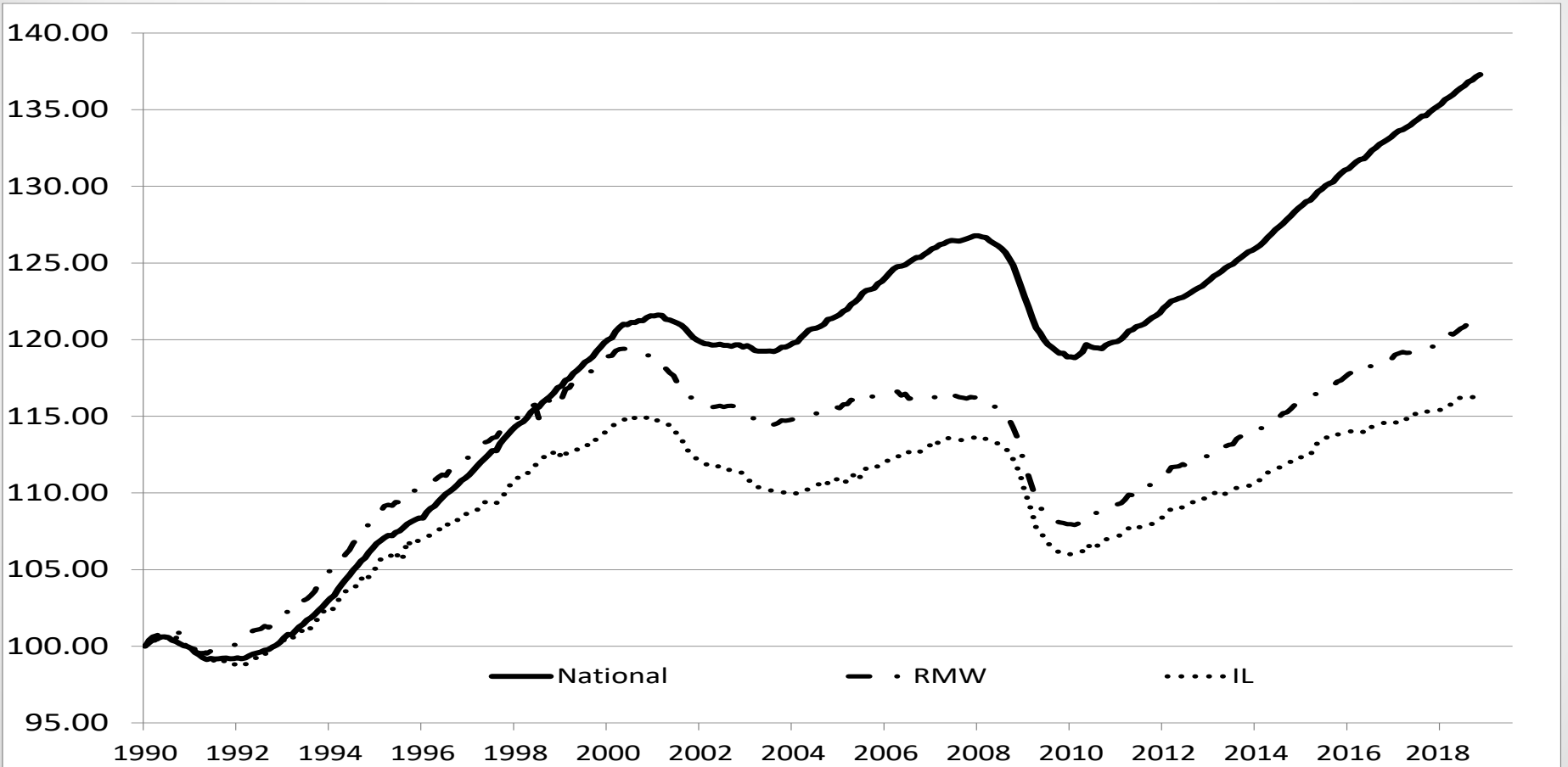
	Illinois		Chicago PMSA	
	[\$2008]	[\$2018]	[\$2008]	[\$2018]
December 2008 Median Price	\$150,650	\$175,177	\$180,125	\$209,451
December 2018 Median Price	\$159,497	\$185,500	\$193,497	\$225,000
Price Ratio (December 18/December 08)	Adjusted	1.06	Adjusted	1.07
	Unadjusted	1.23	Unadjusted	1.25

- While price increases have not been as large as many other metro areas, there are two important advantages:
 - Enhances affordability (although there is significant decreasing supply at the lower end of the price ranges)**
 - This feature could be a positive in terms of attraction of new business and employees**

Update on the economy

Illinois job growth continues to lag the nation and the Rest of the Midwest

Total Non-Farm Employment Growth Rate January 1990-December 2018



- Illinois employment growth rate in 2018 less than about half (one third in 2017) of the rate of the US as a whole and at 63% of the rate that of the Rest of the Midwest
- If Illinois had grown at the same rate as its share of US Gross National Product (4.3%), Illinois would have added 105,049 jobs not 82,500 (but this is much better than 2017 job growth of 25,900)

Nov 2018 Positive	Total Non-Farm Employment	Oct 2018– Nov 2018		Last 12 months		Nov 2018
		Growth Rate %	Number of Jobs	Growth Rate %	Number of Jobs	Shadow U.R. **
	Nation	0.1	155,000	1.66	2,443,000	9.04
	RMW*	0.08	16,200	1.42	290,500	9.8
	Illinois	0.1	5,900	0.9	54,600	8.97

State of Illinois Economy

- While Illinois has recovered to prior peak, need to adjust for population growth and changes in labor force participation
- As a result, a further 250,000 jobs for the Illinois economy to recover to the adjusted previous employment peak, Nov-2000
- In the last twelve months, the state has added 82,500 so recovery at this rate would take less than 5 years
- Current forecasts for next year are less optimistic (about 25-35,000 jobs)

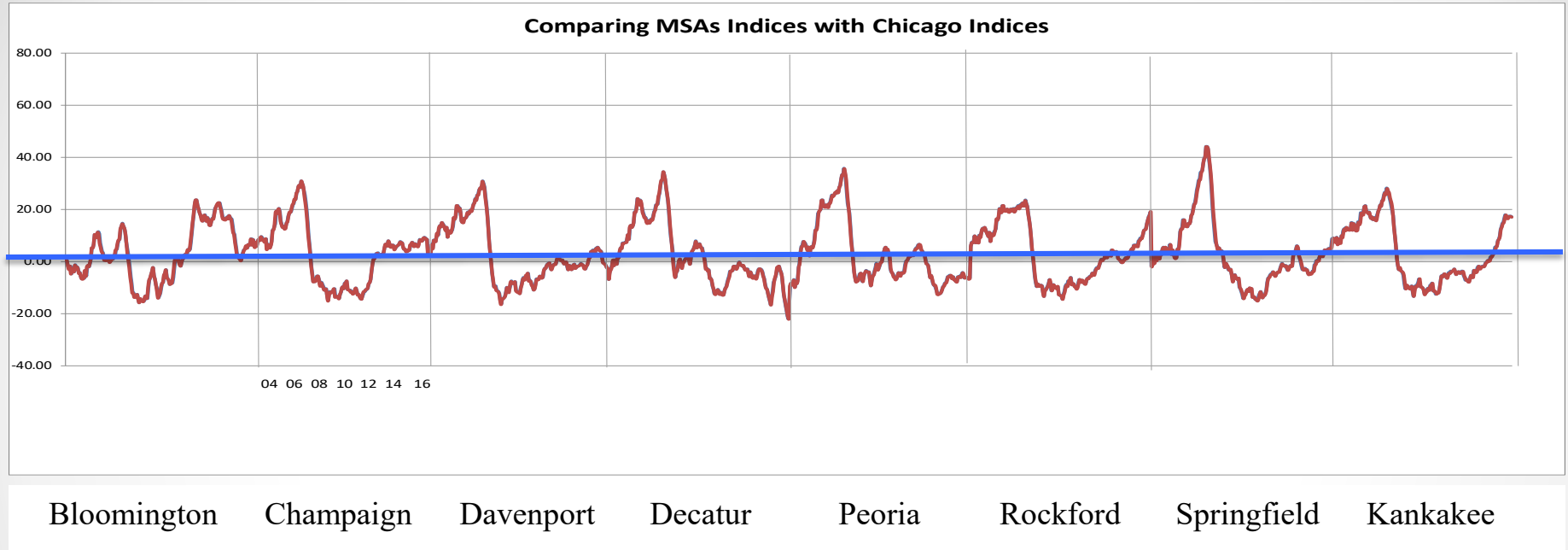
State of the Illinois Economies

	Total non-farm employment	Nov 2018 Number of Jobs	Oct 2018 – Nov 2018		Last 12 months	
			Growth Rate (%)	Number of Jobs	Growth Rate (%)	Number of Jobs
Nov 2018	Nation	149,893,000	0.10	155,000	1.66	2,443,000
	Rest of Midwest (RMW)	20,726,400	0.08	16,200	1.42	290,500
	Illinois	6,136,500	0.10	5,900	0.90	54,600
	Illinois Metro	5,384,300	0.06	3,000	0.92	49,200
	Illinois non-Metro (Rural)	752,200	0.38	2,900	0.72	5,400
	Illinois Chicago (Upstate)	4,211,700	0.07	3,000	0.91	38,100
	Illinois non-Chicago	1,924,800	0.15	2,900	0.86	16,500

- Chicago growth remains higher than the rest of the state
- In 2018 other Metro areas grew more rapidly than in 2017
- Rural areas added jobs at 75% of state rate

Metro Indices Compared with Chicago's Performance

Value above line indicate growth > Chicago



- From early 2007 to early 2009, all MSAs performed better than Chicago.
- However, from Mid-2009 to present, MSAs generally performed less well than Chicago.
- According to the forecast for October 2018, Decatur and Peoria are likely to perform worse over this period than Chicago. All the other MSAs will compare favorably to Chicago.

Metro Area Economic Performance last 12 months

Rank	October 2018	November 2018	Rank	Change
1	Kankakee (5.7%)	Kankakee (4.5%)	1	← (+0)
2	Davenport-Rock Island-Moline (1.99%)	Metro-East (1.22%)	2	↑ (+1)
3	Metro-East (1.43%)	Champaign-Urbana-Rantoul (1.21%)	3	↑ (+2)
4	Decatur (1.34%)	Rockford (1.04%)	4	↑ (+3)
5	Champaign-Urbana-Rantoul (1.13%)	Decatur (0.97%)	5	↓ (-1)
6	Chicago (0.87%)	Chicago (0.91%)	6	← (+0)
7	Rockford (0.72%)	Davenport-Rock Island-Moline (0.88%)	7	↓ (-5)
8	Bloomington-Normal (-0.03%)	Peoria (0.87%)	8	↑ (+1)
9	Peoria (-0.05%)	Bloomington-Normal (0.2%)	9	↓ (-1)
10	Springfield (-0.32%)	Springfield (-0.63%)	10	← (+0)

The State's Economic Challenges

- Will new administration in Springfield finally address state's fiscal challenges?
- Link between economic growth and enhanced state revenue is clear but generating growth is a challenge in a state that has avoided developing a long-term strategy
- Difficult balance between using enhanced state revenue to bolster economy and paying off debt
- Research in REAL has shown that partial solutions to revenue challenges (e.g. 2011 tax increase) have resulted in significantly enhanced net out-migration of skilled workers
- Illinois now dropped to 6th most populous state; net outmigration continues now for 5 years

The State's Economic Challenges: Implications for the Housing Market

- Enhanced growth provides “energy” for the housing market – expansion leads to job growth, enhanced incomes and higher probability of households moving to new homes
- With growth, expectation of increased in-migration flows provide a source of “energy” into the housing market – generating sales when a household leaves and purchases when a new migrant re-locates
- However, if net-migration is negative (i.e. more people leave than come in), then only one part of the market is stimulated
- In-flows will be smaller if job creation lags
- **Firms have enormous choices in serving the Midwest market and taking advantage of Illinois' transportation connections – without having to locate in the state**

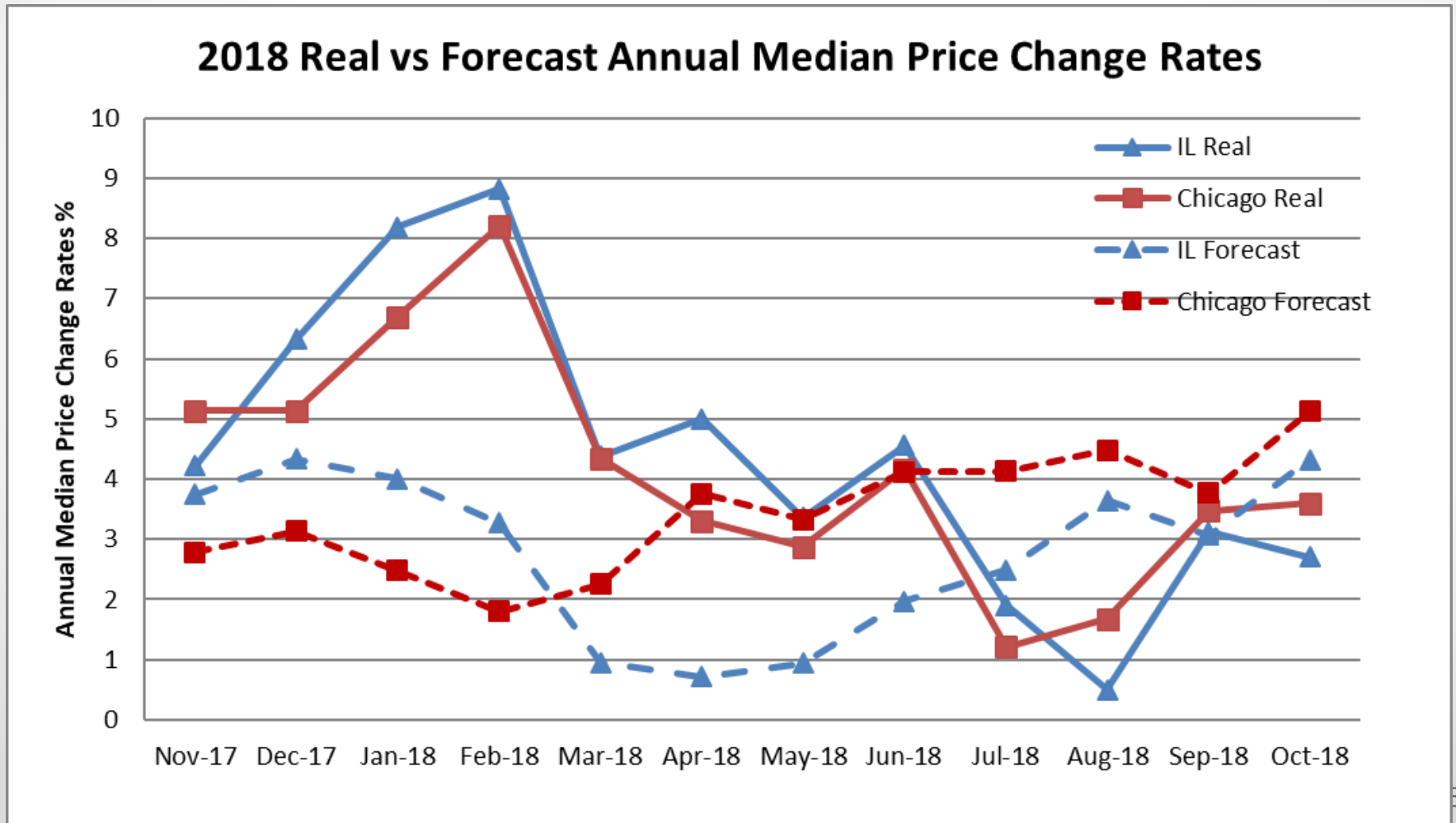
REAL's Research Agenda

- Expanding our fiscal model to address changes in 2017 tax legislation (at the federal level)
- Providing capability to simulate proposed changes at the state level (e.g., graduated income tax; extending sales tax to services)
- Deductability of mortgage interest only affects a relatively small number of home owners
- Growing consensus that the stimulus provided by the 2017 tax cut is diminishing
- Three major challenges for housing market:
 - **Impact of rent increases**
 - **Behavior of Millennials**
 - **Housing inventory**

Housing Market

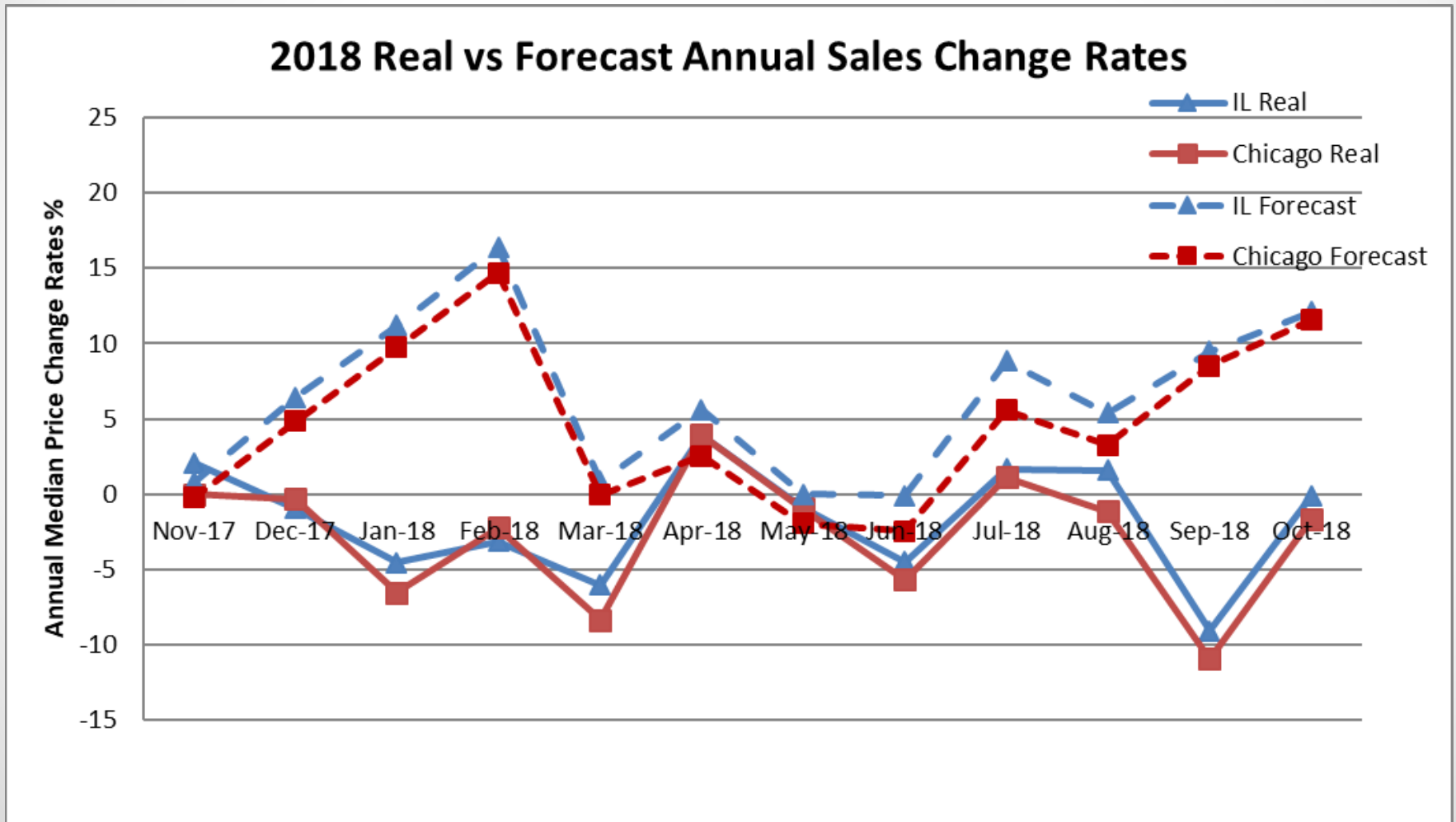
How Good were our Forecasts?

- Early in the year, actual Illinois and Chicago price changes higher than forecast
- Reverse later in the year but differences between real and forecast were smaller

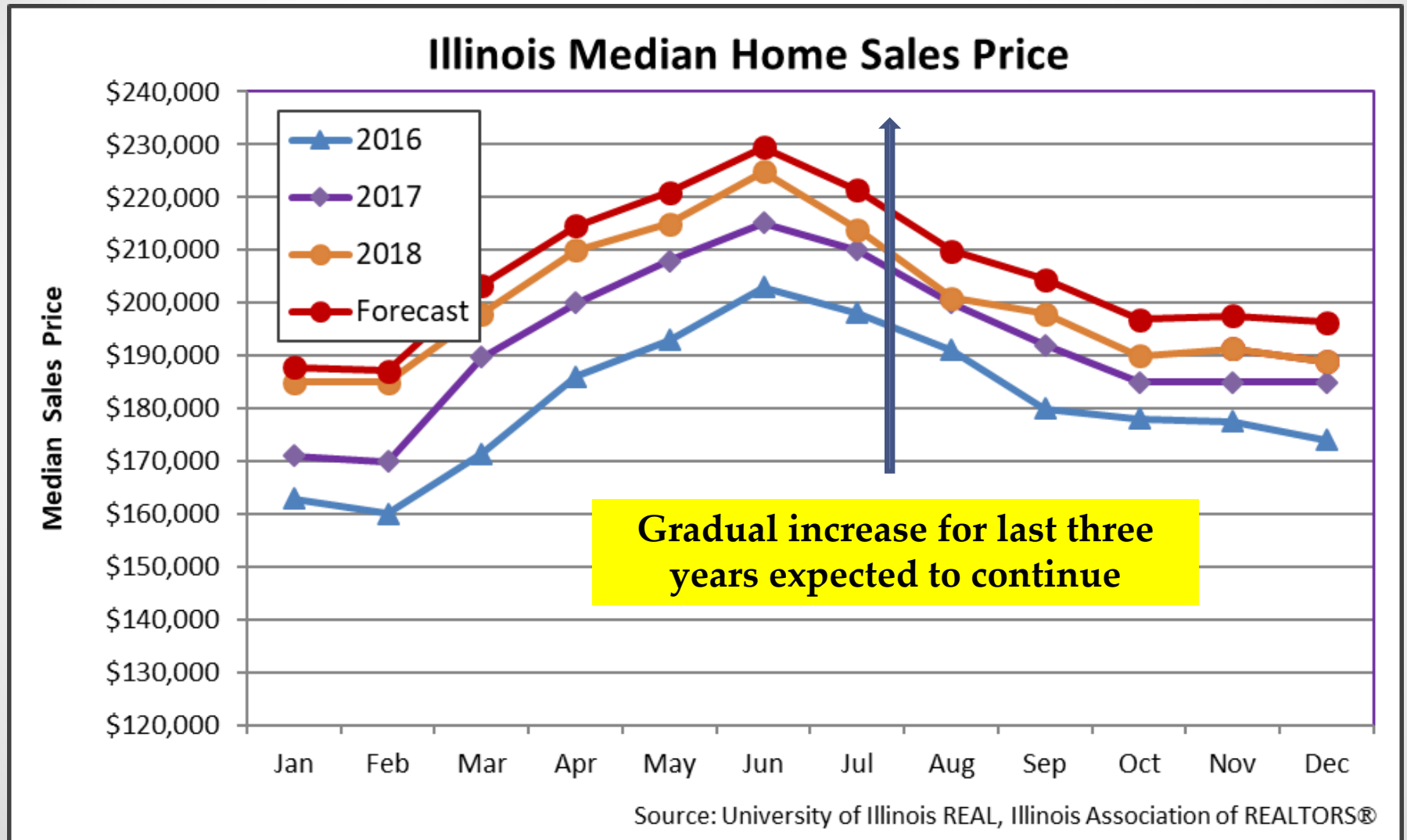


How Good were our Forecasts?

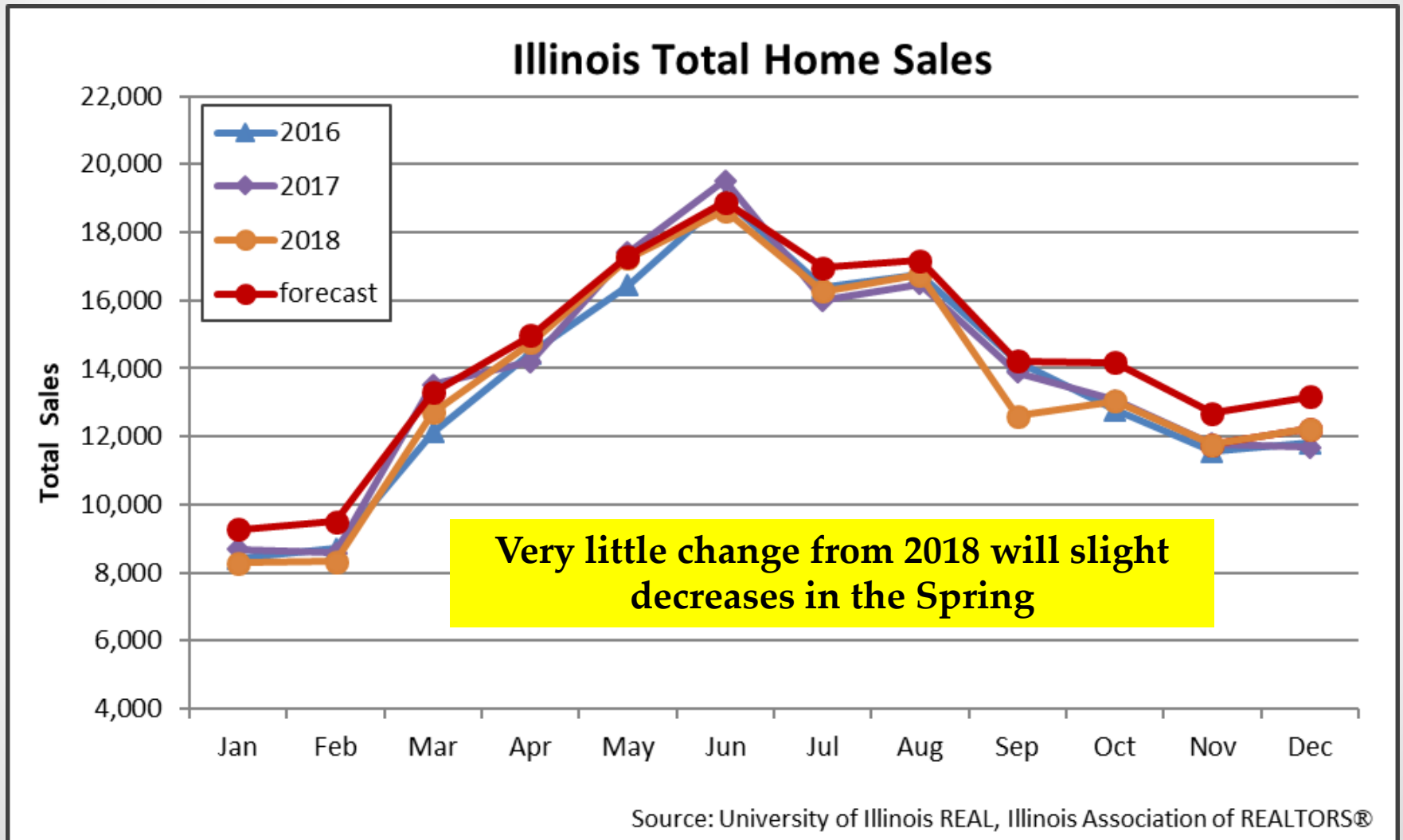
- Real and forecast very close all year 😊



Illinois Housing Market: Prices

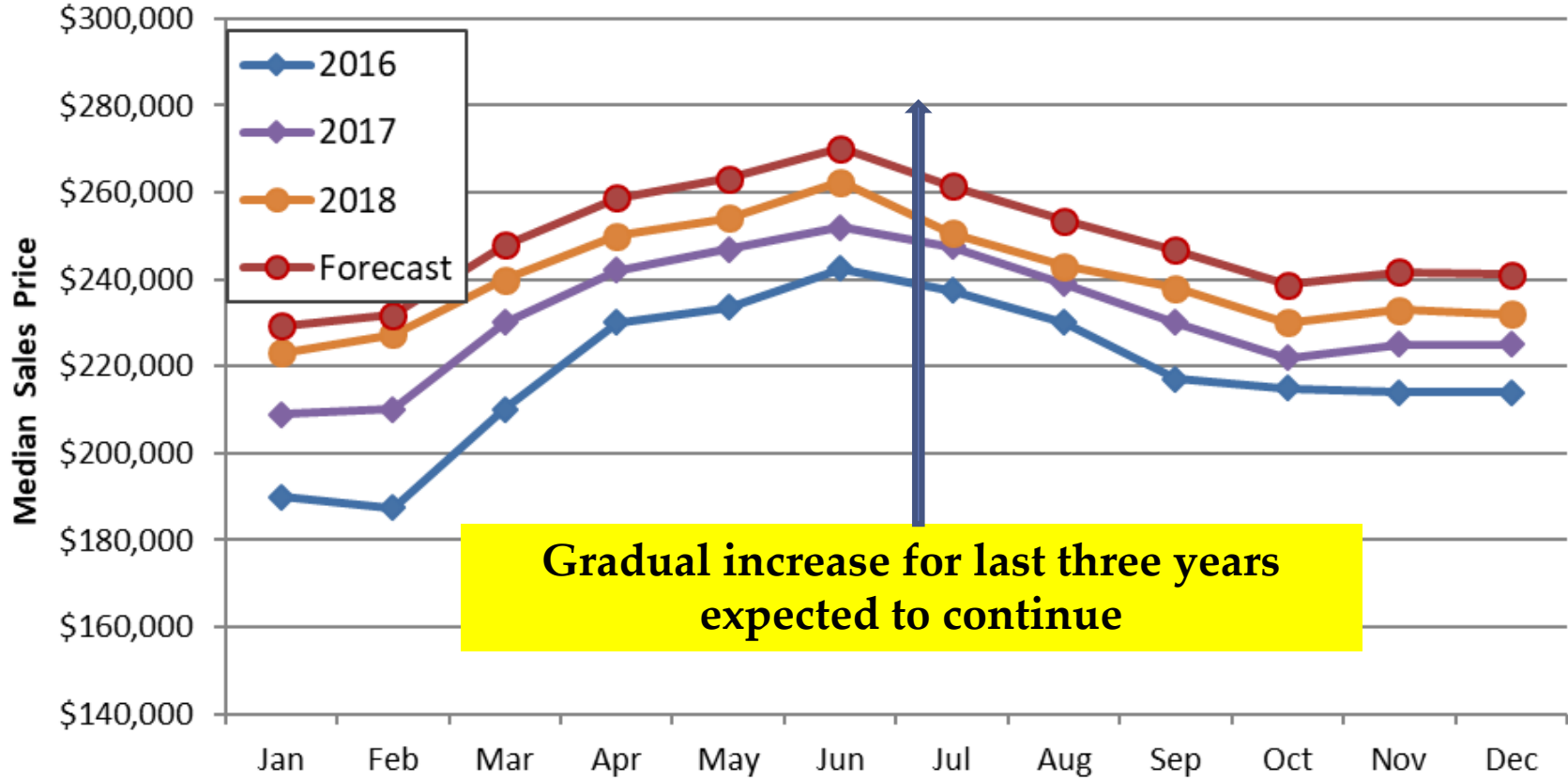


Illinois Housing Market: Sales



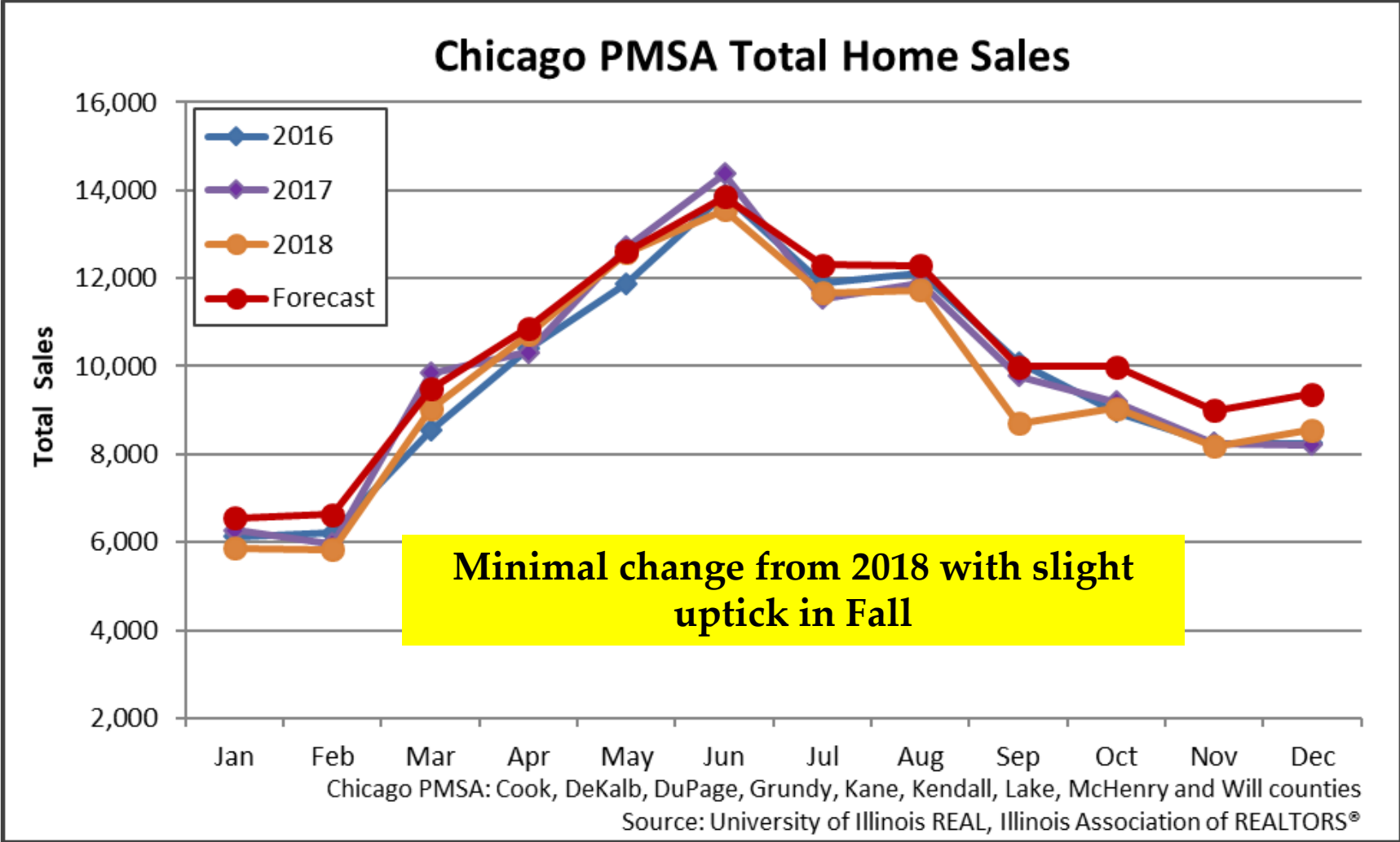
Chicago Housing Market: Prices

Chicago PMSA Median Home Sales Price



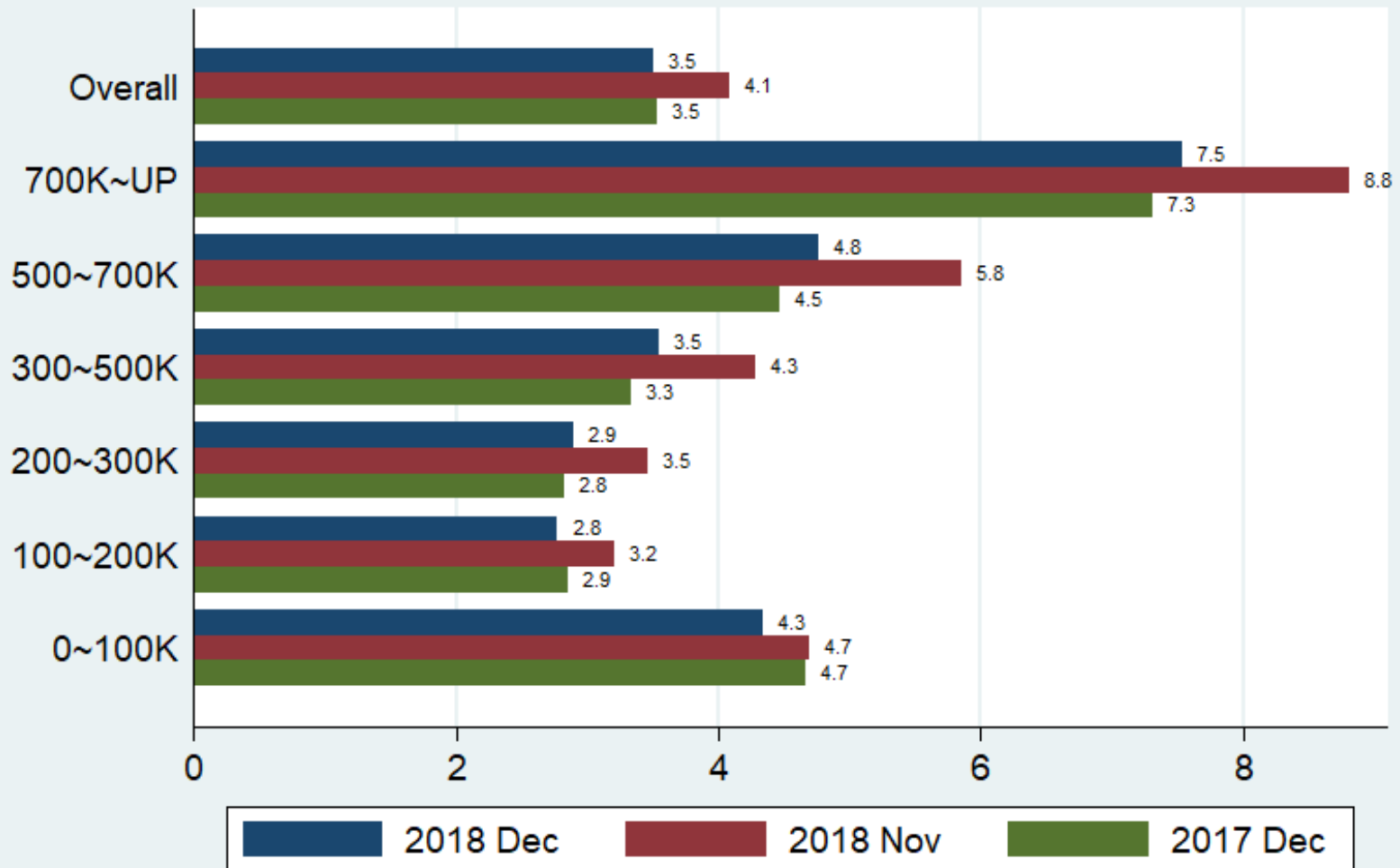
Chicago PMSA: Cook, DeKalb, DuPage, Grundy, Kane, Kendall, Lake, McHenry and Will counties
Source: University of Illinois REAL, Illinois Association of REALTORS®

Chicago Housing Market: Sales



Illinois Housing Market: Inventory

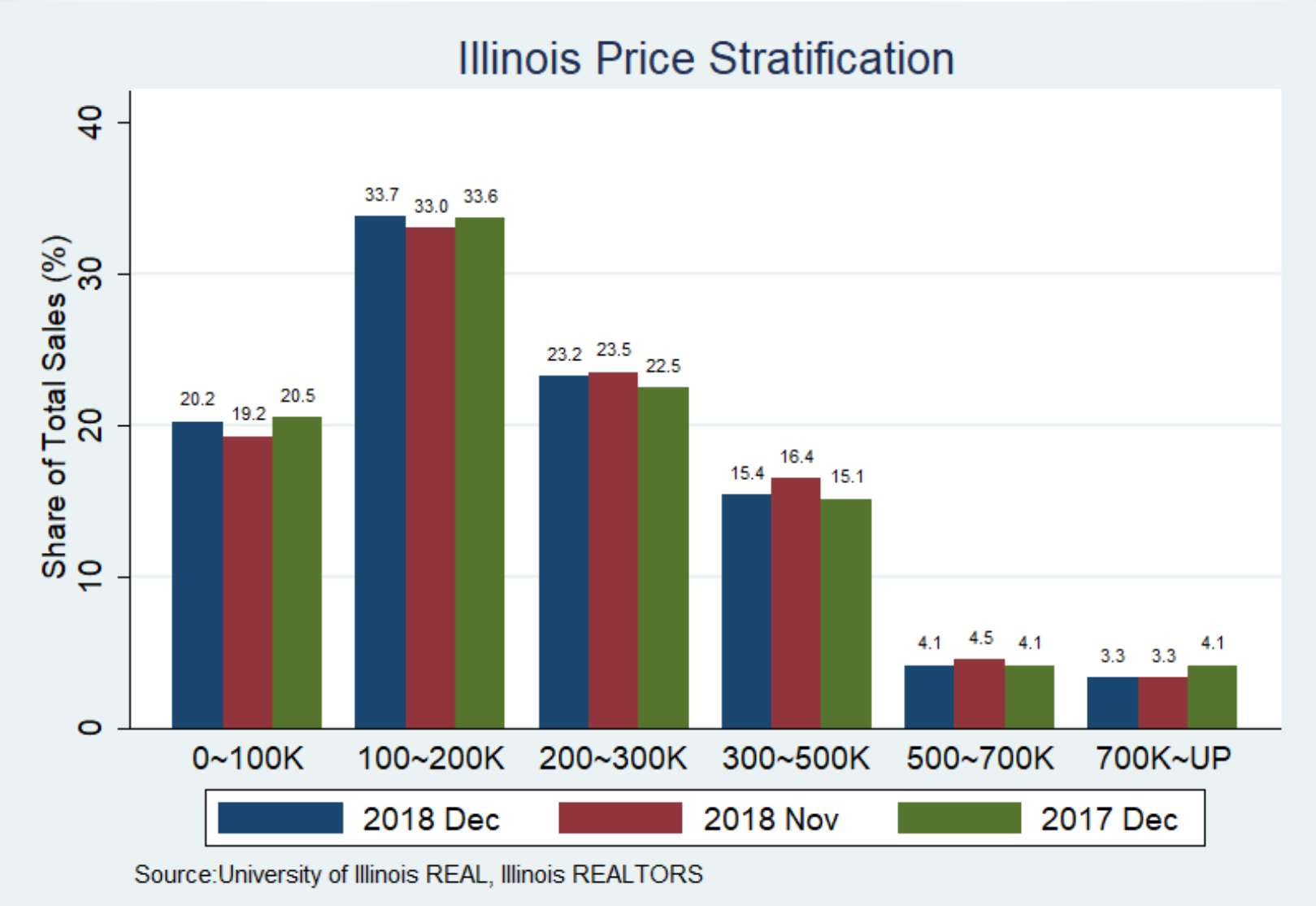
Illinois Months' Supply by Price Range



Source: University of Illinois REAL, Illinois REALTORS

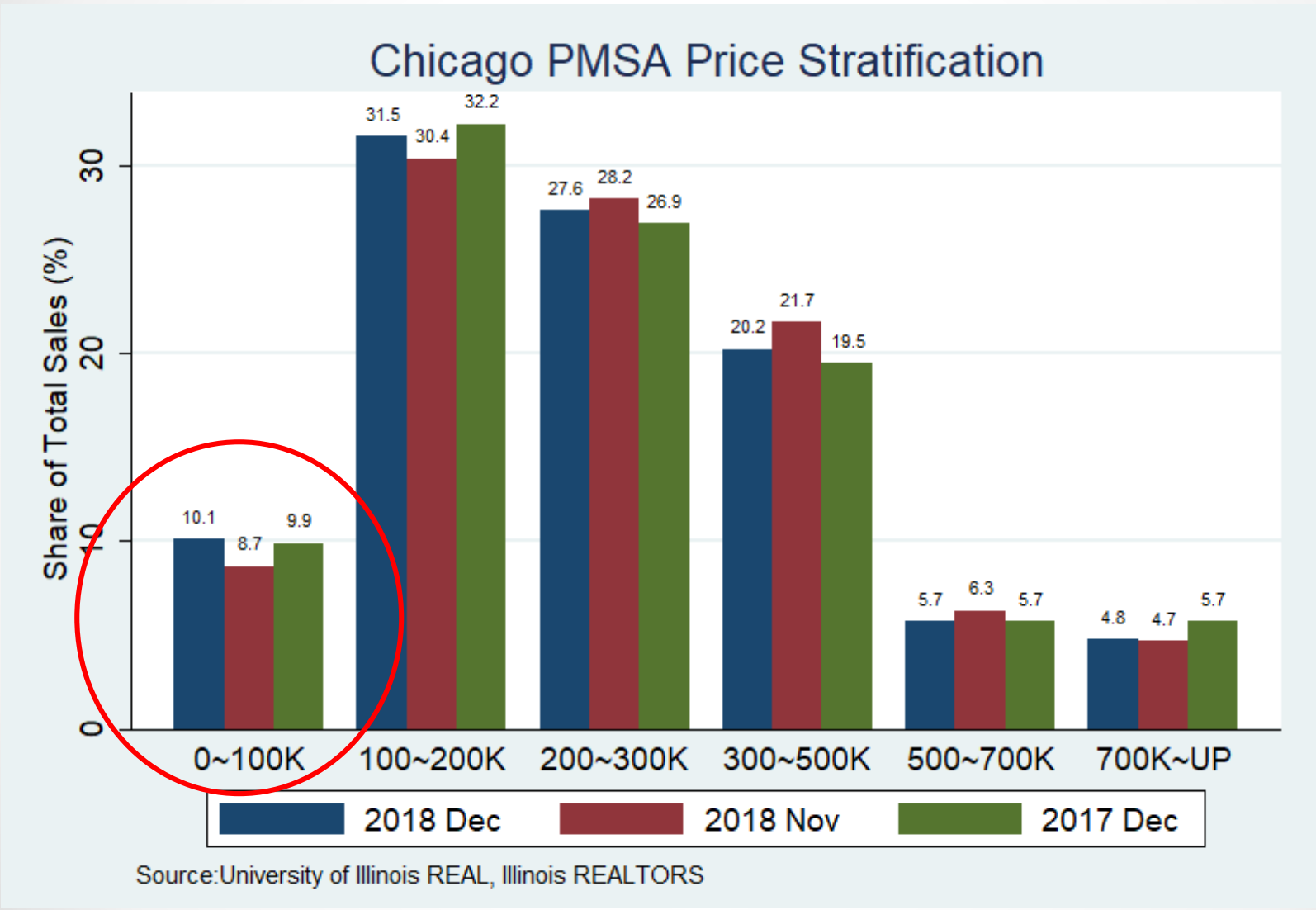
Shrinking supply in all price ranges – similar for Chicago **but very pronounced in the lowest prices ranges – affects affordability**

Illinois Housing Market: Price Stratification



Little change 2016-2018 – same for Chicago but with larger decline in share <\$100K

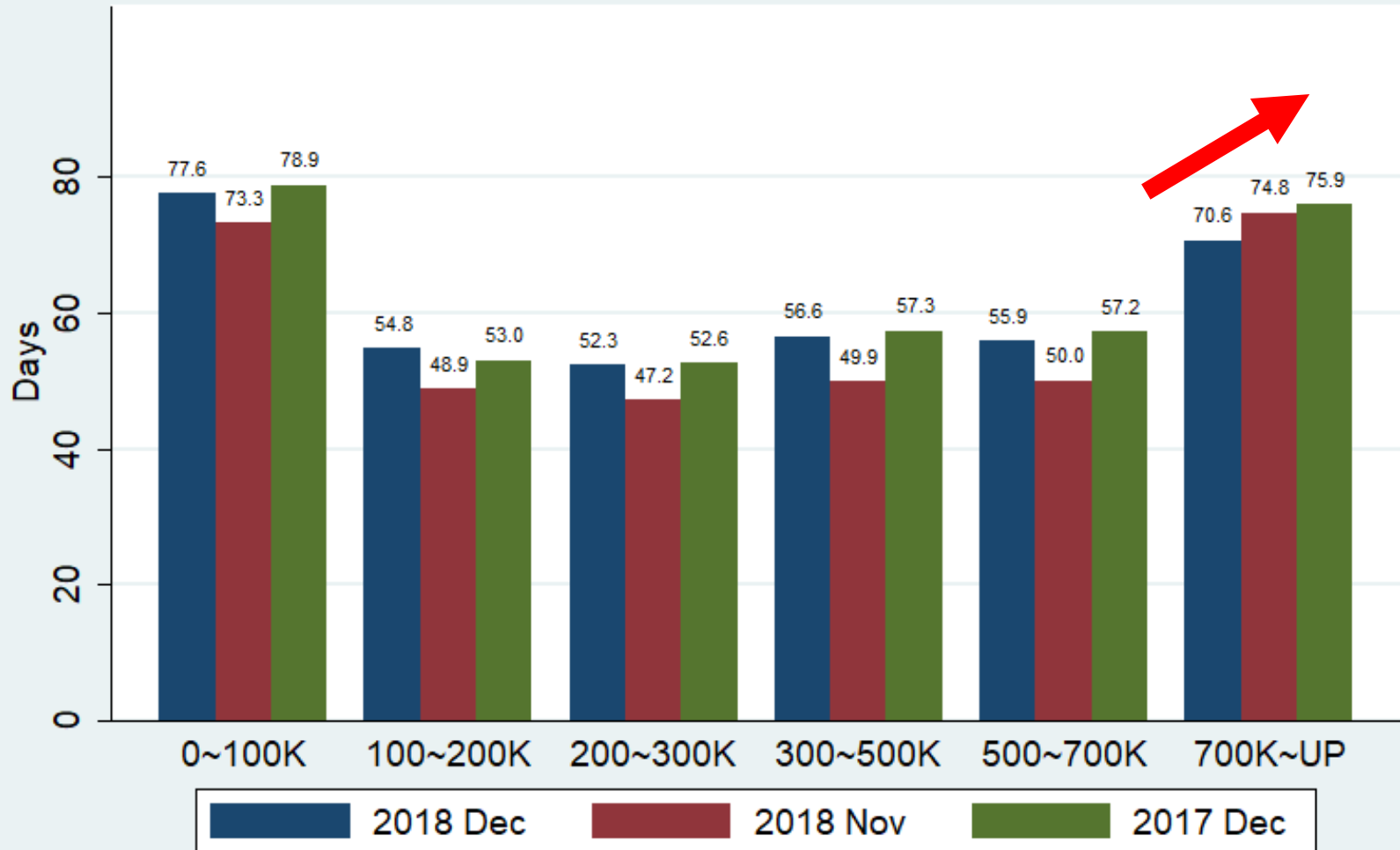
Chicago Housing Market: Price Stratification



Chicago share of houses <\$100K is half that for Illinois

Time on the Market

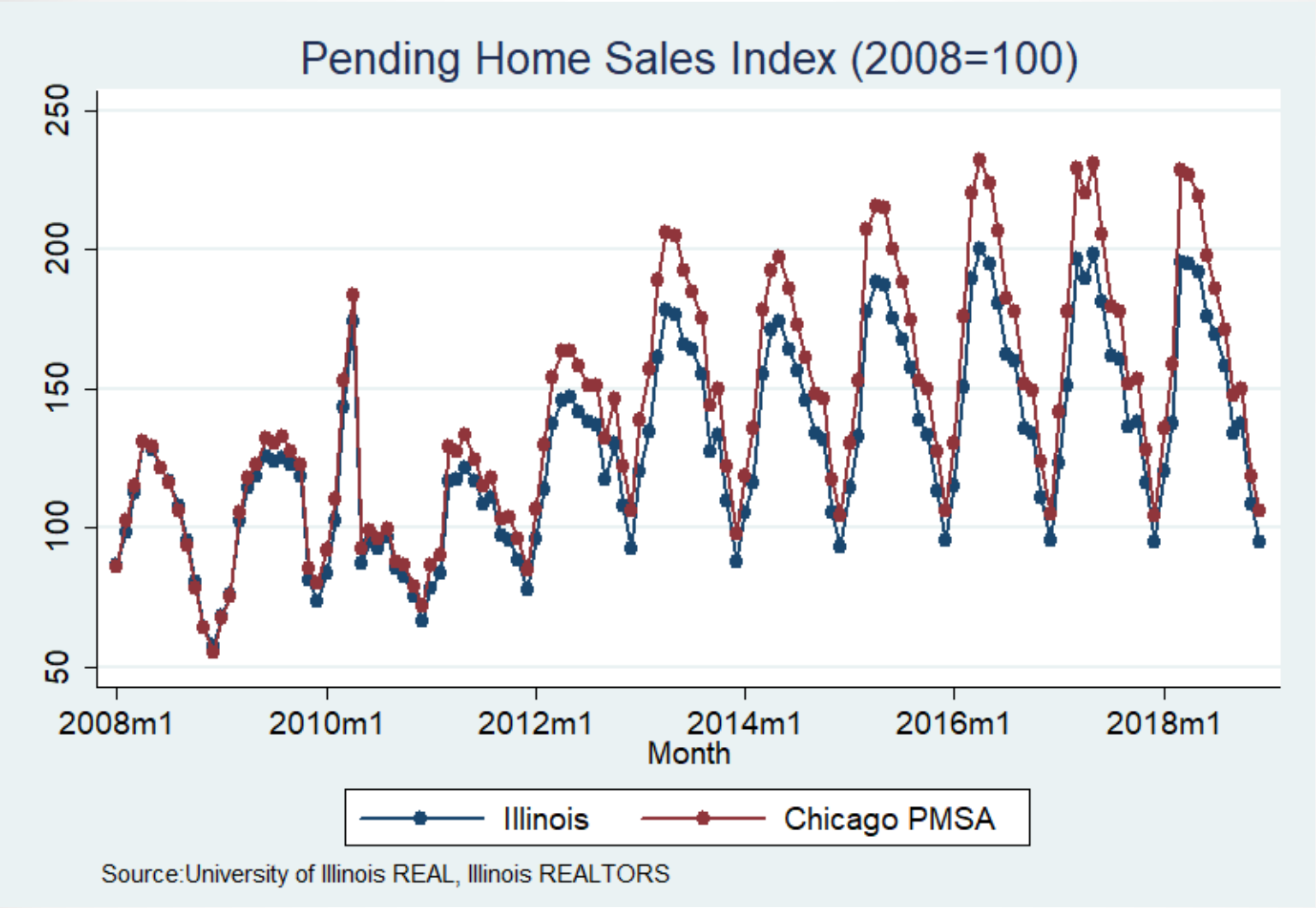
Illinois Average Time on the Market



Source: University of Illinois REAL, Illinois REALTORS

Upward tick last 4 years for higher priced houses in both Chicago and Illinois

Pending Sales Index



General upward trend (monthly variations similar) but stable patterns 2016, 2017 and 2018

Issues to Discuss

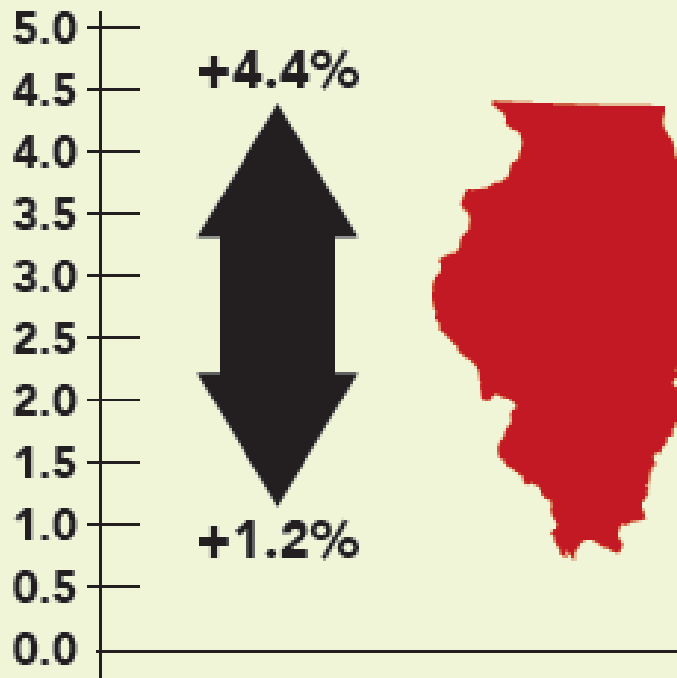
- Inventory
- Rental properties
- Migration

2018 Highlights: Visual Summary

Median Price Forecast

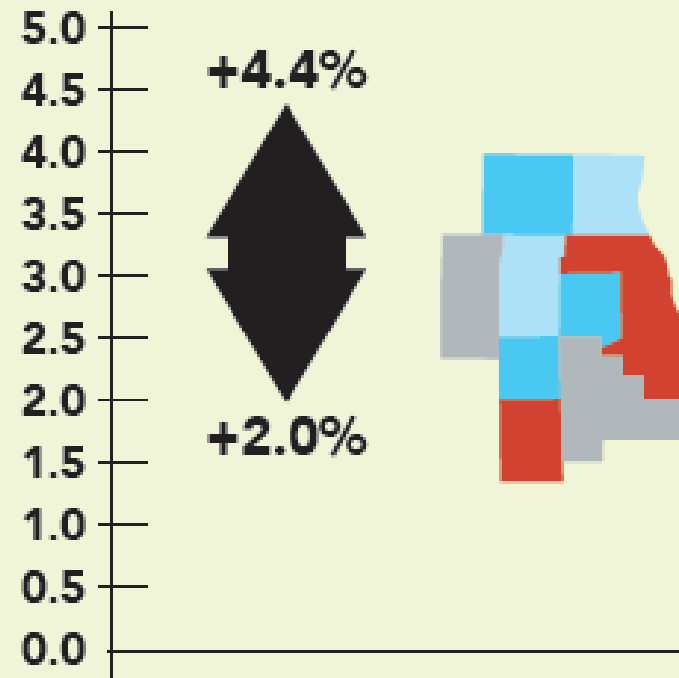
Entire State of Illinois

Median Price Change
(Forecasted Range)



Chicago Metro Area

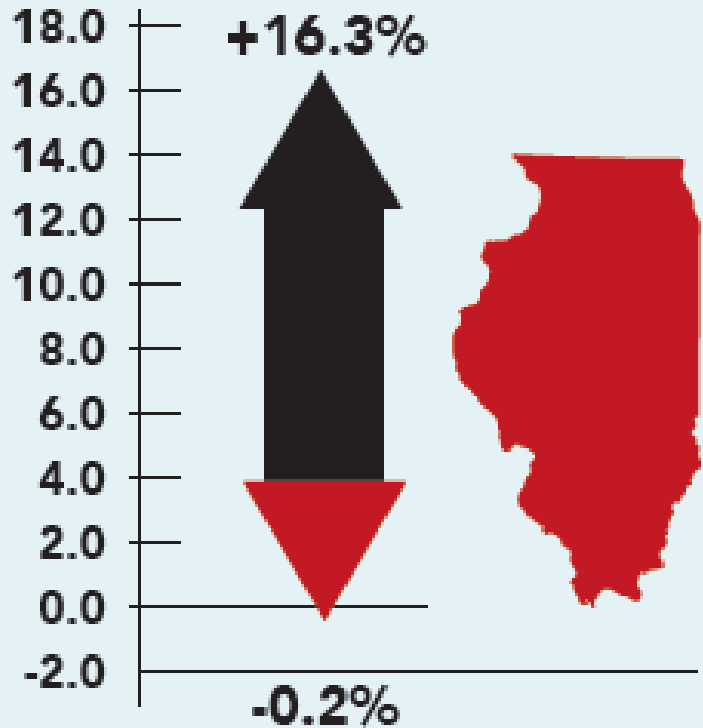
Median Price Change
(Forecasted Range)



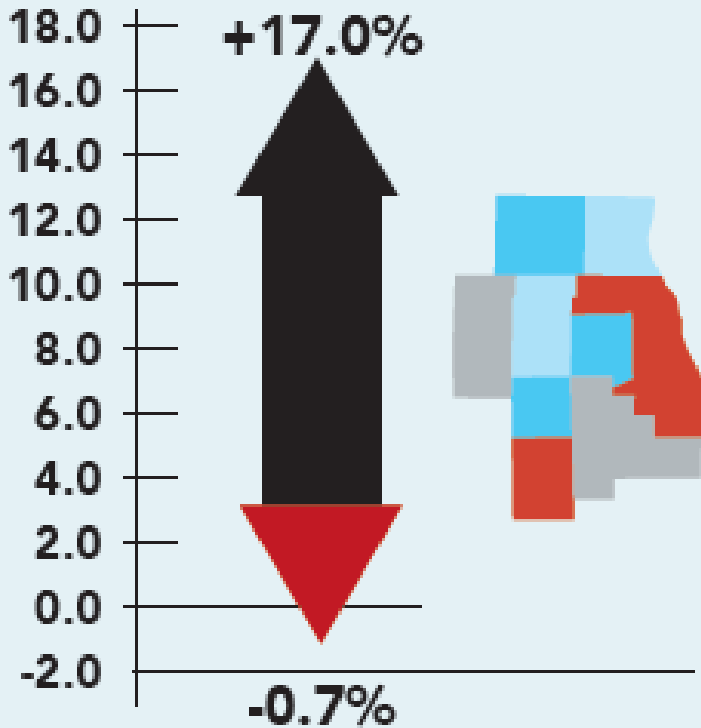
2018 Highlights: Visual Summary

Sales Forecast

Entire State of Illinois
Sales (Forecasted Range)



Chicago Metro Area
Sales (Forecasted Range)



Why are we seeing Negative Annual Sales Forecasts for some Months in 2019?

Illinois Housing Inventory

2008 – PRESENT



Influenced by Recession

Decline of 34% in size of the inventory 2012-2018

● Figure by Stephanie Sievers

Why are we seeing Negative Annual Sales Forecasts for some Months in 2019?

- Low inventory can be traced to several factors
 - Lower supply of newly built houses
 - Increased risk aversion on the part of households to upgrade – even with low interest rates
 - Small to no growth in **real wages and salaries** for most households over the last decade
 - Smaller participation of new entrants to the labor market in the housing market .

Rental versus Buying

- As of December 2018, average rent for an apartment in Chicago, IL is \$1880 which is a 8.94% increase from last year
- One bedroom apartments in Chicago rent for \$1702 a month on average (a 7.4% increase from last year) and two bedroom apartment rents average \$2167 (a 13.43% increase from last year)
- Rental prices are increasing more rapidly than houses (and when adjusted for comparable space/amenities) the increase is even greater
- However:
 - Rentals offer flexibility
 - Smaller down payment } appeals to Millennials who are not buying anything

Migration and Immigration

- By 2030, 20% of Illinois population will be >65
- Shrinking labor force will result in an increase in **dependency ratio** (number of people not working to those working)
- Research in REAL has shown that immigration is positive for the state's economy and without it, our Gross State Product would decline

Migration and Immigration

- The **net domestic out-migration** (more leaving than coming in) is the tip of the iceberg
- Our research has revealed that the out-migrants tend to have higher salaries than the in-migrants, generating an annual loss of around \$0.5 billion a year
- This outcome has a negative ripple effect on the economy – less money spent, lower number of jobs created directly and indirectly
- This spills over into the housing market: –
smaller number of households → reduced
incentives to build new houses → reduced demand
for houses → lower inventory → lower sales

Research Value Added

- Development of **REAL Housing Price Index** – more flexible than Case-Shiller and is now routinely applied to the monthly housing forecasts
- Evaluation of negative impacts of foreclosures and the positive impacts of the **Neighborhood Stabilization Program** – this work has been published in highly ranked academic journals
- Community-level analysis within the Chicago Metro area – examining how **price changes in one community “spill-over” into adjacent communities**



Monthly index of leading indicators for Chicago

CALENDAR

- 01/15/2019**
22nd Annual Conference on Global Economic Analysis
Abstract submission deadline for the 22nd GTAP Conference in Warsaw, Poland
[More Info](#)
- 01/18/2019**
58th Southern Regional Science Association Meeting
Abstract submission deadline for the 58th SRSA in Arlington, VA
[More Info](#)
- 01/21/2019**
27th International

Welcome to RIEAIL

The **Regional Economics Applications Laboratory** focuses on the development and use of analytical models for urban and regional forecasting and economic development.

MONITORING THE IL ECONOMY

Illinois Job Report – December 2018

	Oct 2018– Nov 2018		Last 12 months		Nov 2018
	Growth Rate %	Number of Jobs	Growth Rate %	Number of Jobs	Shadow U.R.*
Dec 2018 Positive					
Total non-farm employment					
Nation	0.10	155,000	1.66	2,443,000	9.04
RMW	0.08	16,200	1.42	290,500	9.80
Illinois	0.10	5,900	0.90	54,600	8.97



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**Monthly Employment analysis for state and Metro areas
Illinois Economic Review (monthly) with employment forecasts for next 12 months**

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www.real.illinois.edu

www.illinoisrelator.org/marketstats