WBA
Wisconsin Economic Report

Wisconsin REALTORS® Association

Tight Supply and Strong Demand Keep Home Sales Flat and Drive Up Prices

By Michael Theo, WRA President and CEO
With insights from ***Dave Clark****, economist with Marquette University*

The national economy is effectively at full employment with very low unemployment rates, core inflation in check, and an influential index of consumer confidence which is at an 18-year high. Although mortgage rates have drifted upward as the Federal Reserve has pushed up short term interest rates to control inflationary pressures, mortgage rates remain below 5% as of October 2018. The Wisconsin job market paints an even stronger economic picture, with historically low unemployment rates at or below 3% between February and October of 2018, and solid job growth throughout the year. In short, demand conditions are very strong which should support robust growth in home sales, yet sales through October lag behind the totals for the first 10 months of 2017 by 2.2%. The challenge for the housing market is on the supply side, and indeed, the state has been in a strong seller's market throughout 2018.

There are three fundamental sources of housing supply and none of these sources has improved over the past 12 months. Total listings of existing homes in the state have remained below the levels of 2017 throughout the year with October total listings 13.2% lower than the level 12 months earlier. New construction is essentially flat. Comparing the first three quarters of 2018 with that same period last year, Wisconsin's single-family home permits were up just 0.3%. Finally, single-family foreclosures for the first nine months of the year are at the lowest levels in 18 years. The combination of strong demand and very tight supply has kept Wisconsin sales lower than last year and has pushed median home prices up 6.9% year-to-date, more than twice the rate of inflation. This has eroded a key indicator of housing affordability in the state. Specifically, the Wisconsin Housing Affordability Index, which shows the fraction of the median-priced home that a borrower with median family income can afford to purchase, assuming 20% down and the remainder financed at current rates with a 30-year fixed rate mortgage. The October indicator suggests that a typical buyer can afford to purchase 196% of the typical home, which is down from 219% in October of last year.

So what does the future hold for housing in Wisconsin? Much depends on the future path of the economy. The last recession ended in June 2009, which puts the current expansion just shy of 10 years. The typical post-war expansion is 58.4 months but the last three have averaged 95 months and the expansion during the 1990's was exactly 10 years in length. Thus, it may seem as though a recession is on the horizon. However, the fundamentals of the economy remain solid, including steady improvements in employment which pushed the national unemployment rate down to 3.7% in October. With the Fed keeping core inflation near its target rate of 2%, and with annualized Real GDP growth at 2.3% in 2017, and ranging between 2.2% and 4.2% for each of the first three quarters of 2018, there are no immediate alarm bells suggesting a recession is imminent. Indeed, the Survey of Professional Forecasters conducted each quarter by the Philadelphia Federal Reserve Bank puts the risk of a negative quarter of GDP growth at no more than 20% through third quarter of 2019.

The supply side of the market is likely to improve only slightly over the next year, since the two primary sources of supply, listings of existing homes and new construction of single-family units, are not likely to change quickly. Health circumstances will eventually cause Baby Boomers to transition out of single-family housing, and some of those in the Gen-X generation may choose to right-size and hence put their homes on the market, but these demographic changes are likely to evolve gradually.

The Fed's policy focus needs to maintain low inflation without slowing the economy too quickly. Likewise, federal policymakers have removed some of the regulatory burden that hindered the competitiveness of U.S. firms. The president and congress need to avoid negating some of those gains by pushing for permanent increases in tariffs that ultimately raise input costs, slow economic growth, and generate inflation. Likewise, state and local policymakers should consider reforms that maintain the favorable business climate in the state. They should reduce the regulatory burden on developers and homebuilders, if new construction is to help close the supply gap. The Wisconsin economy has outperformed our neighbors to the south as they struggle to get their fiscal house in order. While currently an advantage for Wisconsin, this is a playing field we do not want to level by endorsing strategies that ultimately hinder future growth.

Founded in 1909, the Wisconsin REALTORS® Association (WRA) is one of the largest trade associations in Wisconsin. It represents and provides services to more than 15,000 members statewide. WRA's goal is to promote the advancement of real estate in Wisconsin and provide cutting-edge tools to help REALTORS® enjoy a successful career and be competitive in their market.