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Case-Shiller: Home Prices Firming?

Prices Show Recent Signs of Firming

July 31, 2012 By William L. Pittenger, MAI, SRA

Median existing home prices reported by S&P Case-Shiller were mixed this month and suggest different directions depending on whether one looks at month over month numbers or year over year and whether one seasonally adjusts the numbers or does not. On a *year ago* basis, the 10 city composite index declined one-percent from last year compared to a 2.2% decline reported last month. The 20 city composite index also declined 0.7% year over year compared to the 1.9% drop experienced last month. On a month to month basis, not seasonally adjusted, however, both the 10 and 20 city indices *rose* 2.2% On a seasonally adjusted basis, the gains were slightly weaker on a month to month basis registering just 0.9%. The results this month are more than a little confusing and beg the question, which figures should we rely upon?

In our view all of them. There is a time to look at annual numbers and a time to consider monthly changes. Both are valid and tell a slightly different story. Similarly, there is a time to seasonally adjust and a time not to adjust. What we are seeing this month is some recent upward price movement over the three month period ending in May. The movement was downward for a several previous months over the last year therefore skewing the annual numbers to the negative. Similarly, the process of seasonal adjustment is also breaking down. Seasonal adjustment is a statistical adjustment made to accommodate fluctuations based on predictable and normal seasonal changes. In the case of housing, history consistently tells us that spring and summer are peak seasons and sales slow in the fall and winter. School openings and closings also affect seasonality. As the changes are predictable, the peaks and valleys can be statistically smoothed.

Recently however, the seasonal adjustment process has been affected by distress transactions which have tended to remain relatively constant throughout the year and not seasonally dependent. Regardless of the statistical anomaly, prices rose modestly (+2%) short term as revealed by the month over month numbers but declined modestly (1.0%) on an annual basis. As that is a current phenomenon, we interpret it to suggest that prices are showing early signs of at least firming. A single quarter is too early to declare a trend however the recent movement is both measurable and meaningful. The next few months will tell for sure.

Another positive sign is that an increasing number of metros covered by this release experienced May prices above year ago levels. For example, once seriously impaired, Phoenix leads the way with prices up 11.5% year over year. On the down side, prices declined modestly (0.1%) in Cleveland and Boston. Prices declined a whopping 14.5% in Atlanta year over year. Atlanta continues to be the only metro experiencing double digit declines.

Downward price pressure from foreclosures and distress transactions is moderating but not by much. The foreclosure pipeline is still sizeable but the process is moving much faster now that agreements between state attorneys general and large banks have been reached. At the same time, demand, particularly at lower price points, is being supported by investor purchasers even to the point of causing inventory shortages in some areas of the country, particularly California and to some lesser extent in South Florida.

Despite recent evidence of firming prices, the outlook for housing remains somewhat dreary. The jobs outlook is not conducive to home purchases. There is still a sizeable foreclosure backlog and shadow inventories are substantial; all signs that housing demand will bounce along the bottom well into 2013.

S & P Case-Shiller Indices

The Case-Shiller Indices are perhaps the most widely followed U.S. housing price trend indices largely because they are based on repeat sales over a lengthy period of time. The indices include a national index as well as 10 and 20 city indices.

Composite 10 Index

Greater Boston
Chicago Metro
Denver Metro
Las Vegas Metro
Greater Los Angeles
South Florida Metro
New York Metro
San Diego
San Francisco
Washington Metro

Composite 20 Index

Phoenix Metro
Greater Los Angeles
San Diego
San Francisco
Denver Metro
Washington Metro
South Florida Metro
Tampa Bay Metro
Atlanta Metro
Chicago Metro
Greater Boston
Detroit Metro
Minneapolis St. Paul
Charlotte Metro
Las Vegas Metro
New York Metro
Greater Cleveland
Portland (OR) Metro
Dallas Ft. Worth Metro
Seattle Metro

Cities shown in bold type are also on the Composite 10 Index.

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