

Real Estate Analysis

Indications of a Moderation in Home Price Growth After Solid Increases in January

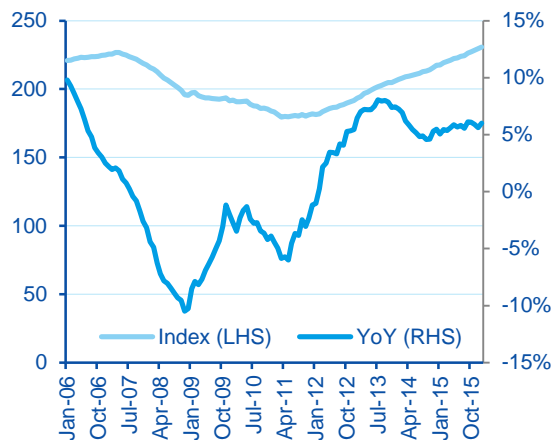
Filip Blazheski

- The FHFA house price index increased solidly in January, hitting 6% YoY growth
- Existing homes median sales prices in February decreased considerably
- We expect the FHFA index to grow around 4.9% YoY in 2016, compared to 5.6% in 2015

The FHFA house price index increased 0.5% MoM in January on a seasonally adjusted basis. The index is calculated using home sales price information from mortgages sold to, or guaranteed by, Fannie Mae and Freddie Mac. In January, FHFA home prices stood 6% higher compared to a year before (Chart 1), extending the period of strong growth. Annual growth was strongest in the South Atlantic (8.9%), Pacific (7.4%), and Mountain census divisions (7%), and the lowest in the Middle Atlantic (1.7%). The strong showing was expected given the trends already seen in other indicators that had already released data for the month, such as the CoreLogic index. In general, the low supply of existing homes for sale and the above average affordability due to low interest rates have been the main drivers of home prices over the last year.

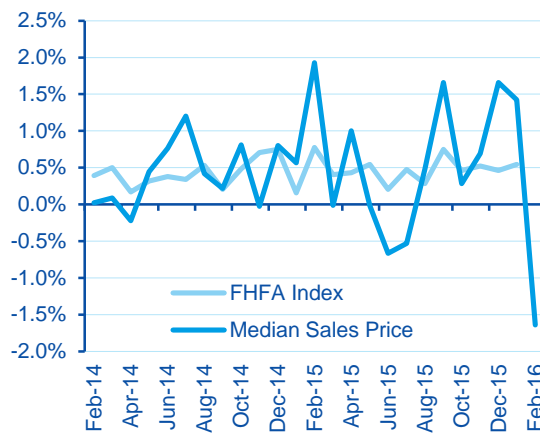
Despite the strong start to the year, home prices in February may paint a different picture, with indications of a moderation in the rate of appreciation. Existing home sales declined more than expected in February ([see housing brief](#)), and the seasonally adjusted median home sales price dropped 1.6% MoM (Chart 1) – just 4.4% YoY compared to 8.2% in January. The likely reason for the moderation is the increased supply of homes for sale due to the slowdown in sales and the increase in listings. Existing home listings in February grew at the fastest rate since 2013, according to Redfin, surging 11.9 % from last year. Months' supply in February increased to 4.4 from 4 in January. However, this is still below the 6 months' supply threshold which is considered a sign of a market balanced between buyers and sellers.

Chart 1
FHFA House Price Index
(Index, Jan-91=100 and %)



Source: FHFA & BBVA Research

Chart 2
FHFA House Price Index and Median Sales Price
(% MoM Seasonally Adjusted)



Source: FHFA, NAR & BBVA Research

Looking forward, we anticipate that home prices will increase at a solid, but somewhat lower rate this year, with the FHFA house price index increasing 4.9% YoY, compared to 5.6% in 2015. The continued increase in home prices will be supported by gains in employment and income, ongoing improvement in lending conditions, and above average affordability. Lending conditions have been easing throughout 2015, and even though the Mortgage Credit Availability Index has decreased somewhat in January and February, it is still relatively high. We expect affordability to remain high, based on our projections of 3.9% average interest rate for a 30 year fixed rate mortgage.

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