Home prices show modest declines

by Gene Burinskiy

The Amherst Home Price Index (HPI) suggests fourth quarter of 2022 prices have retreated to their first quarter average. Fourth quarter of 2022 prices rose 7.1 percent year-over-year, though this primarily reflects the strong cumulative home price growth over the course of the pandemic. Seasonally adjusted HPI declined quarter-over-quarter by 0.6 percent, marking a 1.3 percent overall decline from the peak in second quarter 2022. Despite the modest decline, fourth quarter HPI is still 38.6 percent higher than it was at a comparable time in 2019.

Declining home prices reflect sharply rising mortgage interest rates. Since first quarter 2022 alone, the average 30-year mortgage rate rose by 280 basis points. The resulting 6.6 percent mortgage rate that prevailed throughout the fourth quarter was the highest since 2002. Such rates raise the cost of servicing a mortgage by 50 percent or more once home price growth is factored in. Rising mortgage interest rates have discouraged many potential buyers and slowed housing markets as a result. This cooling is most visible in markets that experienced the largest HPI growth during the pandemic, as they have also witnessed the sharpest declines to date.

A strong labor market and tight inventories distinguish this period of gradual home price declines from the financial crisis slump. The unemployment rate of 3.6 percent and high year-over-year wage growth of 4.7 percent kept housing demand from collapsing despite 120 basis points in interest rate hikes over the fourth quarter. Although demand has cooled, pandemic-era prices have been largely sustained through tightening for-sale inventories. The absence of forced sellers kept fourth quarter for-sale inventories 17 percent to 24 percent tighter than they were in 2018 and 2019. Today's strong economic and consumer footings likely mean the price declines in the first quarters of 2023 will remain gradual. ❖

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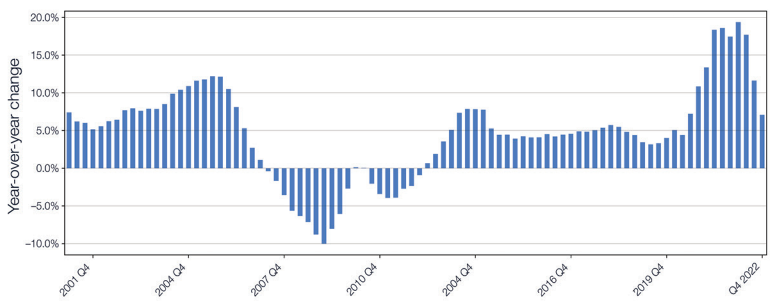
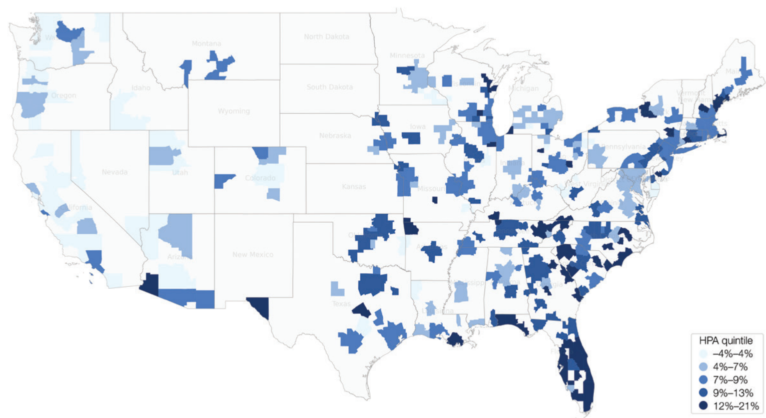
20-City HPI Year-over-Year Growth



Source: The Amherst Group

MSA-Level HPI Year-over-Year Growth, as of Q4 2022



Source: The Amherst Group

Top 10 markets in HPI, as of Q4 2022	
Market	**Year-over-year change**
Kankakee, IL	21.4%
Syracuse, NY	17.3%
Green Bay, WI	15.0%
Houma, LA	14.5%
Lima, OH	12.9%
Lawton, OK	12.5%
Norwich, CT	12.4%
Little Rock, AR	12.0%
St. Cloud, MN	9.5%
Sheboygan, WI	8.8%

Source: The Amherst Group

The Amherst HPI tracks U.S.-level home price changes based on the weighted average of corresponding state-level home price indexes. The index is based on the Case Shiller repeat-sales methodology. Unlike other HPA indices, the Amherst HPA does not include foreclosures, short-sales, bank repossessions, and REO resales. The use of Multiple Listing Service (MLS) to supplement CoreLogic off-market data enables Amherst to offer a timelier look at shifts in the housing market than other indices.

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