

HIGHLIGHTS

Housing Prices Slow Substantially in Fourth Quarter 2001

Housing price growth still exceeds general inflation

The House Price Index (HPI) grew only 0.25 percent in the fourth quarter of 2001, equivalent to an annual rate of 1.0 percent. Quarterly growth rates throughout 2000 and most of 2001 were between 8 and 10 percent, annualized. Slightly weaker HPI growth in last year's third quarter suggested the beginning of a return to more moderate appreciation but this quarter's much sharper deceleration resulted in the slowest quarterly increase since 1996, when housing prices were growing at the sluggish pace that had characterized the 1990s up until then.

These data appear to indicate a weak performance for housing markets in the fourth quarter. However, analyzing the numbers in comparison to the prices of other goods as measured by the Consumer Price Index (CPI), provides a more positive perspective.¹ While housing prices grew slowly this quarter in relation to recent past quarters, the prices of other goods and services actually decreased by 2.5 percent. For this reason, inflation-adjusted house price growth rates were quite comparable to those experienced between 1997 and 1999. Thus housing prices continue to grow more rapidly than general price inflation. This is an indication that housing markets are performing relatively well.

The attached figure charts both nominal (unadjusted) and real (inflation-adjusted) HPI growth. Nominal rates indicate that appreciation has been dropping over the past 3 quarters, after a peak in the first quarter of 2001 (10 percent annualized growth). However, inflation-adjusted numbers suggest that housing price growth rates did not reach a decade-high peak until third quarter of 2001. While the fourth quarter inflation-adjusted growth rate dropped substantially below the high rates experienced throughout 2000 and 2001, it was still a respectable 3.5 percent. For prospective homebuyers (or sellers), housing price growth is most relevant when compared to the prices of other goods and services. If other prices generally rise at the same rate as home prices, for example, the relative cost (or return) associated with housing is unchanged.

Most other housing market indicators, such as record-breaking numbers of existing homes sales in January of 2002, continue to suggest a strong housing market². Additionally, it is important to keep in mind that fourth quarter numbers were impacted by the events of September 11th, which most likely had a one-time effect. While these considerations suggest a return to moderate house price appreciation, the strength or weakness of the economy in coming quarters likely will be the critical determinant of housing price changes.

¹ The CPI data was obtained from the Bureau of Labor Statistics at www.bls.gov. The index used comprised the prices of all items less shelter.

² The number of existing home sales is produced by the National Association of Realtors and is available at www.nar.realtor.com.

Annualized Quarterly Real and Nominal HPI Growth Rates

