

Is Rural America Facing a Home Price Bust?

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Motivating Questions for Research*

- Given the ongoing U.S. home price bust, what information is available about rural home prices?
- How have rural home prices fared relative to metro home prices across the country?
- Why might rural prices have exhibited different patterns than metro prices in recent years?
- What is the outlook for rural home prices?



* Research originally published in December 2008 edition of Kansas City Fed's *Main Street Economist* publication

Recent Trends in Rural Home Prices

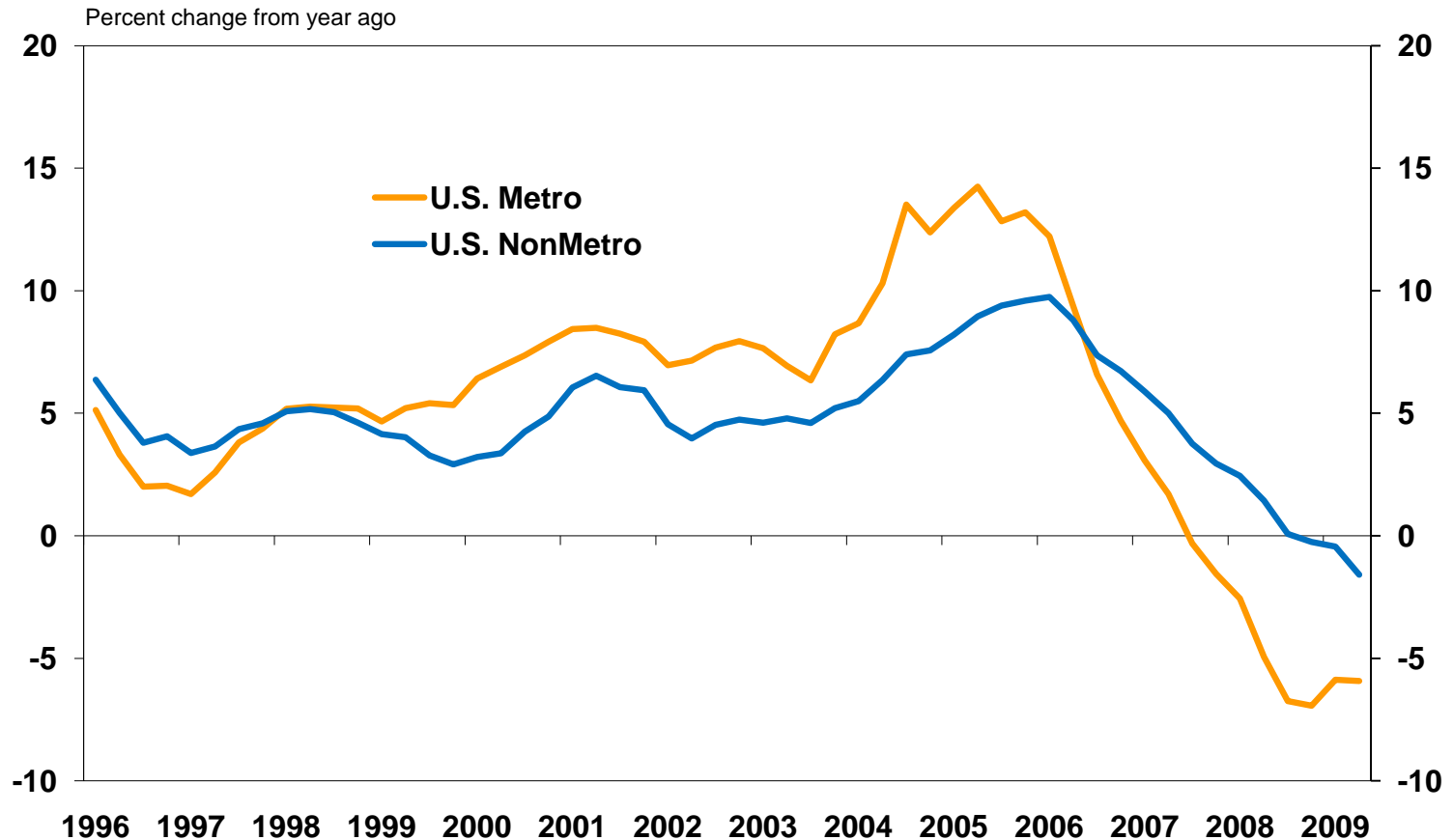
- To date—and throughout the country—home prices in non-metro areas have held up better
- As such, foreclosures are generally lower in rural areas, although they are rising
- Still, home prices in many rural regions greatly outpaced incomes earlier this decade



Unlike U.S. metro home prices, U.S. rural home prices were down only slightly through mid-2009

Home Price Growth

Q1 1996 – Q2 2009



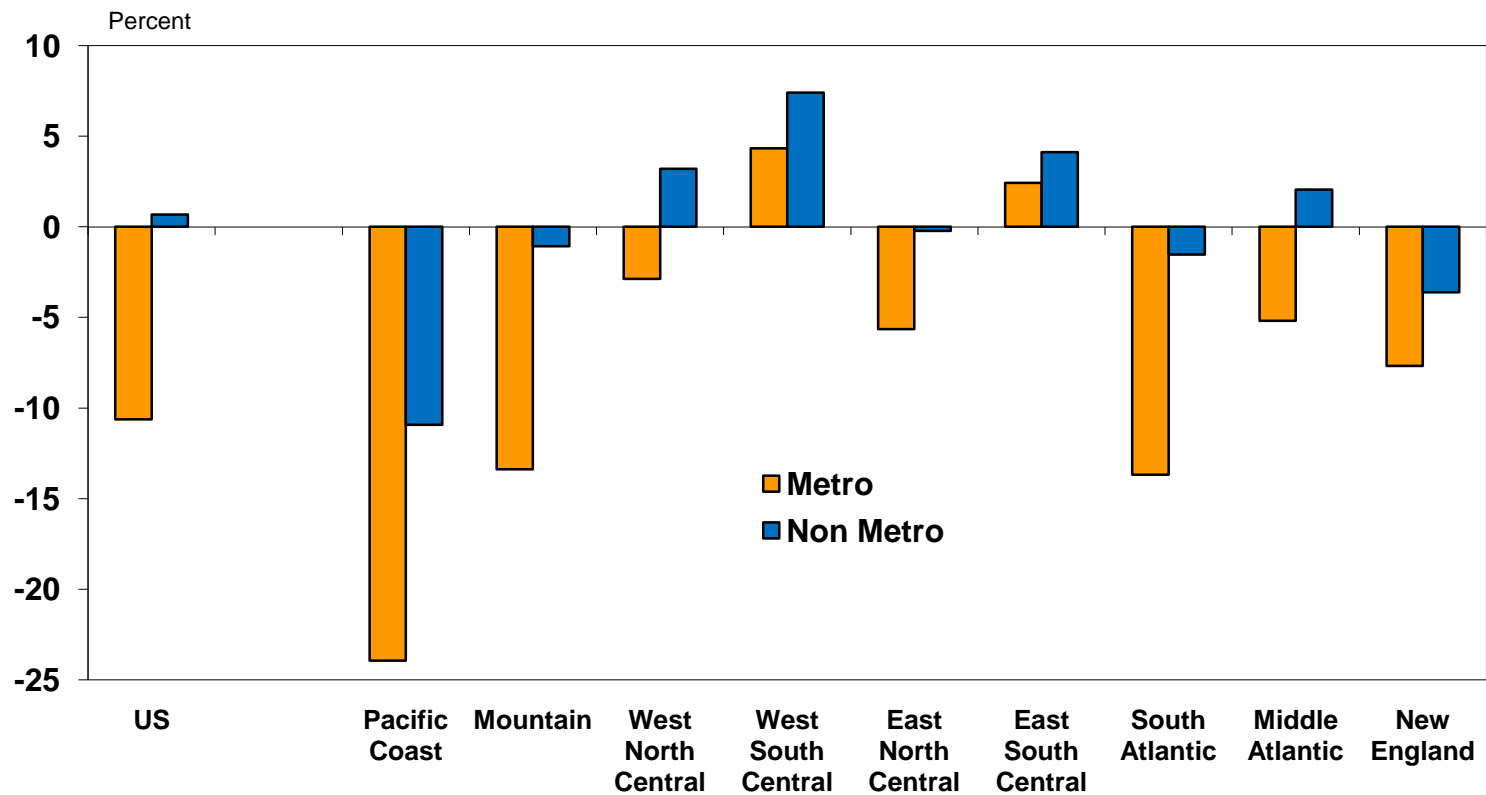
Source: FHFA



Since the national bust began, non-metro prices have held up better in all parts of the country

Cumulative Home Price Change By Census Region

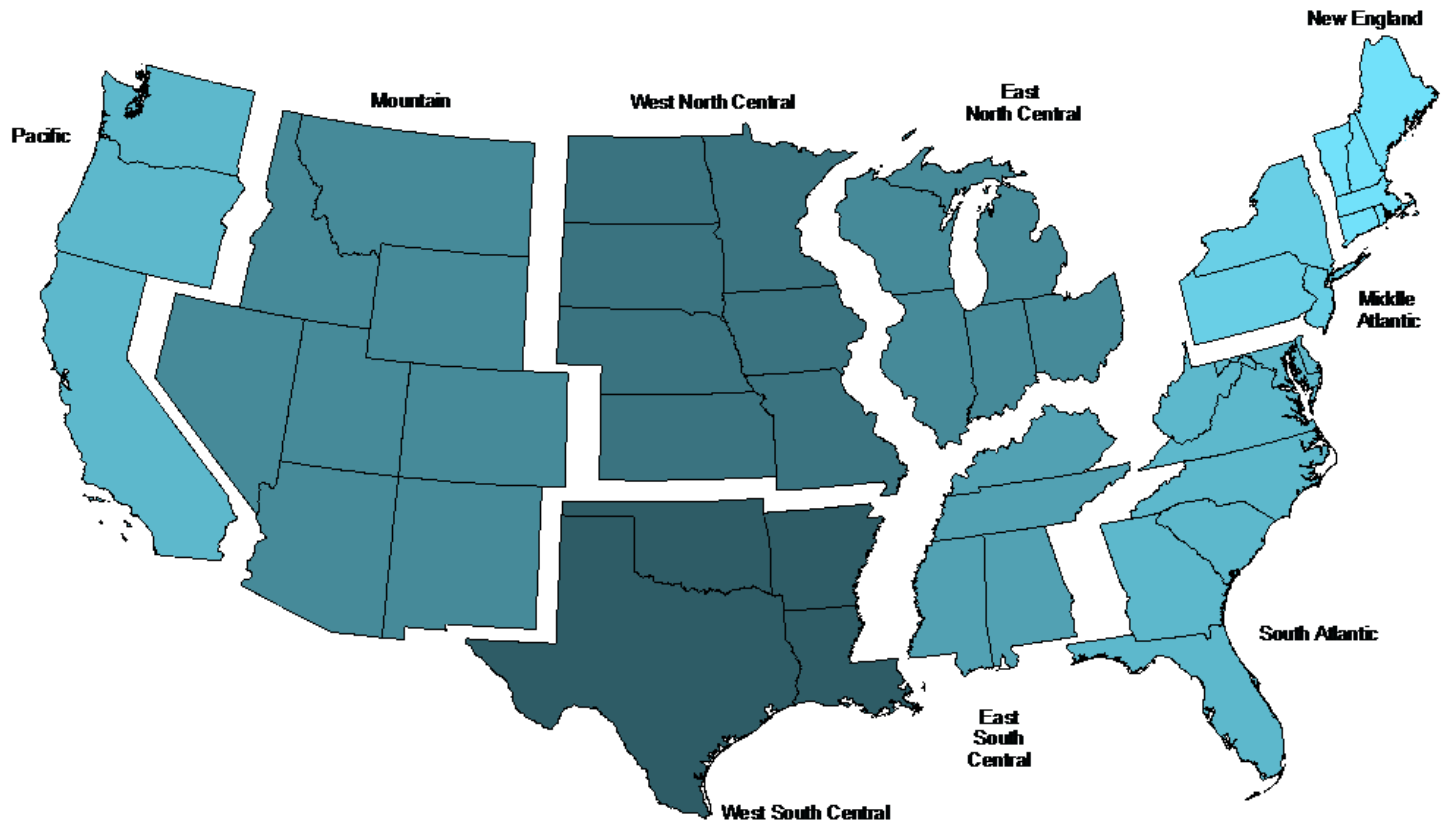
Q1 2007 to Q2 2009



Source: FHFA

Map of U.S. Census Regions

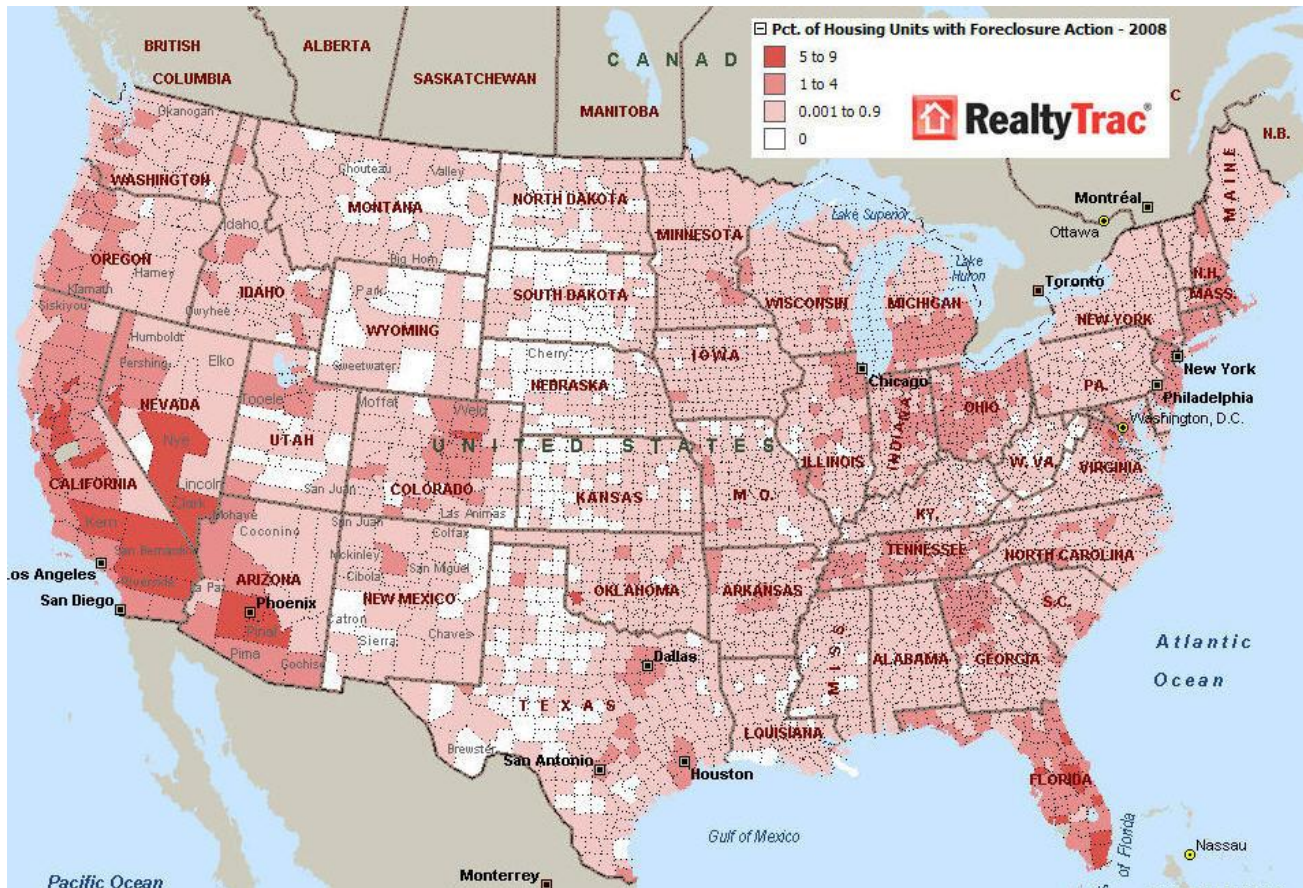
Map of U.S. Census Regions



Source: U.S. Census Bureau

The worst foreclosure rates in 2008 were generally near coastal cities

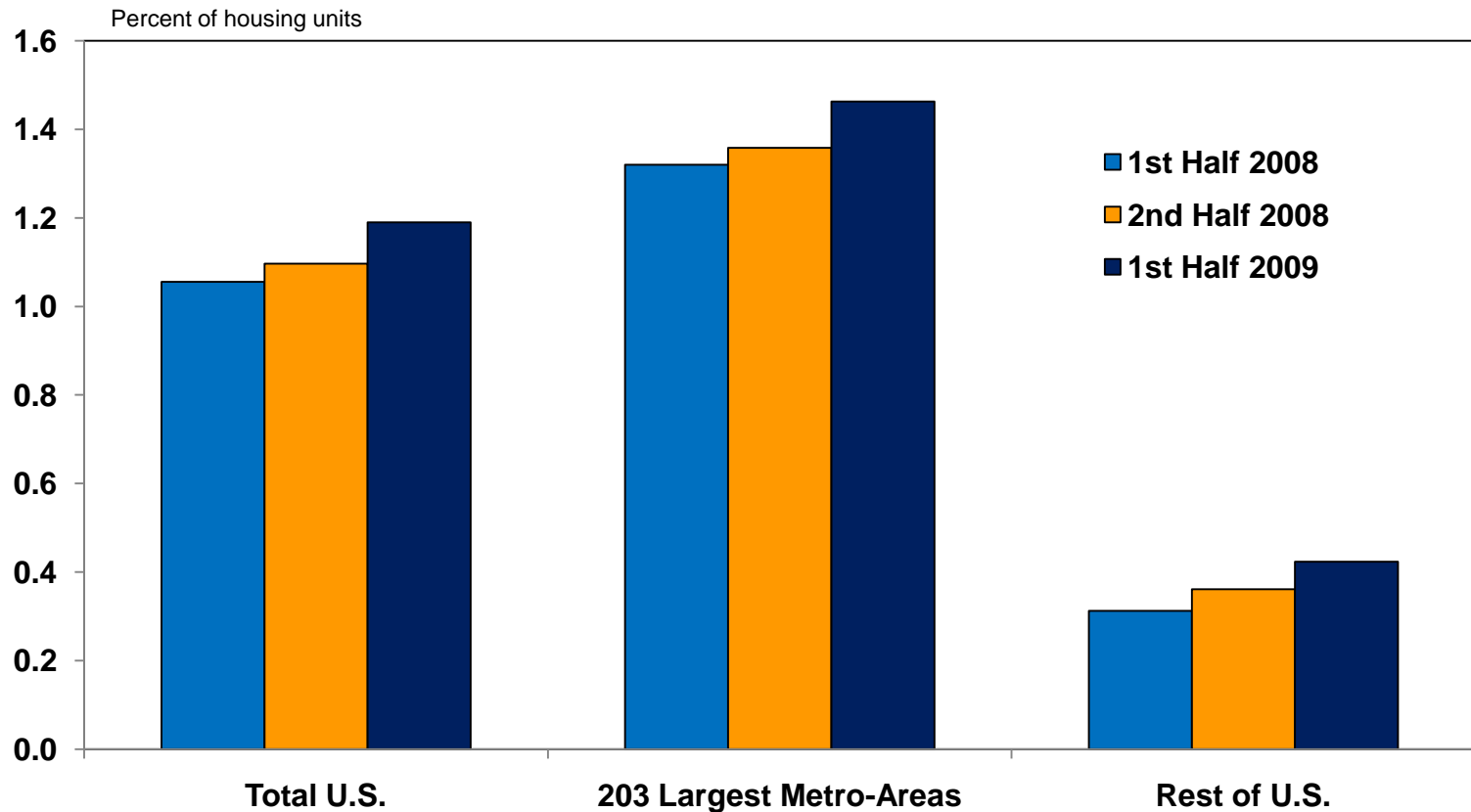
Percent of Housing Units with Foreclosure Action
2008



Source: Realty Trac

Foreclosures are still rising, but they remain much lower in rural areas

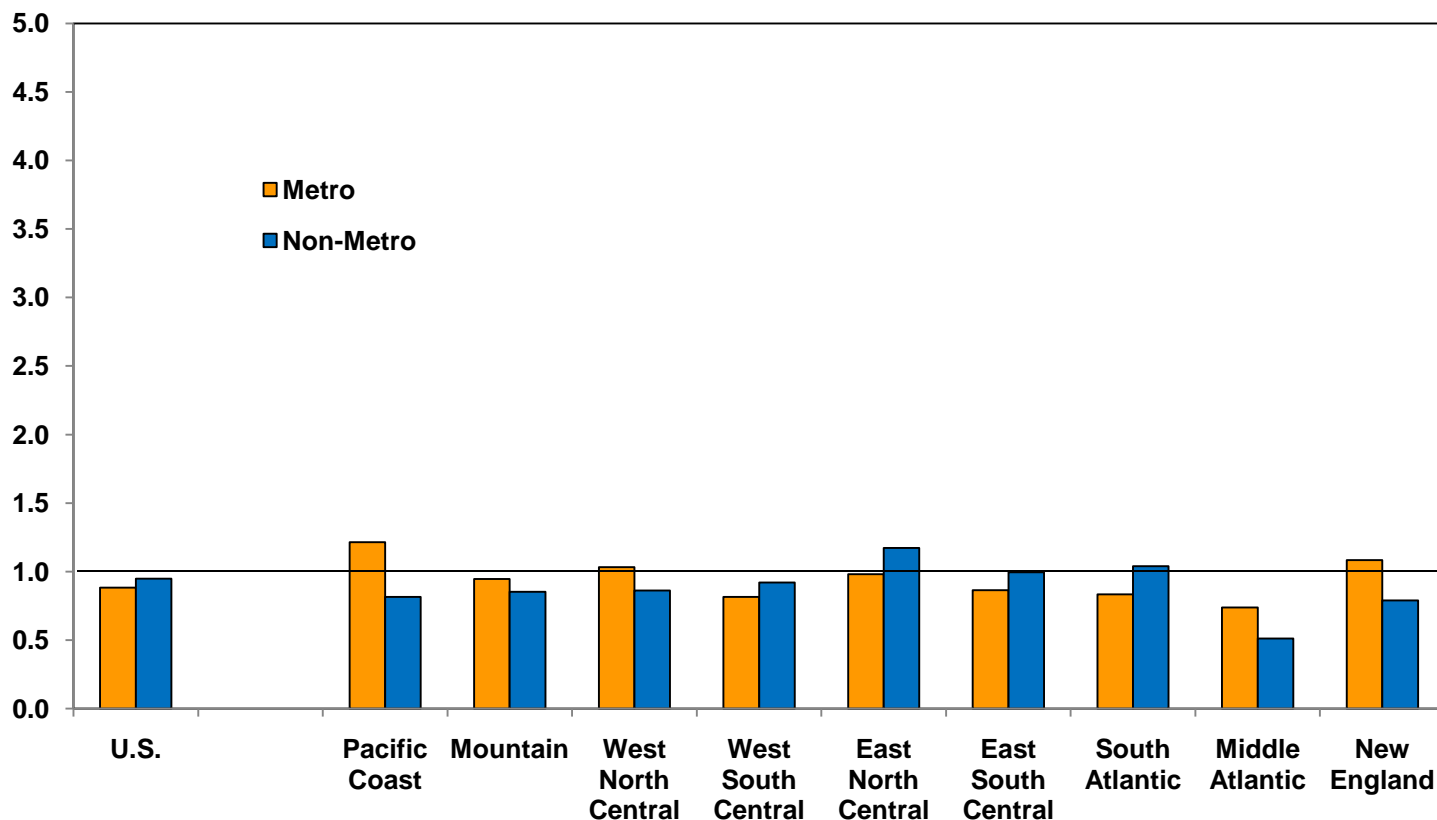
Foreclosure Rates



Source: Realty Trac; author's calculations

Before 2000, home prices and incomes grew at about the same rate throughout the country

Ratio of Home Price Growth to Per Capita Income Growth
1995-2000

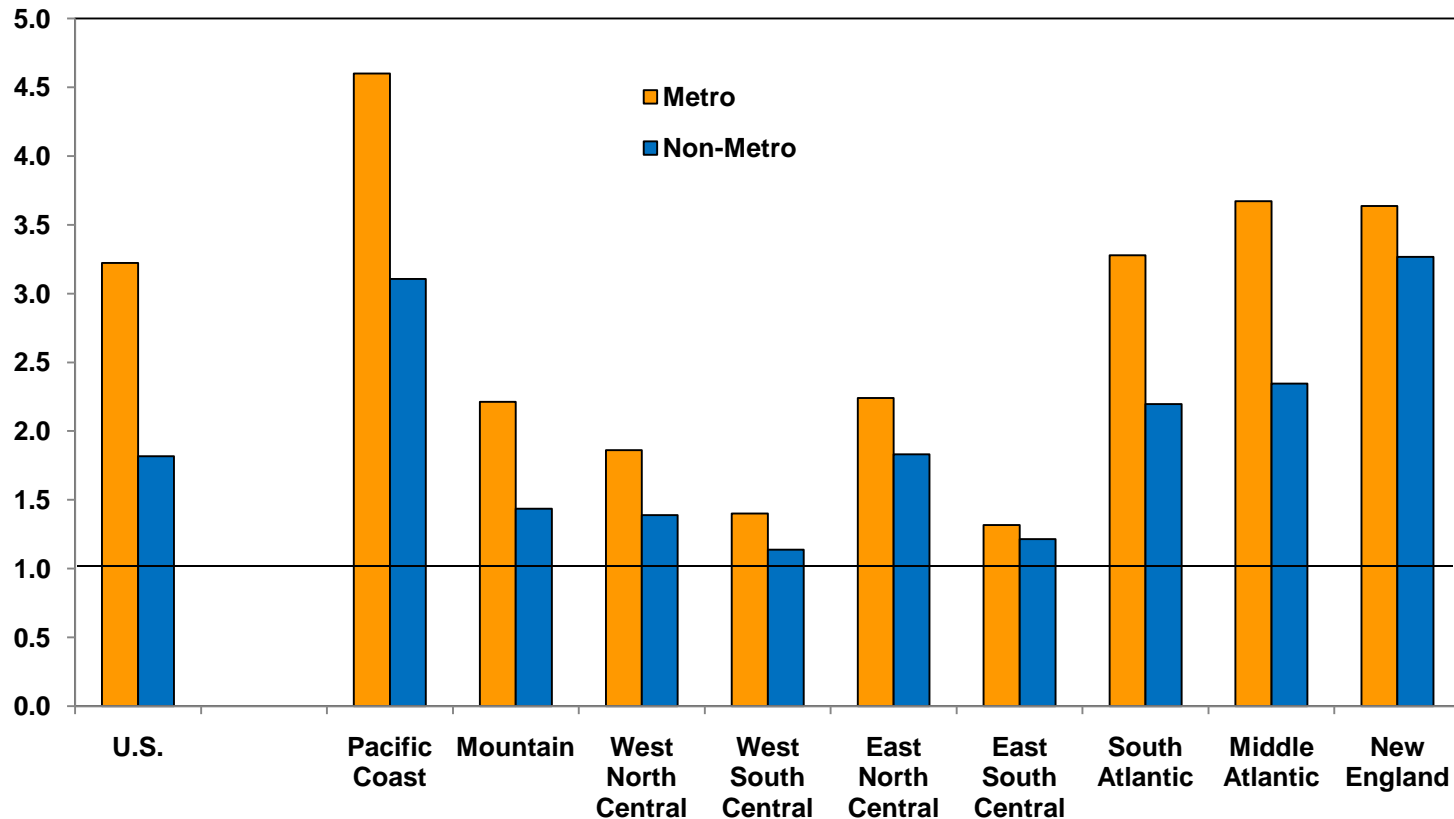


Source: FHFA, Bureau of Economic Analysis



But in the first half of this decade, some clear bubbles emerged, especially in coastal cities

Ratio of Home Price Growth to Per Capita Income Growth
2000-2005



Source: FHFA, Bureau of Economic Analysis



Why Did Rural Home Prices Boom Less?

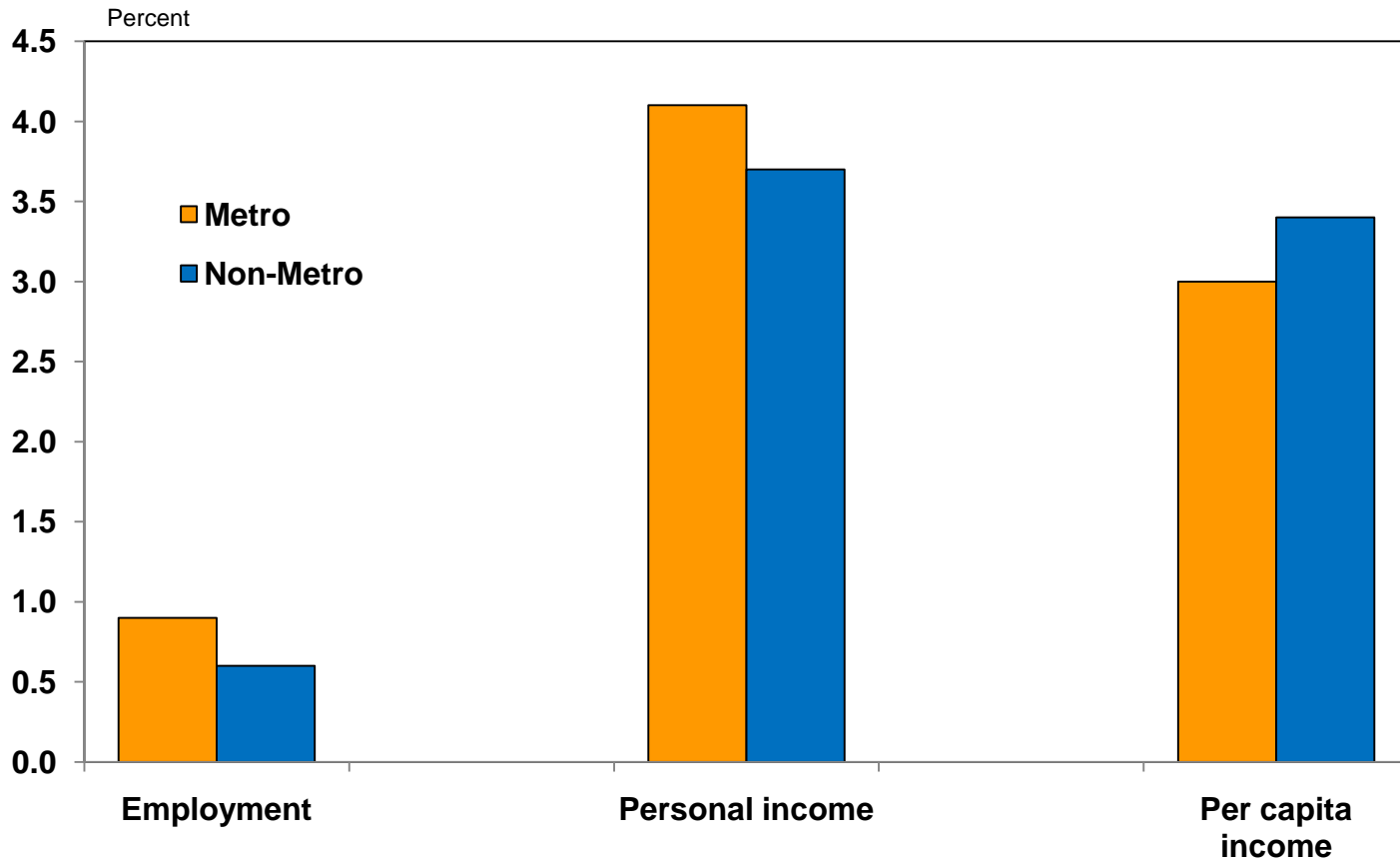
- Could be due to several factors, including:
 - Less rural housing demand due to slower rural economic growth
 - Less rural housing demand due to tighter mortgage standards in rural areas
 - Greater ease of expanding rural housing supply, due to greater availability of land



But rural economic growth was only slightly lower than in cities, and was higher per capita

Average Annual U.S. Growth in Employment and Income

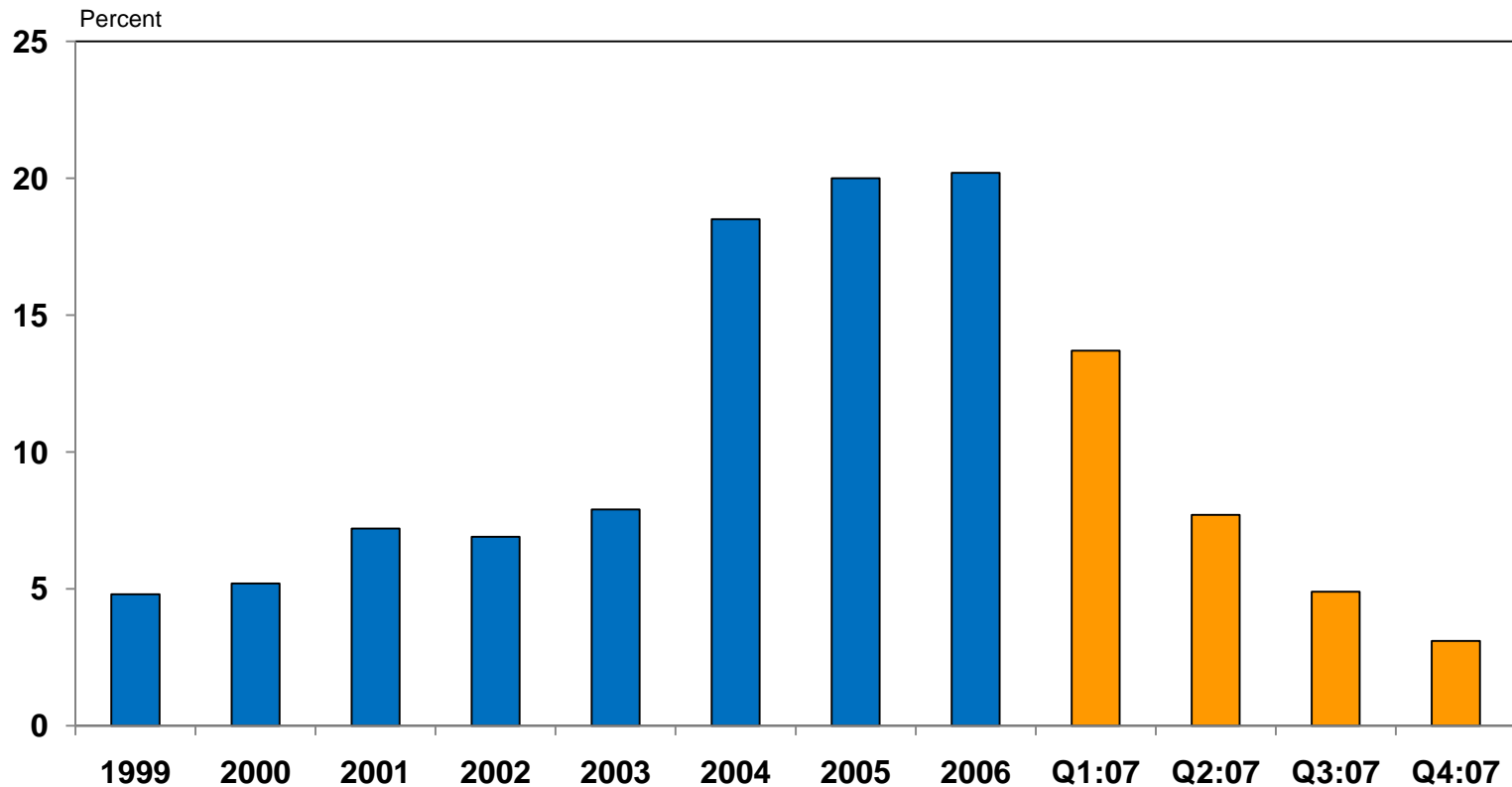
2000-2005



Source: Bureau of Economic Analysis

Nationally, of course, subprime mortgage originations soared earlier this decade

Subprime Share of U.S. Mortgage Originations
1999-2007

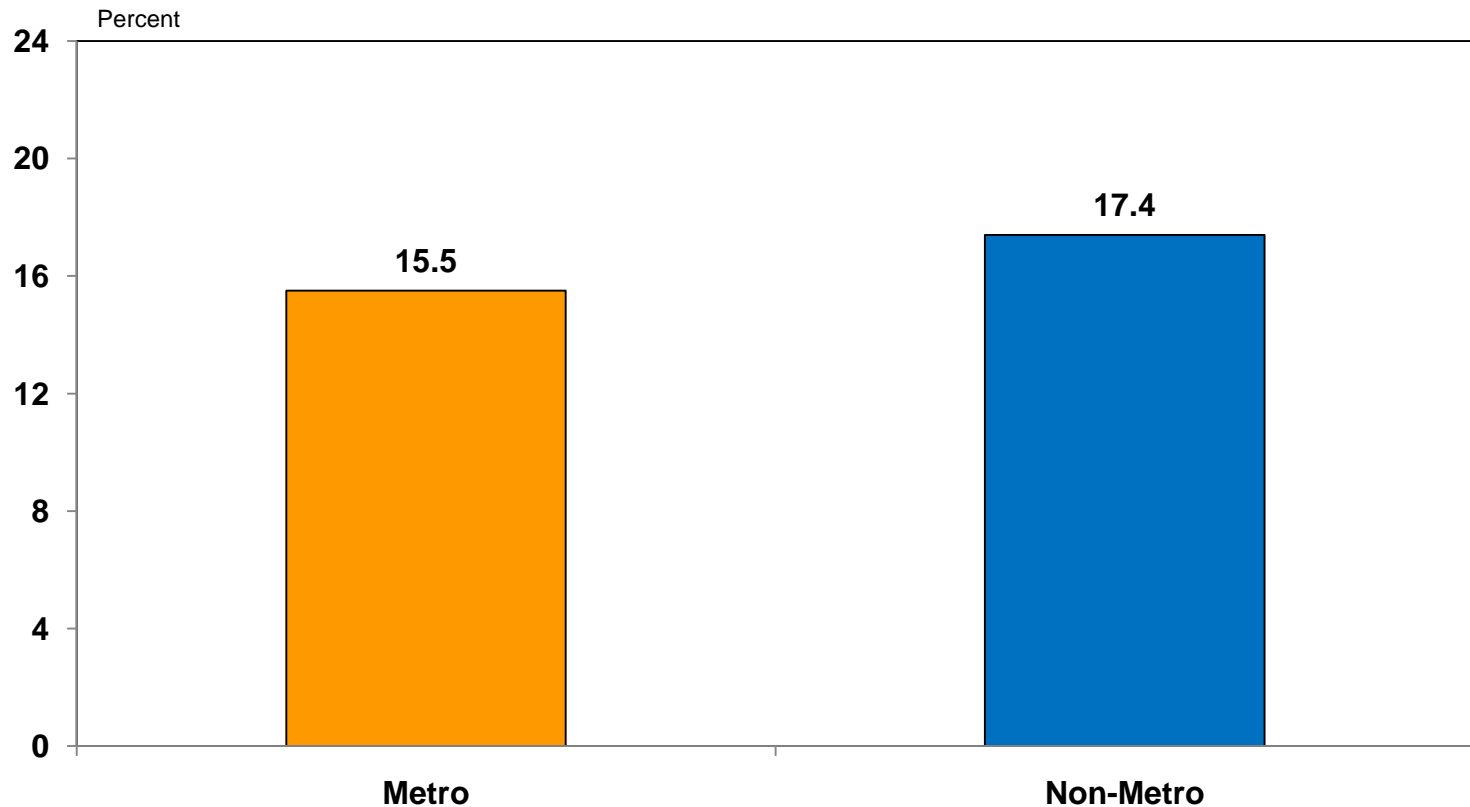


Source: Inside Mortgage Finance



But subprime mortgages appear to have been as prevalent in rural areas as in cities

Subprime Share of U.S. Mortgage Originations, 2004



Source: Housing Assistance Council



That leaves rural areas' fewer constraints on housing supply as a likely contributor

- Theoretically at least, it is more difficult to quickly expand housing supply in cities than in rural areas, especially if the cities have topographical or building code constraints
- Housing permits did rise faster in rural areas than in cities in 2005, near the end of the housing boom, perhaps better allowing rural prices to stay in line with fundamentals



The Outlook for Rural Home Prices

- Overall, since rural home prices boomed less than metro prices, they should also have less of a bust
- However, subprime loans were prevalent in rural areas, and rural home prices did outpace incomes
- How much risk rural prices have depends in part on the future paths of the U.S. and rural economies

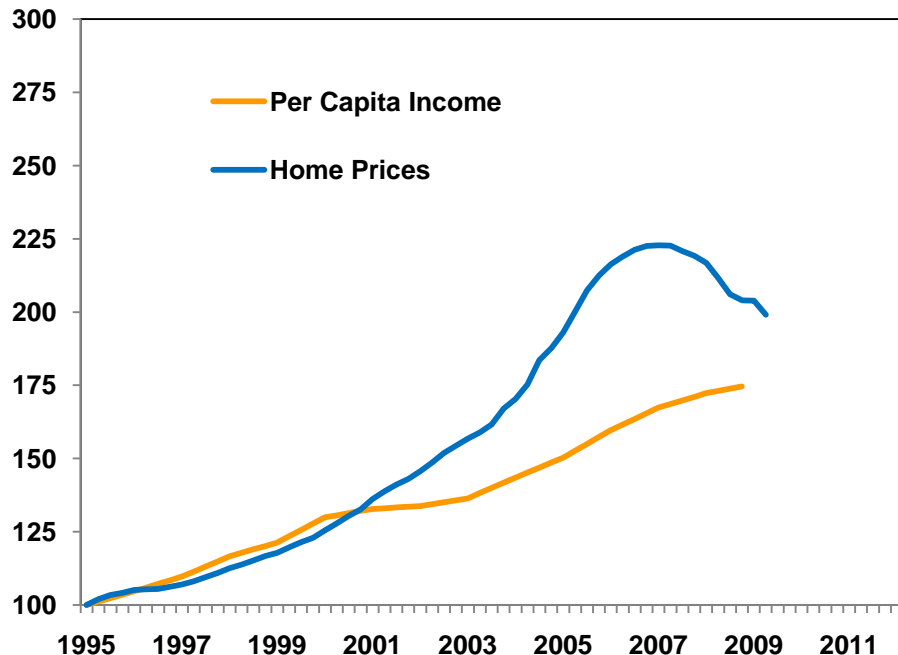


Going forward, both metro and rural home prices may need to ease in order to come into balance

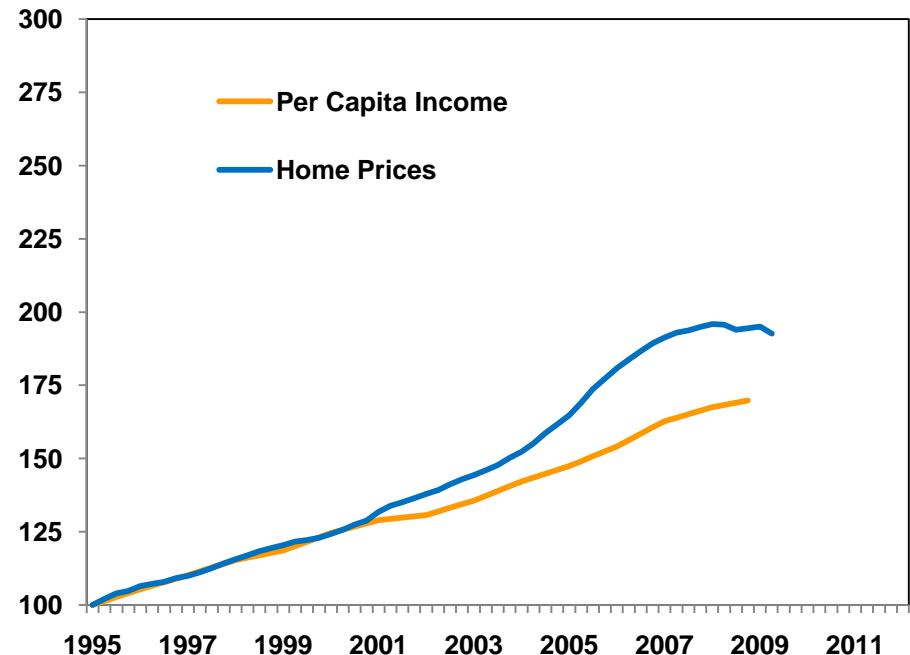
Home Prices and Per Capita Income Levels*

Index: 1995=100

U.S. - Metro



U.S. - Non-Metro



*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA

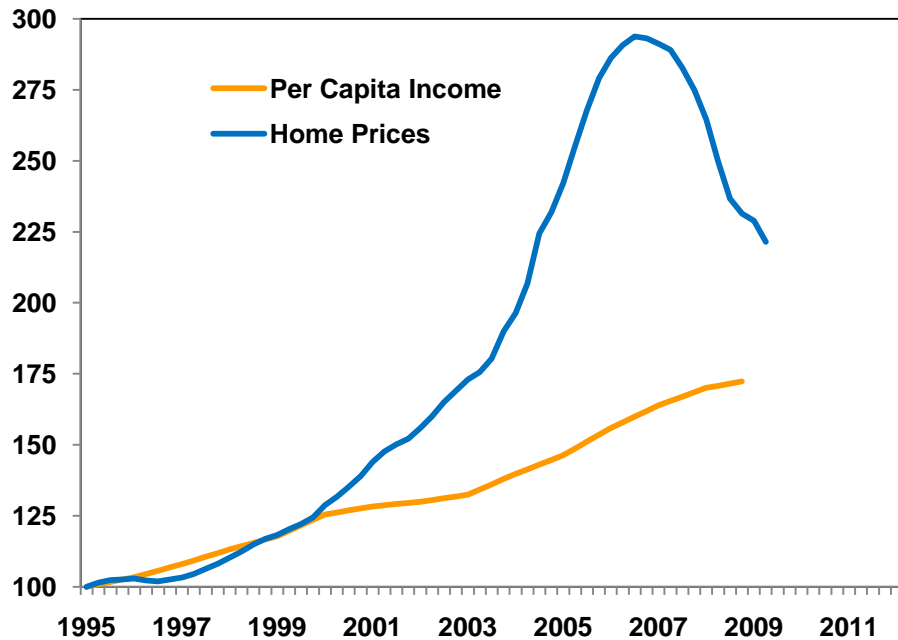


This seems especially true in the Pacific region

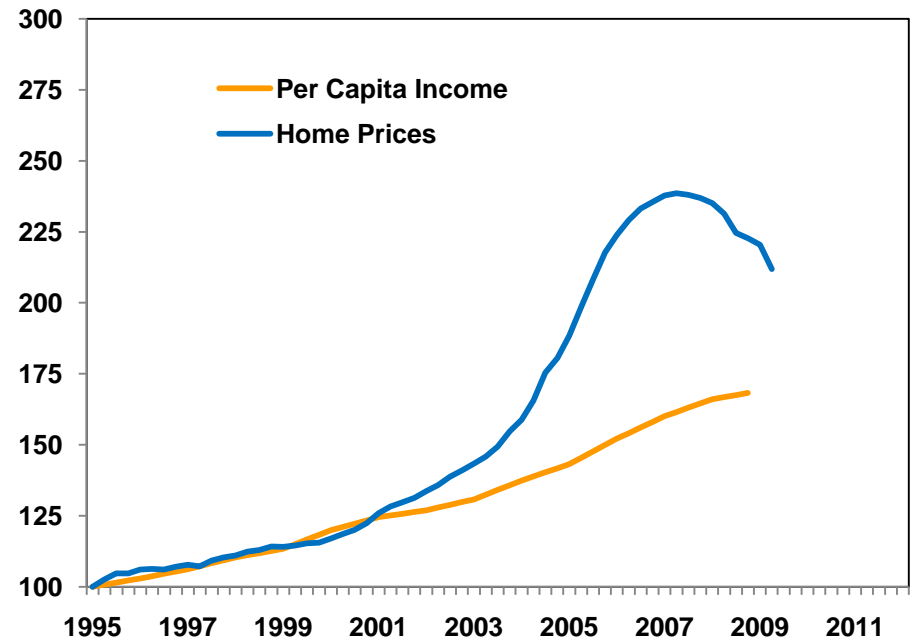
Home Prices and Per Capita Income Levels*

Index: 1995=100

Pacific - Metro



Pacific - Non-Metro



*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA

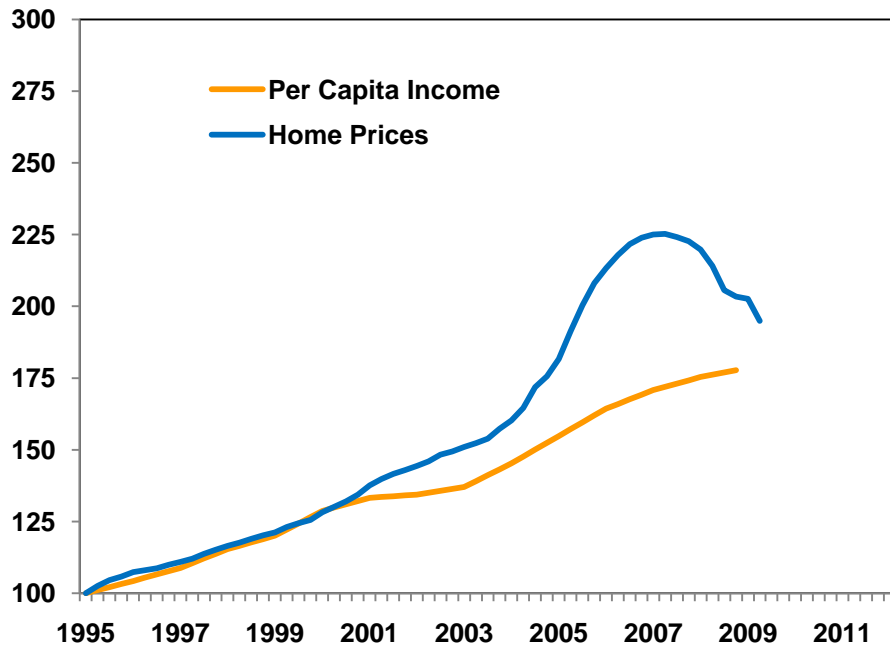


Mountain region home prices also surged

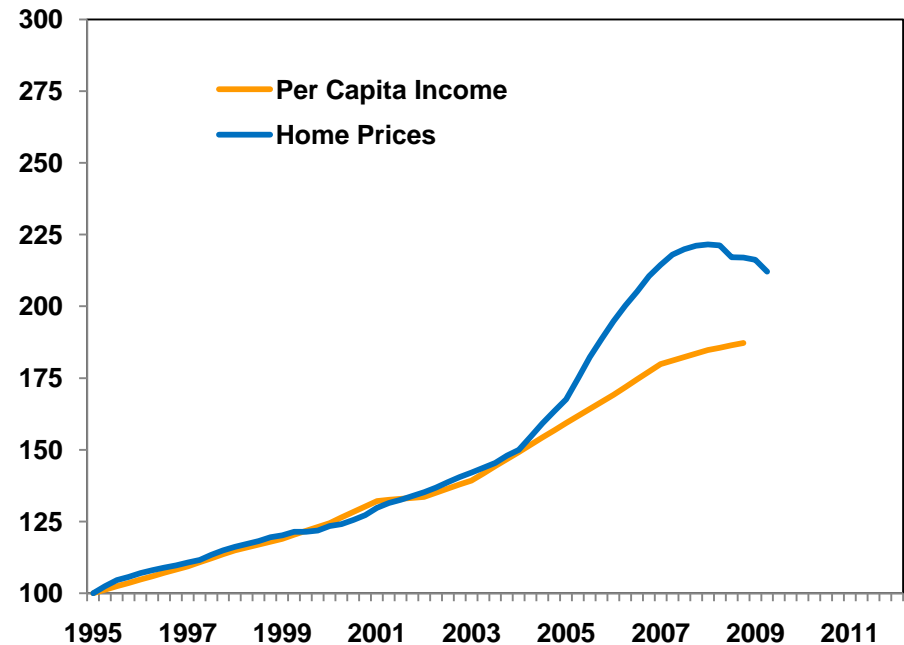
Home Prices and Per Capita Income Levels*

Index: 1995=100

Mountain - Metro



Mountain - Non-Metro



*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA

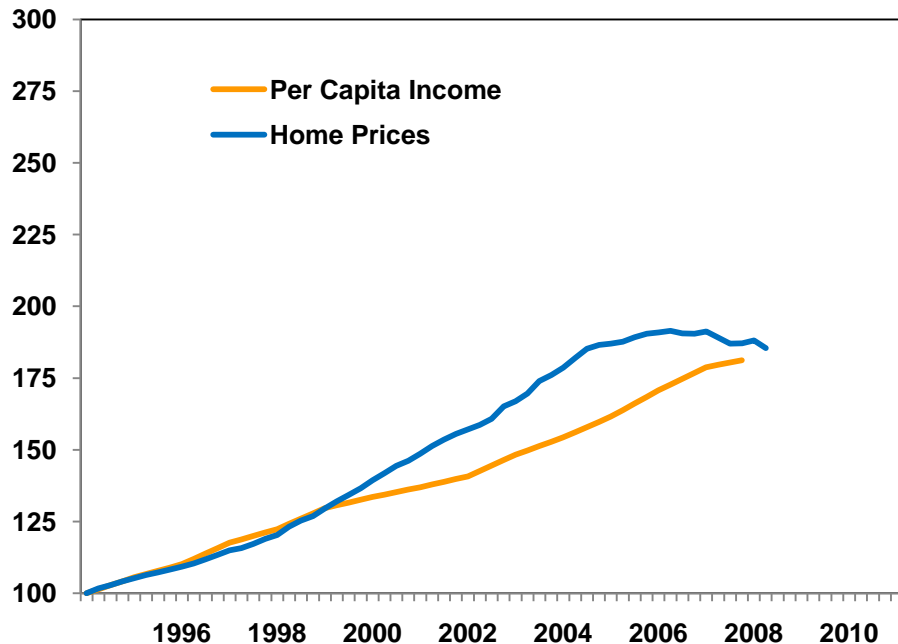


Rural areas of the upper Plains appear balanced

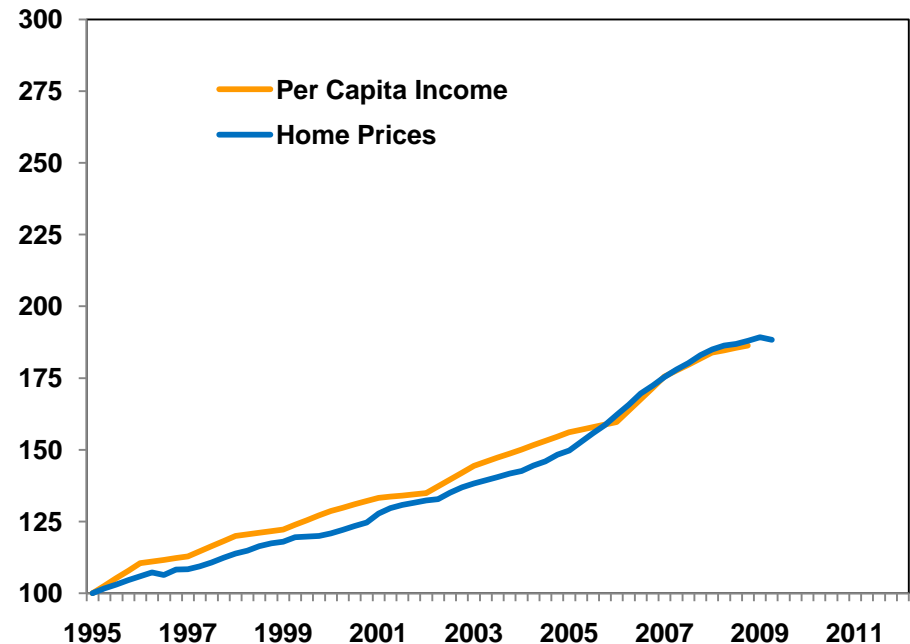
Home Prices and Per Capita Income Levels*

Index: 1995=100

West North Central - Metro



West North Central - Non-Metro



*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA

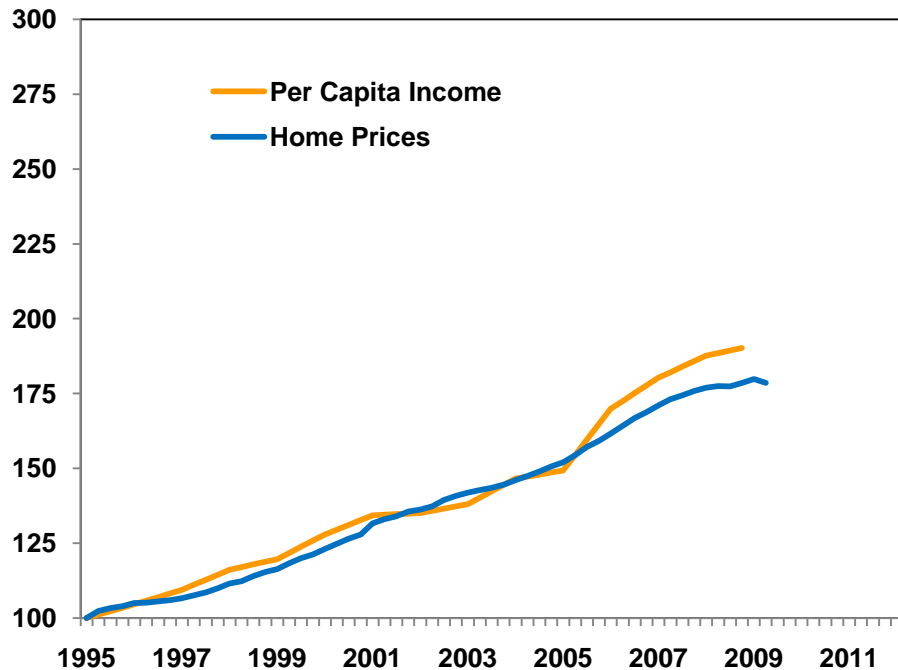


The same is nearly true for the southern Plains

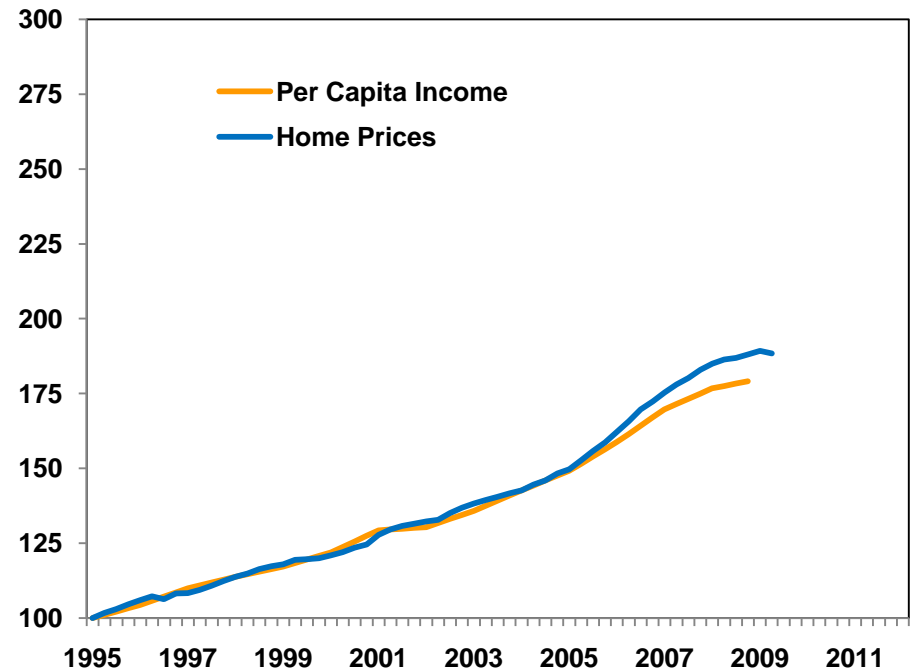
Home Prices and Per Capita Income Levels*

Index: 1995=100

West South Central - Metro



West South Central - Non-Metro



*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA

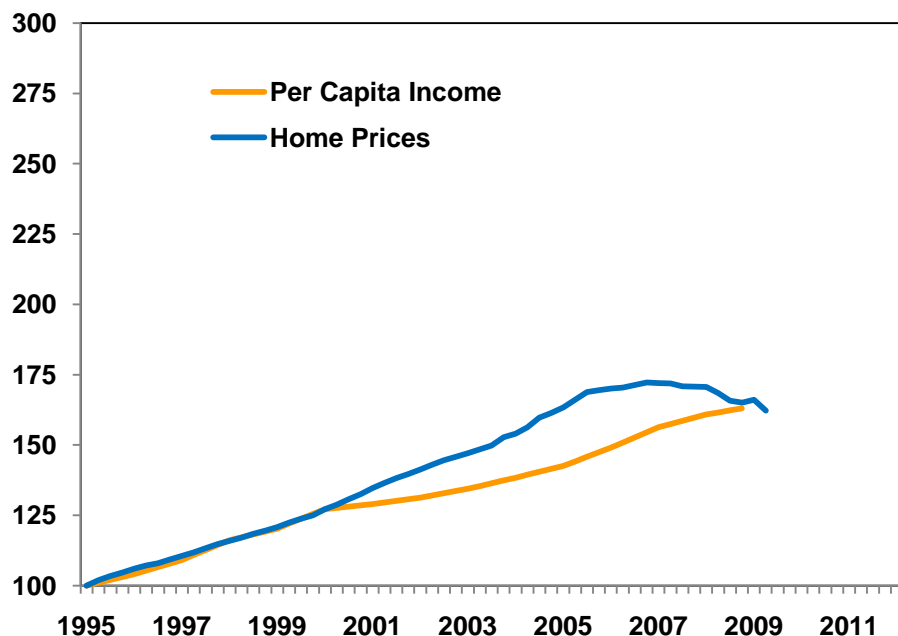


Rural Great Lakes areas may have a small gap

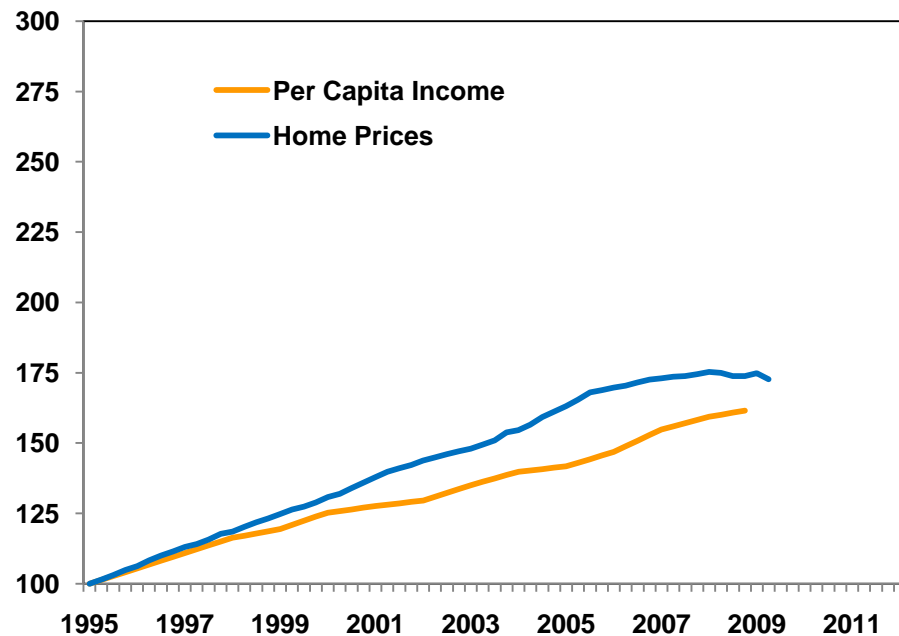
Home Prices and Per Capita Income Levels*

Index: 1995=100

East North Central - Metro



East North Central - Non-Metro



*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA

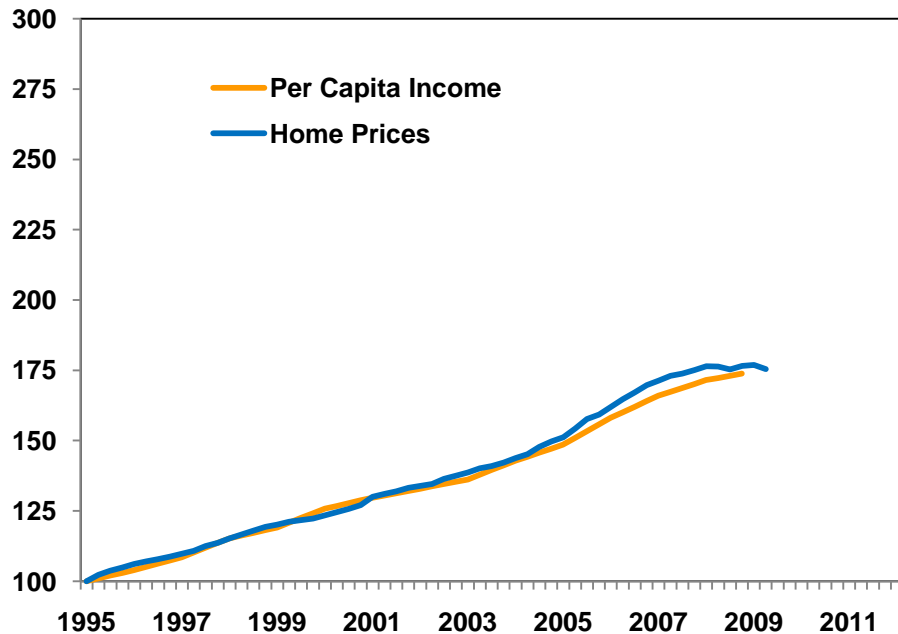


As may rural areas of the mid-South

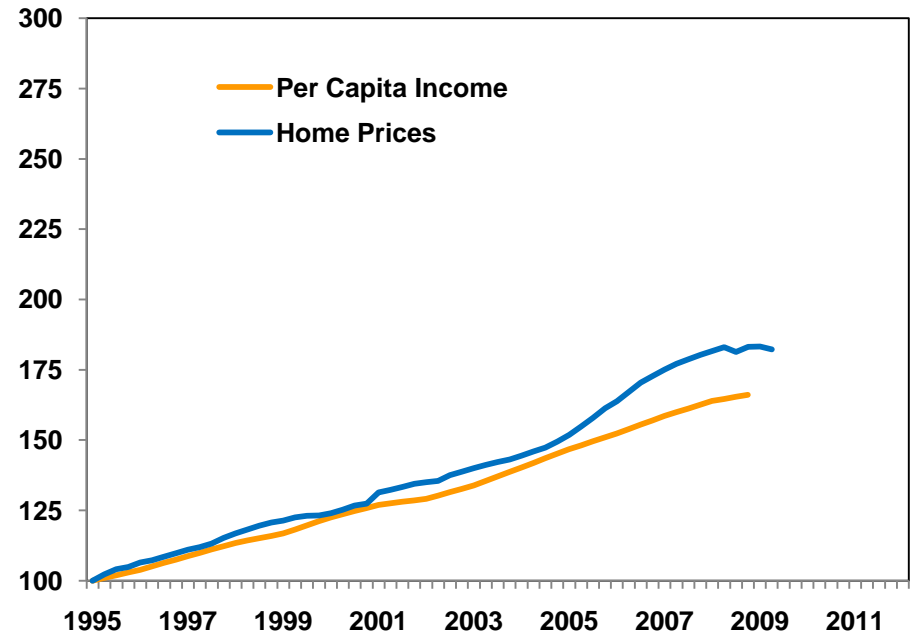
Home Prices and Per Capita Income Levels*

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East South Central - Metro



East South Central - Non-Metro



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Source: FHFA, BEA

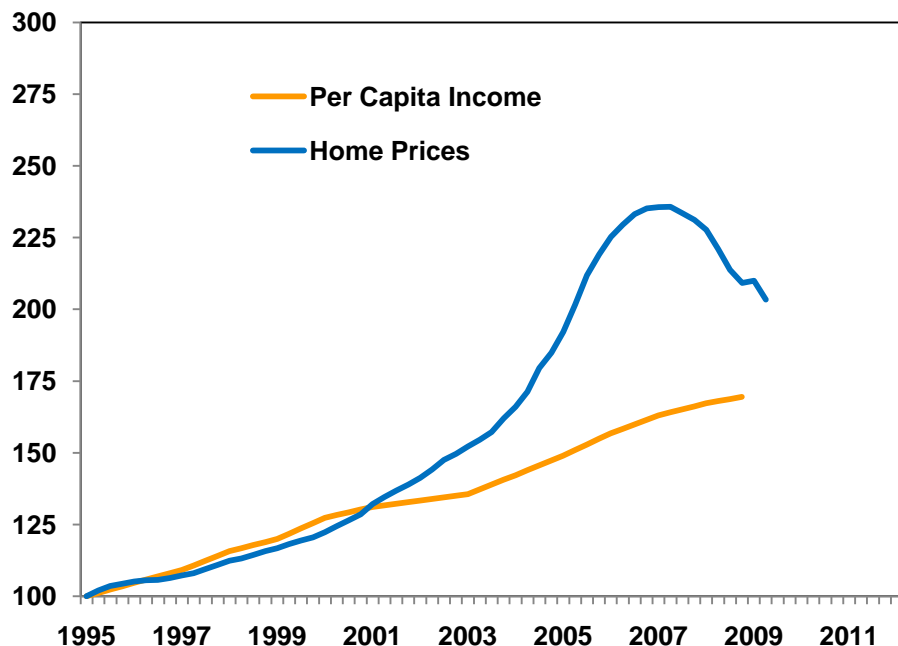


The Southeast appears due for more correction

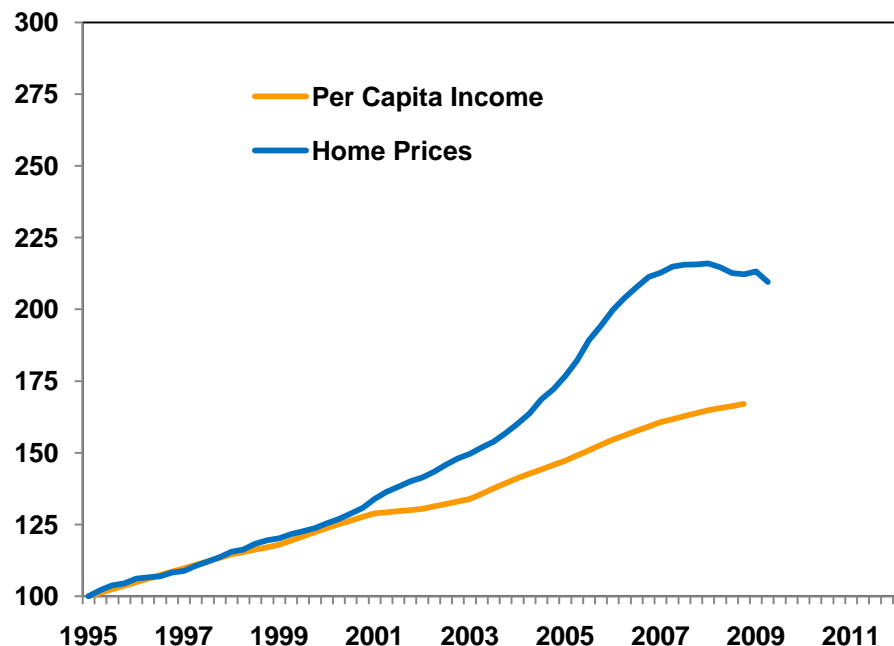
Home Prices and Per Capita Income Levels*

Index: 1995=100

South Atlantic - Metro



South Atlantic - Non-Metro



*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA

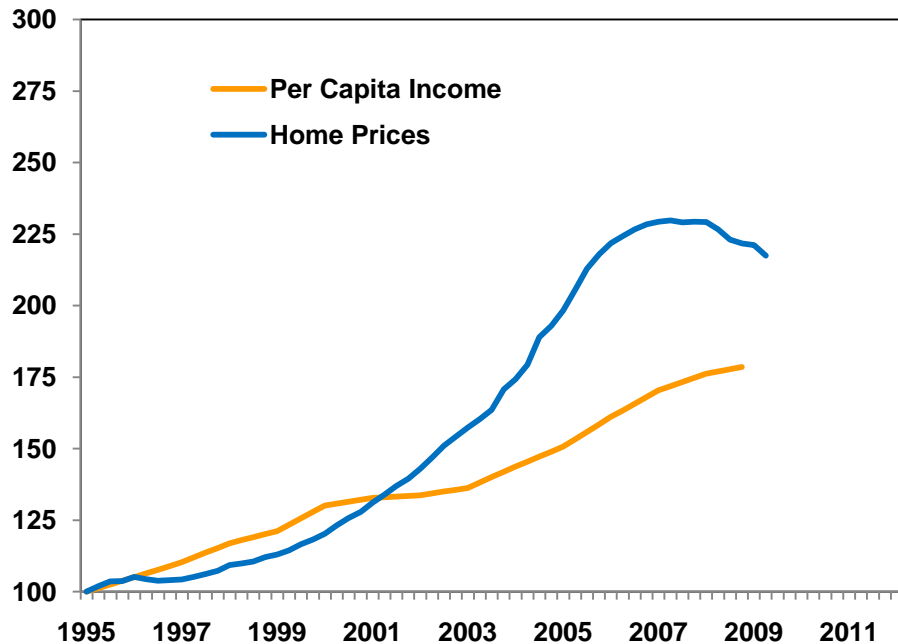


As does the mid-Atlantic region

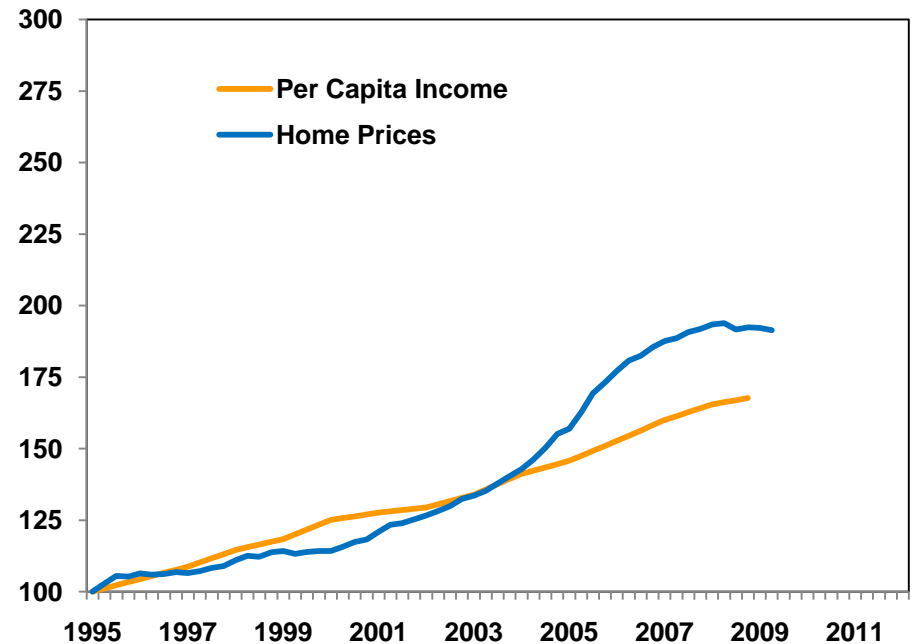
Home Prices and Per Capita Income Levels*

Index: 1995=100

Middle Atlantic - Metro



Middle Atlantic - Non-Metro



*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA

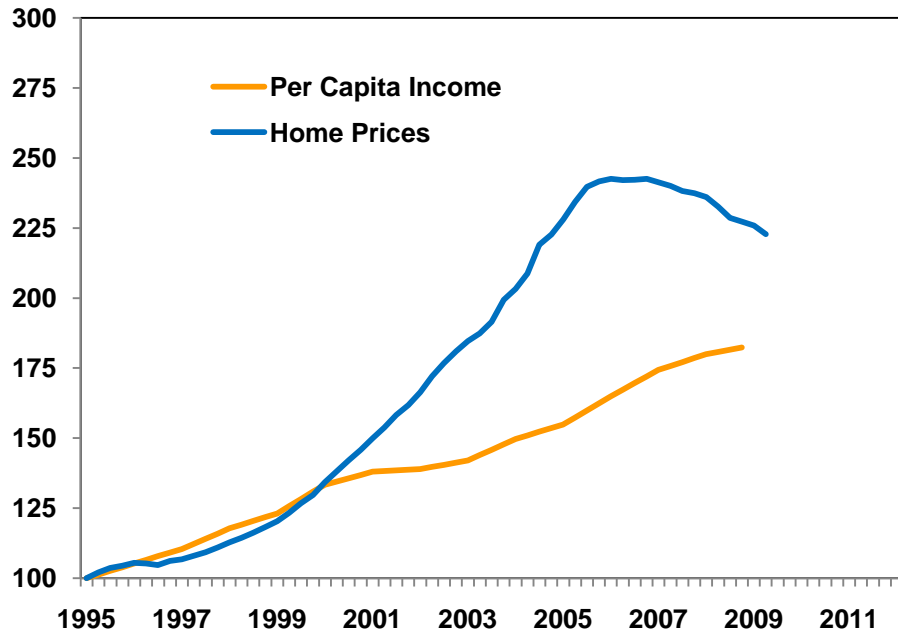


New England home prices also appear too high

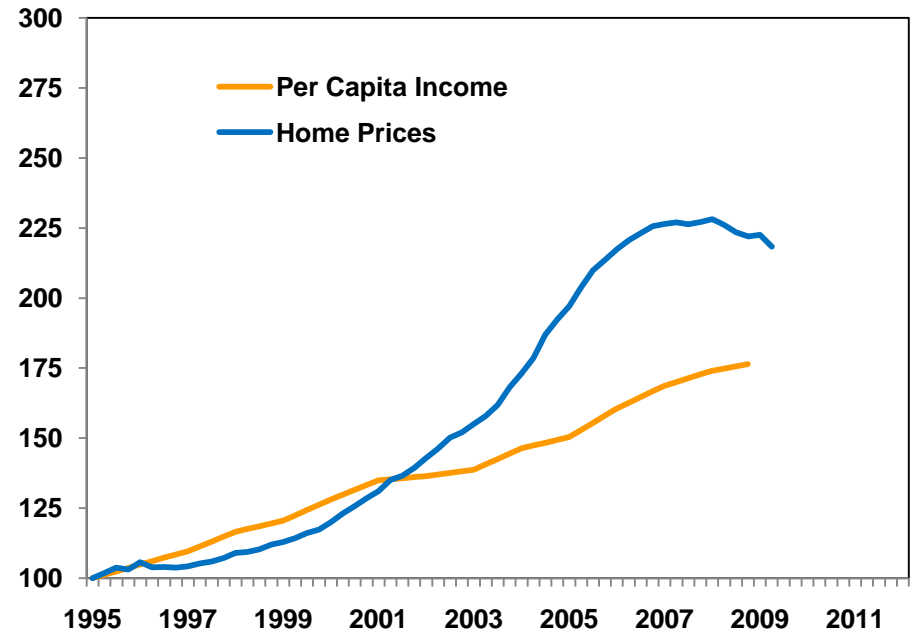
Home Prices and Per Capita Income Levels*

Index: 1995=100

New England - Metro



New England - Non-Metro



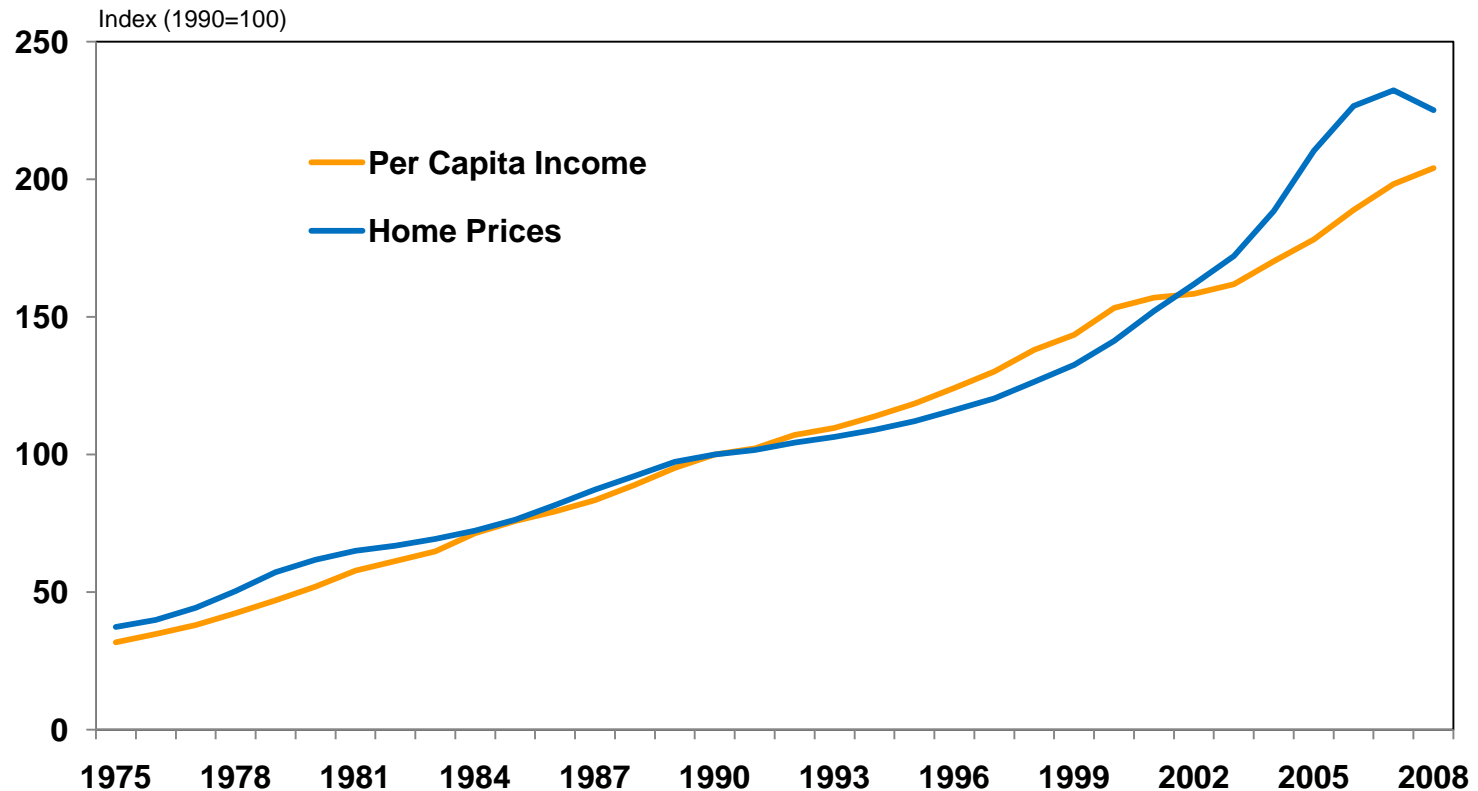
*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA



U.S. home prices and per capita income have tracked closely over time, but when was “normal”?

U.S. Home Prices and Per Capita Income
1975-2008



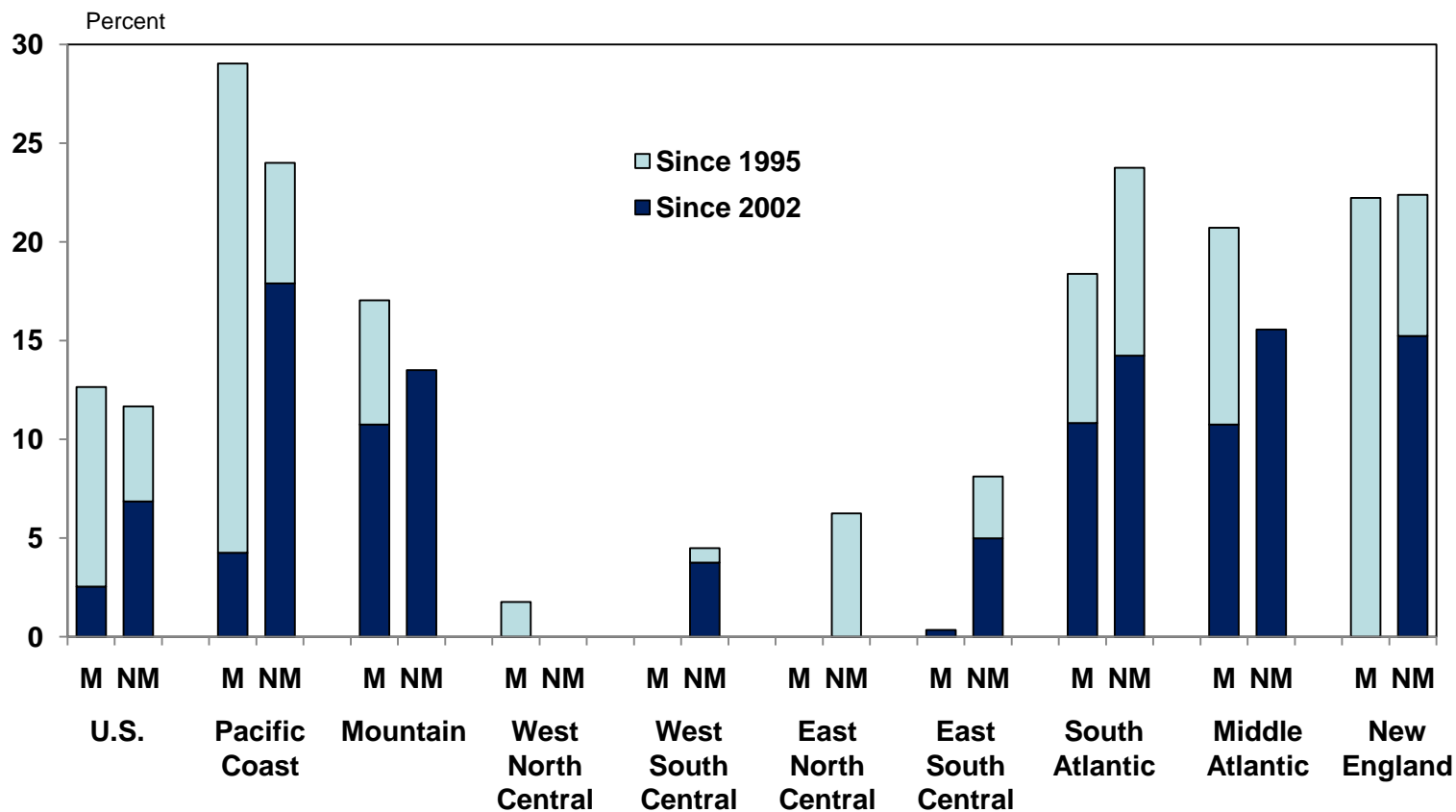
Source: FHFA, U.S. Bureau of Economic Analysis



Whether 1995 or 2002, coastal regions appear to still be overpriced, including in their rural areas

Excess of Home Price Growth Over Per Capita Income Growth

As of Q2 2009*

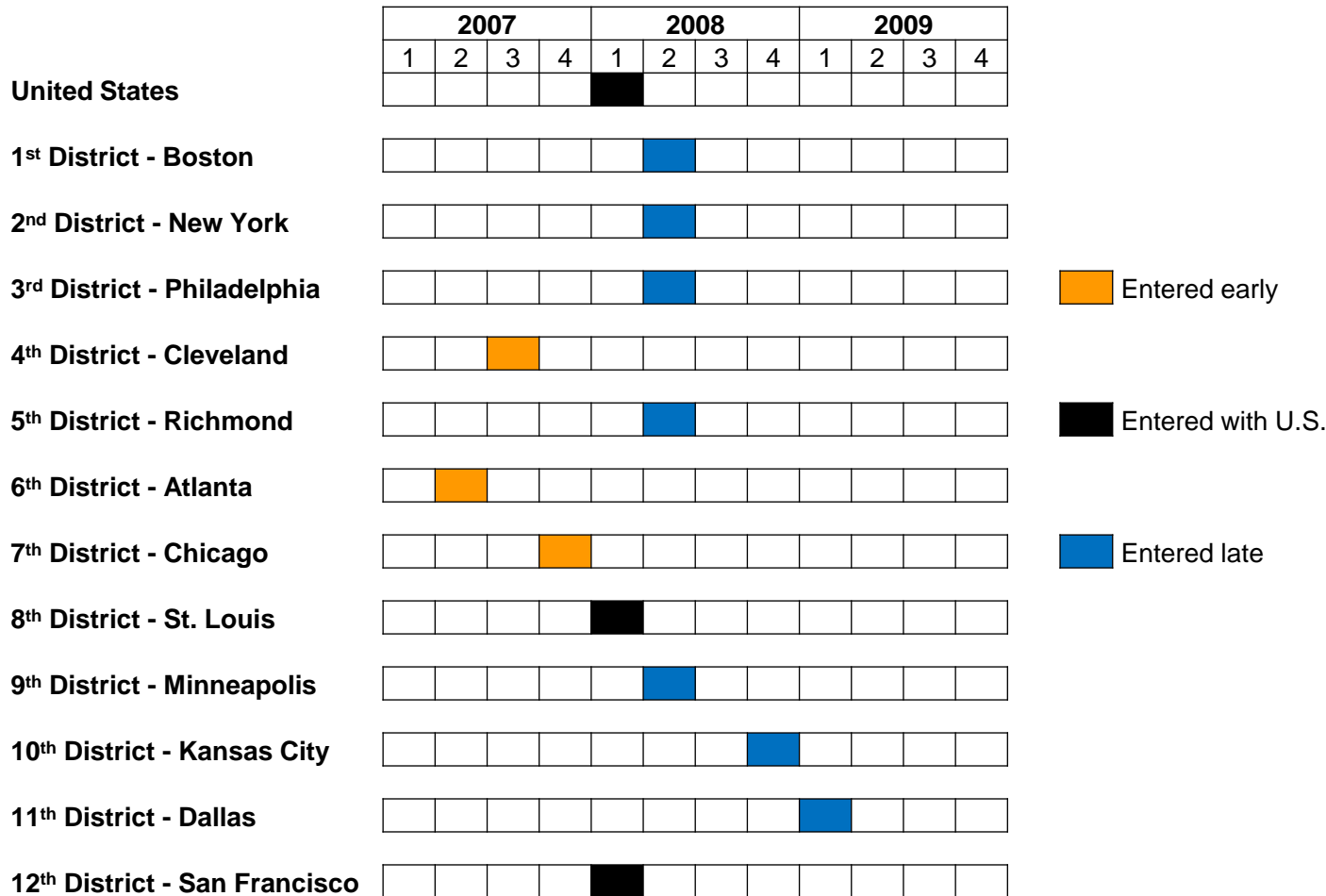


Source: FHFA, Bureau of Economic Analysis

* Per capita income growth based on actual data through 2007; for 2008, overall regional growth is used as an estimate; for 2009, overall U.S. growth is used as an estimate

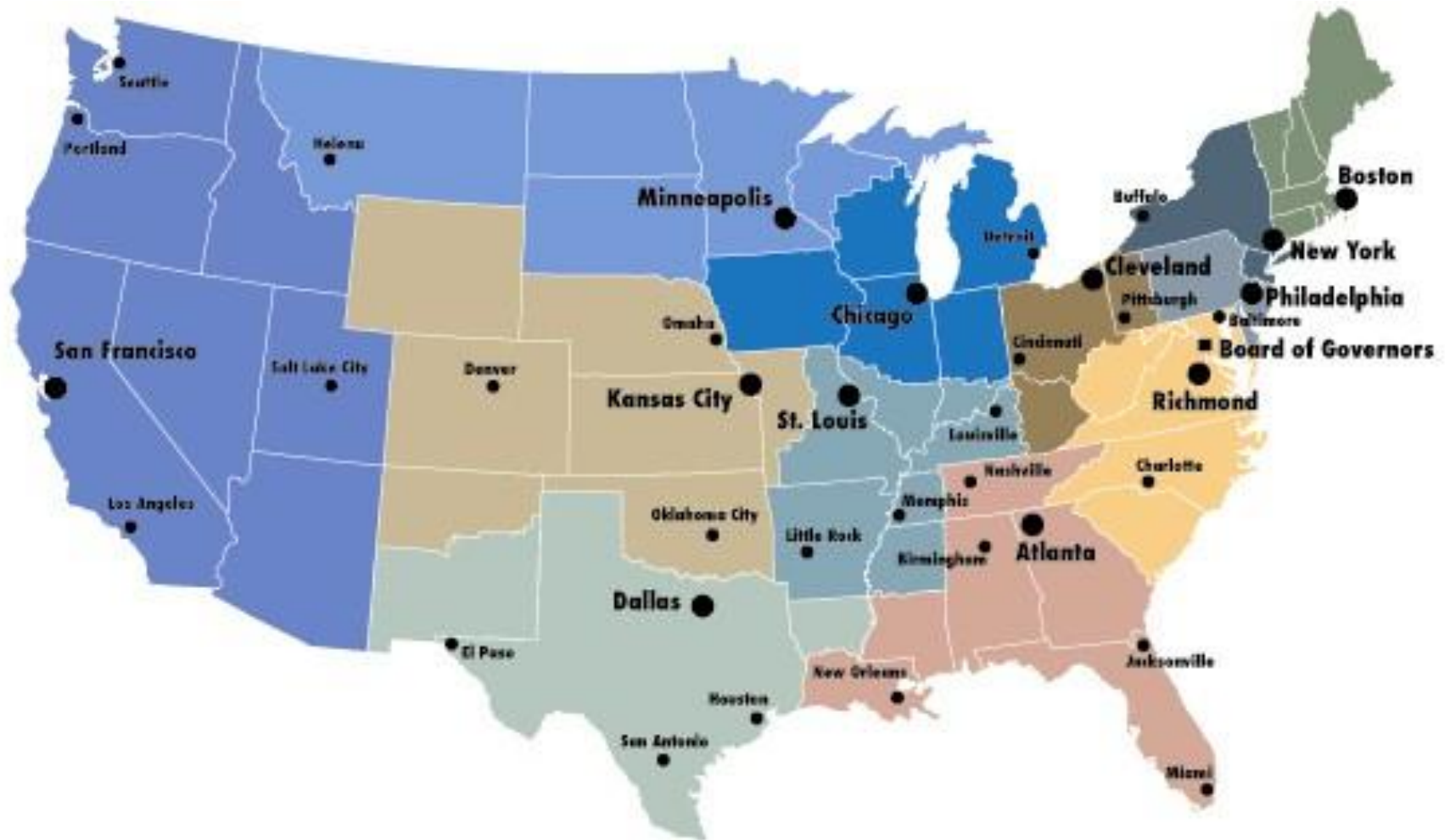
The timing of entry to this recession varied widely by region across the nation

Quarter of Entry to the Current Recession



Source: U.S. Bureau of Labor Statistics

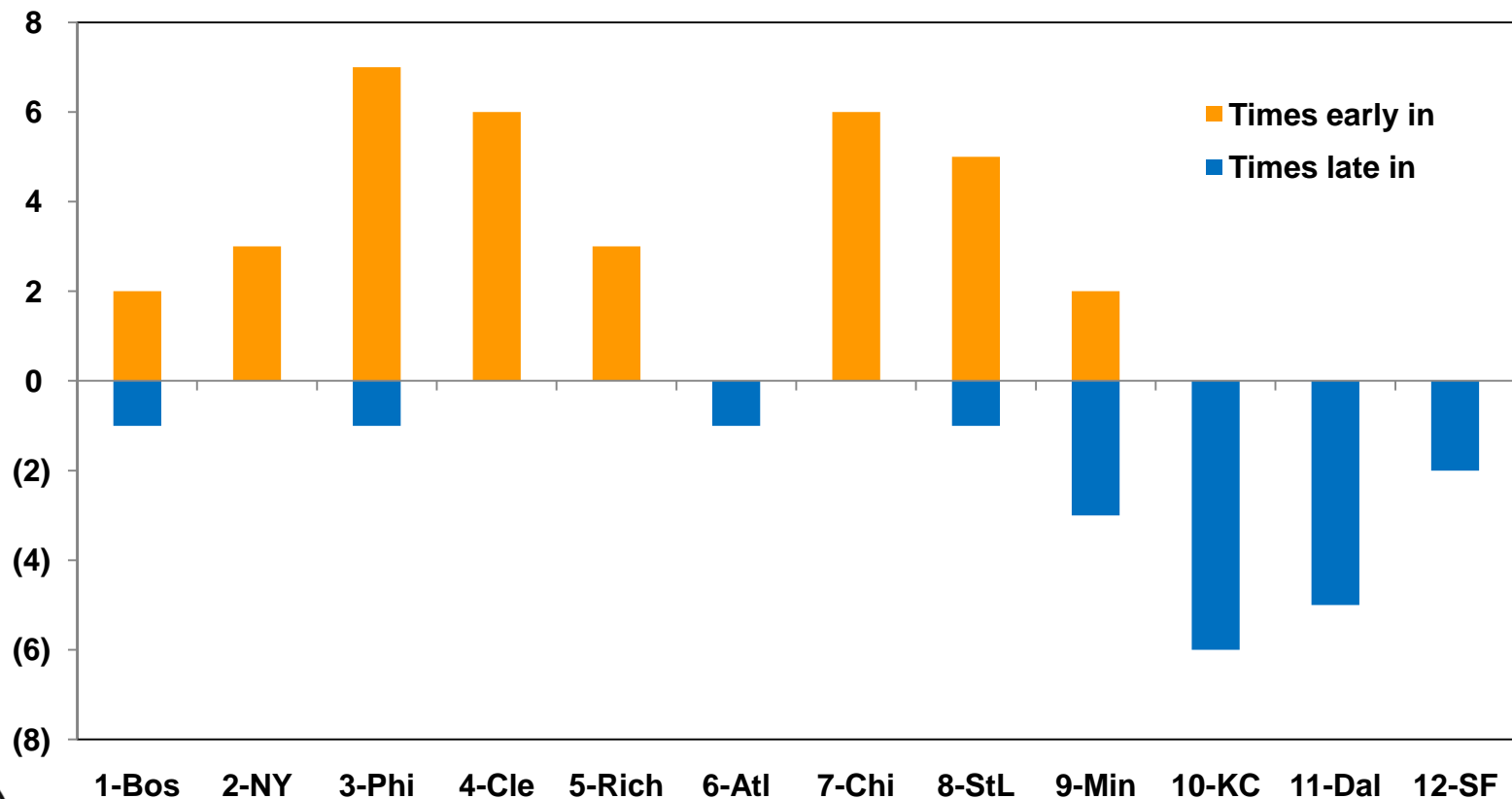
Federal Reserve Districts and Office Locations



Historically, different parts of the country typically enter recessions at different times

Historical Timing of Entry to Recessions by Fed District

For the eight U.S. recessions from 1957-2003

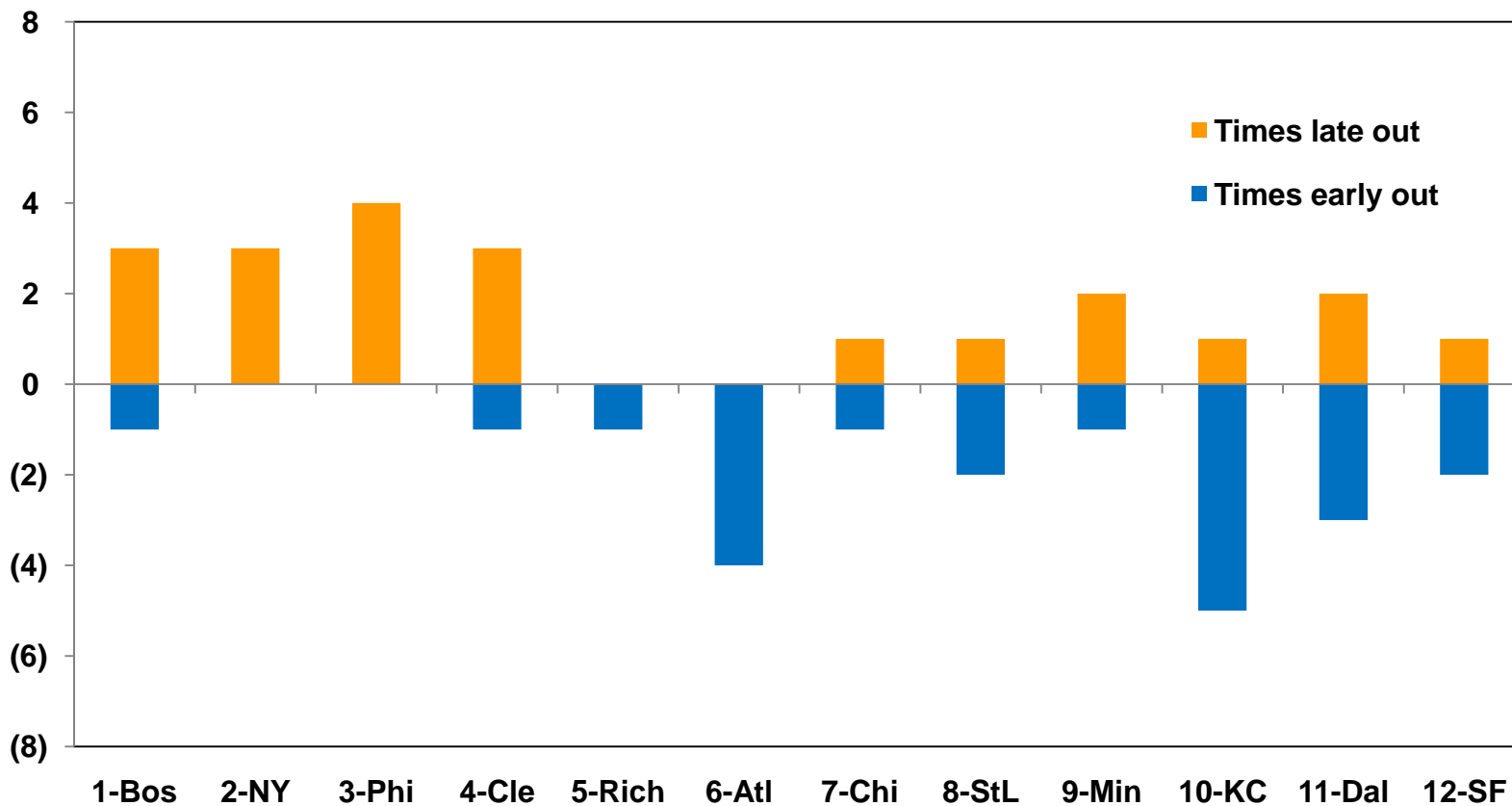


Source: Bureau of Labor Statistics

But exit from recessions—especially deep ones—has been more simultaneous across regions

Historical Timing of Exit from Recessions by Fed District

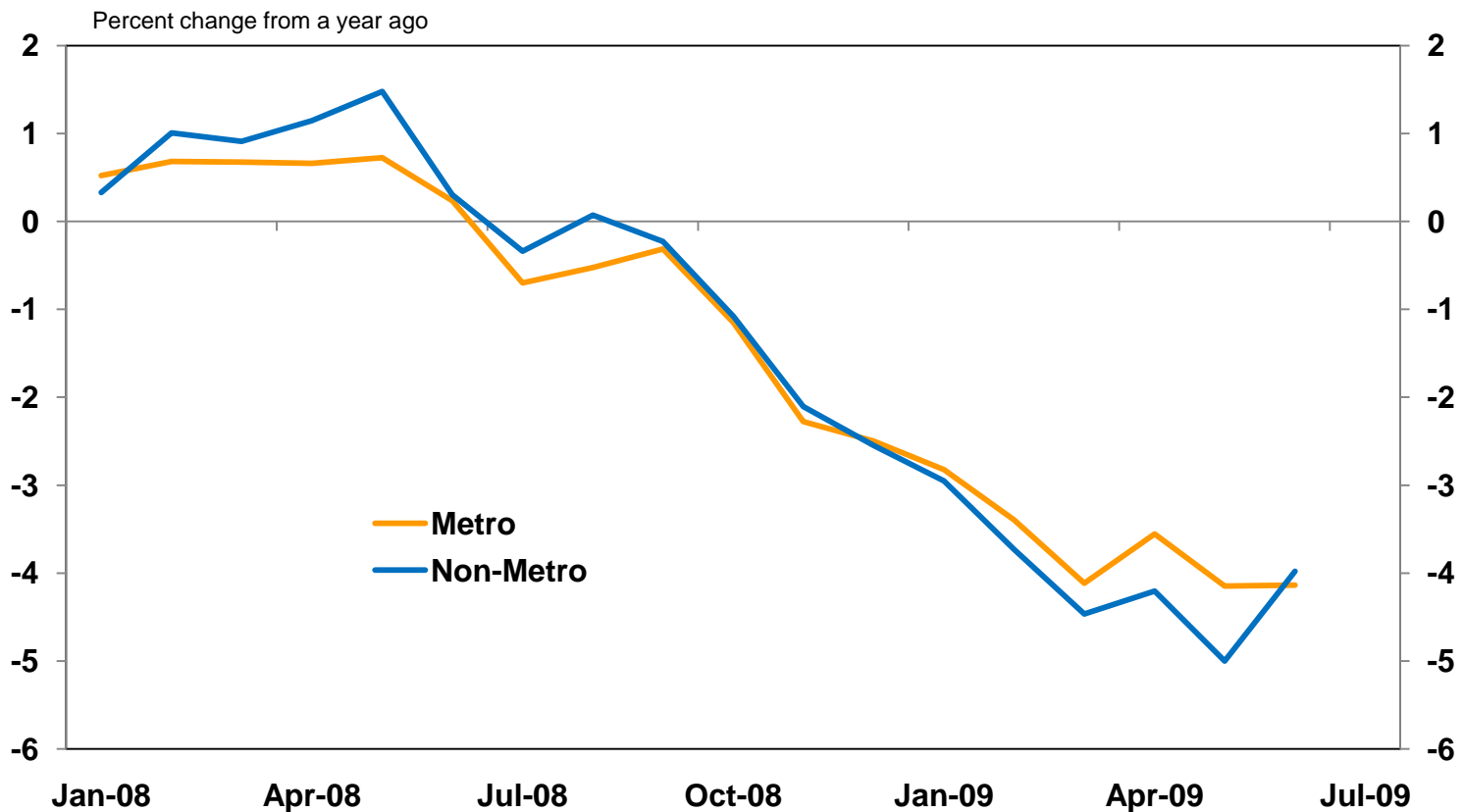
For the eight U.S. recessions from 1957-2003



Source: Bureau of Labor Statistics

Rural areas held up longer in this recession, and appear to have bottomed with cities

U.S. Employment Growth Since Beginning of Recession

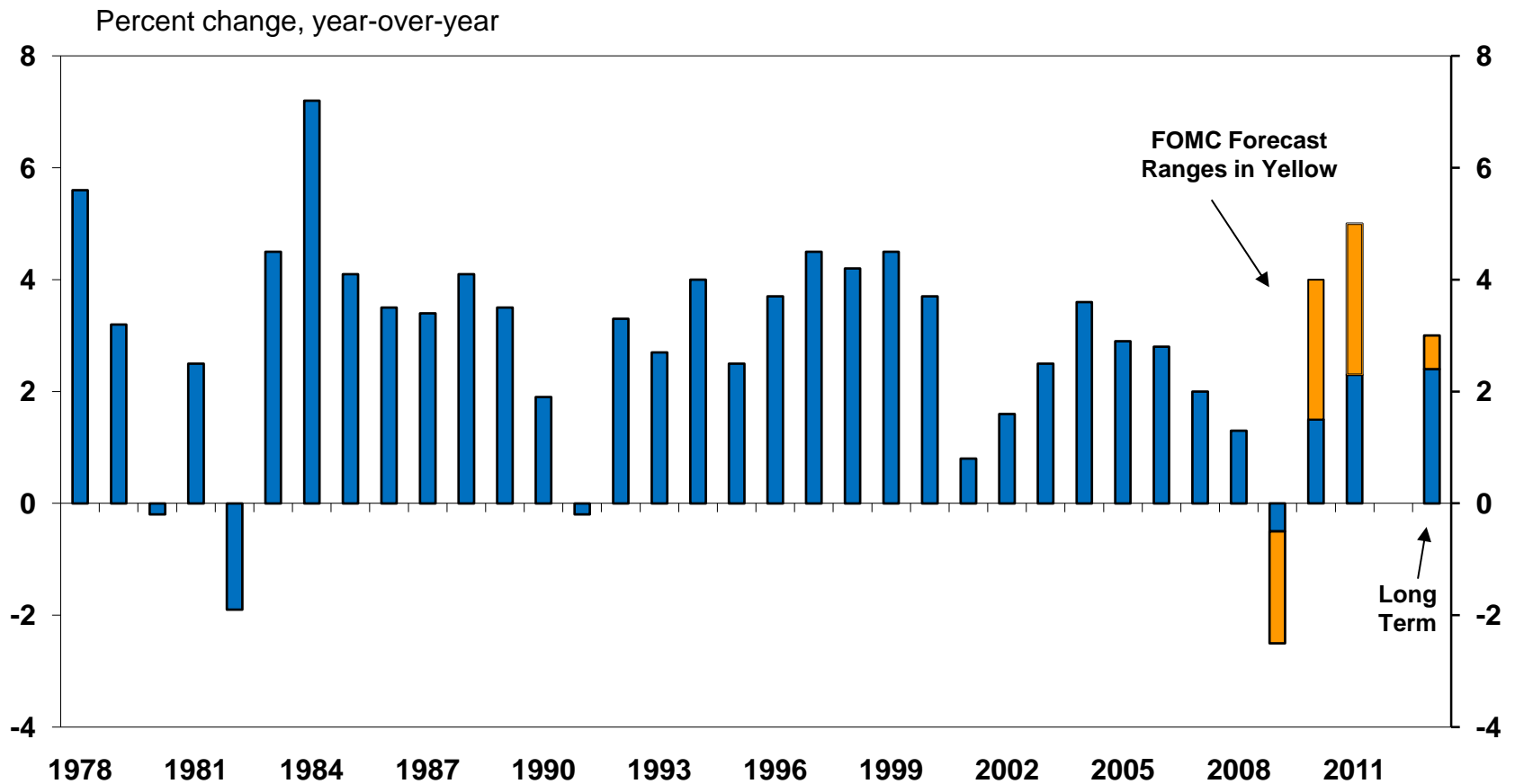


Source: Bureau of Labor Statistics



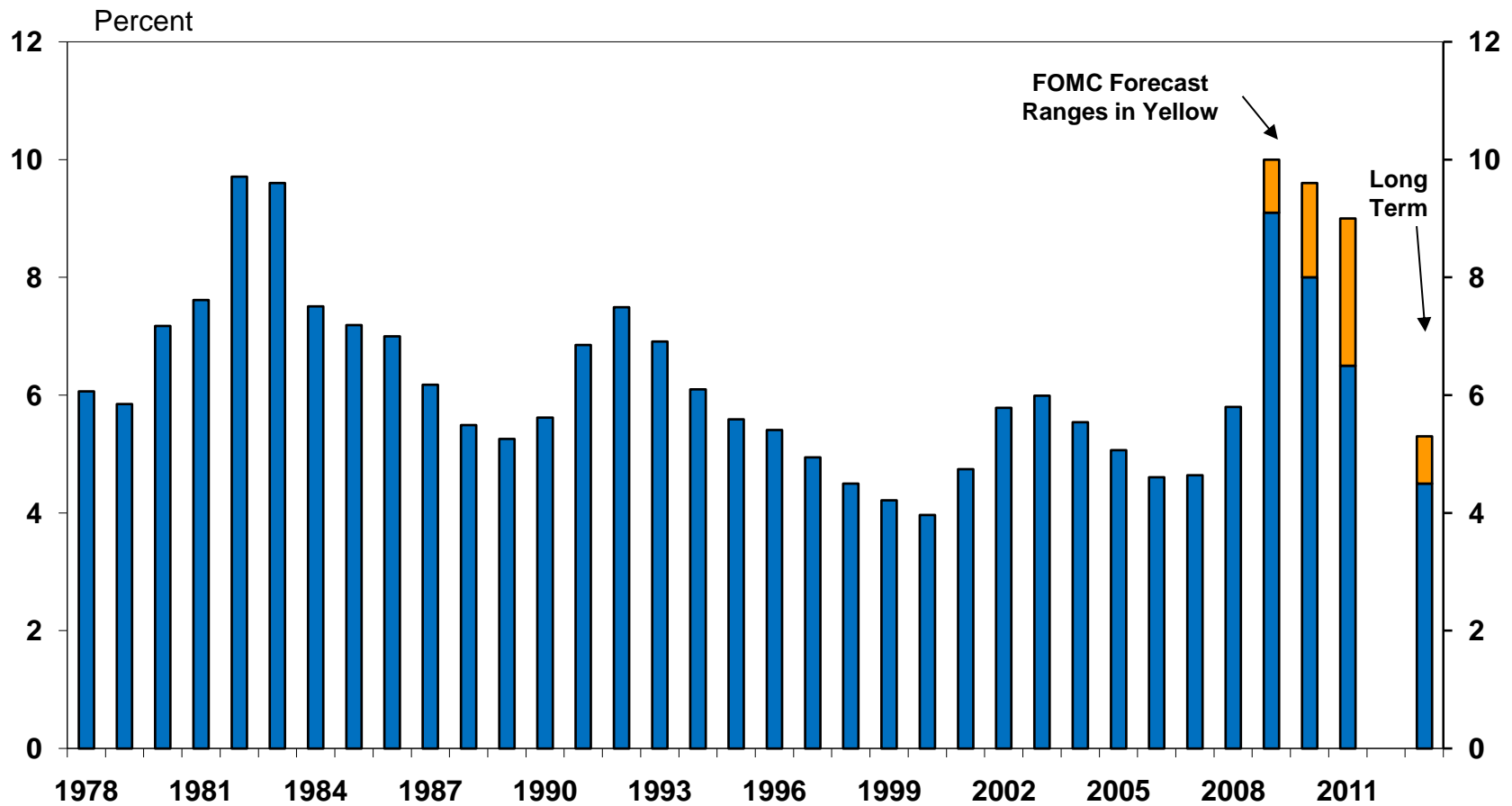
Heading forward, policy makers generally expect a gradual U.S. recovery

Gross Domestic Product



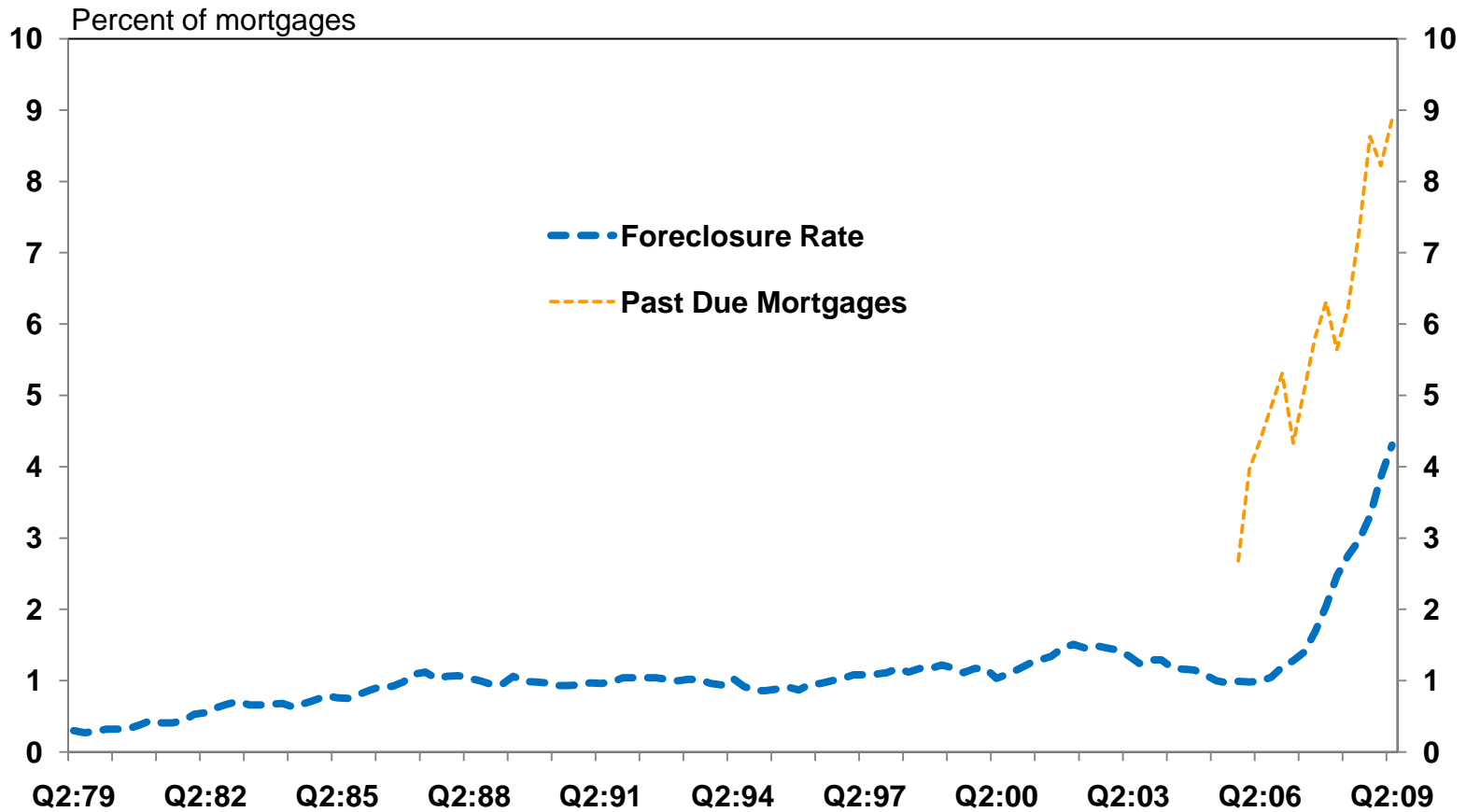
But U.S. unemployment is expected to remain elevated for some time

Unemployment Rate
Seasonally Adjusted



And the foreclosure pipeline is large

U.S. Foreclosure and Past Due Mortgage Rates



Conclusions

- New data on non-metro home prices show that rural areas had a much smaller home price boom than cities, and have so far experienced much less of a bust
- But rural home prices in some regions greatly outpaced incomes earlier this decade, and so may have some risk of falling heading forward



Further Resources

- Federal Reserve Bank of Kansas City web site
 - www.kansascityfed.org
- *Main Street Economist* (rural-focused online publication)
 - www.kansascityfed.org/regionalaffairs/mainstreet/mainstmain.htm
- *Economic Review* (occasional in-depth rural articles)
 - www.kansascityfed.org/publicat/econrev/ermain.htm
- *TEN* magazine (occasional rural feature articles)
 - www.kansascityfed.org/publicat/ten/tenmain.htm

