Wisconsin’s Housing Market after COVID-19
Near-term and Longer-term Prospects

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2020 Started on a High Note

Look at Real GDP Growth

Longest expansion in US history
Typical postwar recession 11.1 months
Great Recession-18 months
Avg. postwar expansion 58.4 months
Last three were 92, 120 and 73 months

Current expansion at least 130 months

Annual 2015: 2.9%
Annual 2016: 1.6%
Annual 2017: 2.2%
Annual 2018: 2.9%

Annualized Quarterly 2019:
Q1: +3.1%
Q2: +2.0%
Q3: +2.1%
Q4: +2.1%

GDPNow estimate (generally pre-COVID-19) for 2020:
Q1: 1.5% (NYFed); 3.1% (AtlantaFed)
Home Sales Stable and Prices Continued to Increase

Wisconsin Annual Existing Home Sales (Relatively Stable)

Wisconsin Annualized Median Price (Increasing well above inflation rate)

Source: WRA
New Residential Construction Relatively Flat in WI

(New Private Housing Units Authorized by Building Permits)

Source: US Census Bureau
Federal Reserve Bank of St. Louis
Even Winter Looked Good  
*(Problem was tight inventory, not the economy)*

Wisconsin Sets Winter Record for Home Sales

MADISON, Wis. – Wisconsin set a new winter home sales record with December through February sales topping 14,000 for the first time, according to an analysis of existing home sales by the Wisconsin REALTORS® Association (WRA). Although February sales were relatively flat, falling 0.9% over the past 12 months, robust sales for the previous two months averaged 13.9%, propelling sales for the winter season to a new record. Continued limited inventories pushed prices up more than three times the rate of inflation this winter, including the month of February during which median prices increased 8.6% to $190,000 over February 2019. In contrast, the annual inflation rate stood at 2.3% in February according to the most recent consumer price data released by the U.S. Bureau of Labor Statistics. Nonetheless, affordability remains strong due primarily to a fall in mortgage rates.

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**Summary of Wisconsin Housing Statistics**

<table>
<thead>
<tr>
<th></th>
<th>Monthly</th>
<th>Year-to-Date</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Feb 2020</td>
<td>Feb 2019</td>
</tr>
<tr>
<td>Unit Sales</td>
<td>4,033</td>
<td>4,071</td>
</tr>
<tr>
<td>Median Price</td>
<td>$190,000</td>
<td>$175,000</td>
</tr>
<tr>
<td>New Listings</td>
<td>6,584</td>
<td>5,704</td>
</tr>
<tr>
<td>Total Listings</td>
<td>23,580</td>
<td>25,823</td>
</tr>
<tr>
<td>Months of Inventory</td>
<td>3.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Average Days on Market</td>
<td>111</td>
<td>115</td>
</tr>
<tr>
<td>WI Housing Affordability Index</td>
<td>226</td>
<td>219</td>
</tr>
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Source: WRA
Then the World Changed!

(Map as of 3/22/2020)

COVID-19 Tracker

TOTAL CONFIRMED CASES

335,403

- Active cases: 223,156
- Recovered cases: 97,636
- Fatal cases: 14,611

Global: 335,403

- China (mainland): 81,054
- Italy: 59,136
- United States: 33,382
- Spain: 28,603
- Germany: 24,852
- Iran: 21,638
- France: 16,018
- South Korea: 8,897

Source: Microsoft Corporation
Classic “Black Swan” Event
Equity Markets Slide on Uncertainty

Market Summary

<table>
<thead>
<tr>
<th>DOW</th>
<th>NASDAQ</th>
<th>S&amp;P 500</th>
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<tr>
<td>▲ 20,087.19 (+0.95%)</td>
<td>▲ 7,150.58 (+2.30%)</td>
<td>▲ 2,409.39 (+0.47%)</td>
</tr>
</tbody>
</table>

March 19, 2020 5:15 PM EDT. Currency in USD.

Source: Yahoo Finance
Mortgage Rate Volatility Driven by Re-Fi Activity

Source: Freddie Mac
Broad Economic Impacts

RECESSION MUCH MORE LIKELY
(Q1 MAY BE NEGATIVE AND Q2 WILL BE UGLY)

Controlling COVID-19 spread required massive economic slowdown

Rule of thumb:
Two quarters of negative growth in Real GDP

Components of Real GDP
Net government expenditures (stimulus)
Consumption
Investment
Net exports

PRIMARY/SECONDARY ECONOMIC IMPACTS

Primary (Q1, Q2)
- Unemployment spike
- Income falls
- Production drops significantly
  - Any sector requiring face-to-face contact hit hard (Retail, Service, Leisure/Hospitality) hit hard
  - Major international supply chain disruptions
  - Loss of labor supply

Secondary (Q3, Q4)
- Luxury spending declines due to wealth effects
- Confidence levels hurt (consumer, producer)
- Lower confidence results in lower spending
- Some lingering reluctance to return to pre-COVID-19 social contact
- Still – Some recovery expected
  - Q3 unlikely to be negative compared to Q2
Housing Market Impacts

SHORT TERM IMPACTS (Q1 AND Q2)

Closings have 4-6 week delay from accepted offer

Thus: March impact and Q1 impact expected to be small

Sales likely flat, and median prices up

Q2 impact will be huge due to social distancing

Sales will plummet (year-over-year)
Prices will flatten and could actually fall
Inventories likely to move to buyer’s market

LONGER TERM IMPACTS (Q3 AND BEYOND)

Supply restrictions should soften

Uptick in foreclosures
Continued demographically driven homes on market
New construction impact uncertain

A lot of uncertainty on demand side

Will stock market rebound quickly (1-2 years) or will it take longer?
How quickly does employment improve?
How long before buyers comfortable relaxing social distancing practices?
Will COVID-19 trigger broader recession?
Note: Mortgage rates should remain favorable

Overall, housing market prospects better if we can avoid prolonged recession
Thank you!