ECONOMIC PERSPECTIVES

HOME PRICE GAINS DEPEND ON LOCATION AND INFLATION; TOO EARLY TO CALL A TOP IN HOME VALUES

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HIGHLIGHTS:

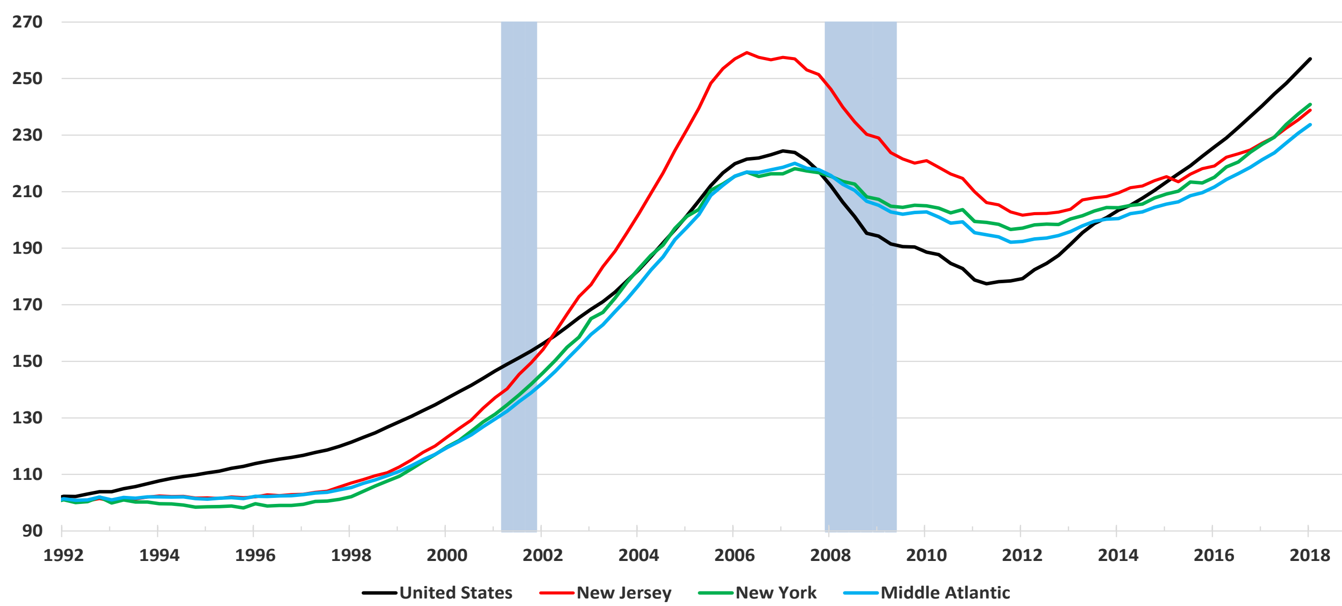
- *Home Prices Have Risen Since 2012, But Amount of Appreciation Has Varied Widely*
- *In Real Terms, Home Values Have Moved Higher, But Remain Below Pre-Crisis Peaks*
- *Divergences in Home-Price Performance Have Been Large Across the FHLBNY District*
- *Real Home Values Continue to Improve Across the FHLBNY District*
- *Demand/Supply Dynamics Suggest It Would Be Premature to Call a Top in Home Prices*

HOME PRICES HAVE RISEN SINCE 2012, BUT AMOUNT OF APPRECIATION HAS VARIED WIDELY

Buoyed by solid economic conditions and limited supplies of available dwellings, home-selling prices have risen steadily since their post-financial-crisis troughs of 2012 (see Exhibit 1). The amount of appreciation has varied widely across the country and the Federal Home Loan Bank of New York (FHLBNY) district in both nominal and real terms, however. Having fallen by a little over 20% from the winter of 2007 through the spring of 2011, nominal

Exhibit 1: Home Price Gains Have Varied Widely Across the Country and the FHLBNY District

FHFA Purchase-Only Home Price Indexes (Seasonally Adjusted, Q1 1991 = 100)



Note: Shaded areas denote recessions. Sources: Federal Housing Finance Agency.

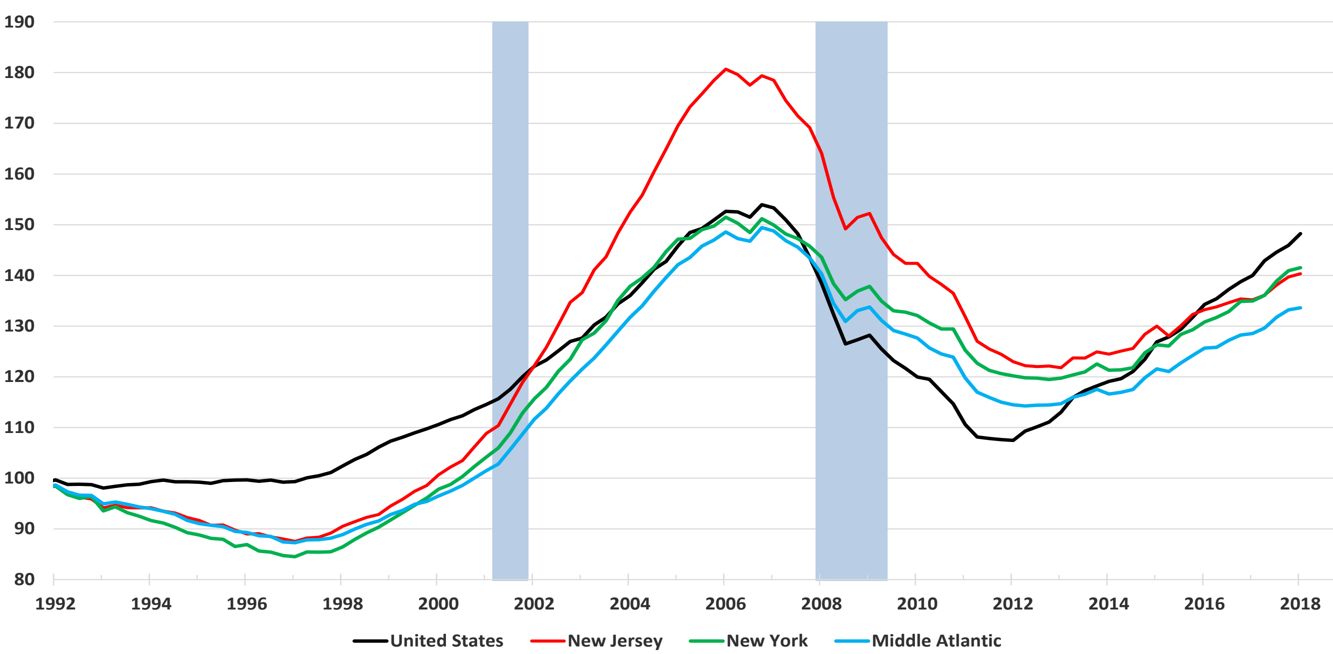
home prices nationally reversed course and by the winter of 2016 had recovered all of their lost value. Since that time, they have remained on an uptrend and now stand 14½% above their pre-financial-crisis peak, according to first-quarter data compiled by the Federal Housing Finance Agency (FHFA). At 12.6%, the peak-to-trough decline in home prices in the Middle-Atlantic region was far less severe than that experienced nationally, but that figure masked disparate performance across the constituent states. Indeed, New Jersey, which saw home values advance at an astounding annualized clip of 13% from the end of the 2001 business-cycle downturn through the second quarter of 2006, suffered a 22.2% loss in home prices in the wake of the Great Recession, while the Empire State witnessed a far smaller 9.9% decline. Home values across the Middle-Atlantic region and in New York stood 10.4% and 6.2%, respectively, above their pre-crisis highs in the winter quarter, while those in the Garden State remained almost 8% shy of that mark.

IN REAL TERMS, HOME VALUES HAVE MOVED HIGHER, BUT REMAIN BELOW PRE-CRISIS PEAKS

Adjusting the available FHFA series for inflation using relevant national and regional consumer price gauges excluding shelter costs, real home-selling prices have climbed as well over the past six years, but have yet to return to the record highs set in the midst of the housing bubble (see Exhibit 2). Fueled by soaring home prices in the West and the South-Atlantic region, real home values nationally have risen to within four percent of their pre-crisis peak. The recoveries in the Middle-Atlantic region and in the FHLBNY district, while impressive, have been considerably smaller, supporting the view that there is not currently a residential real estate bubble in our area. Real home values across the three Mid-Atlantic States during the winter quarter were 10.6% below their prior all-time high. While inflation-adjusted home prices in New York were within 7% of the peak witnessed 12 years before, those in New Jersey remained a whopping 22.3% shy of that mark.

Exhibit 2: Real Home Values Have Improved Substantially, Yet Remain Below Pre-Great-Recession Highs

Real FHFA Purchase-Only Home Price Indexes (Seasonally Adjusted, Q1 1991 = 100)



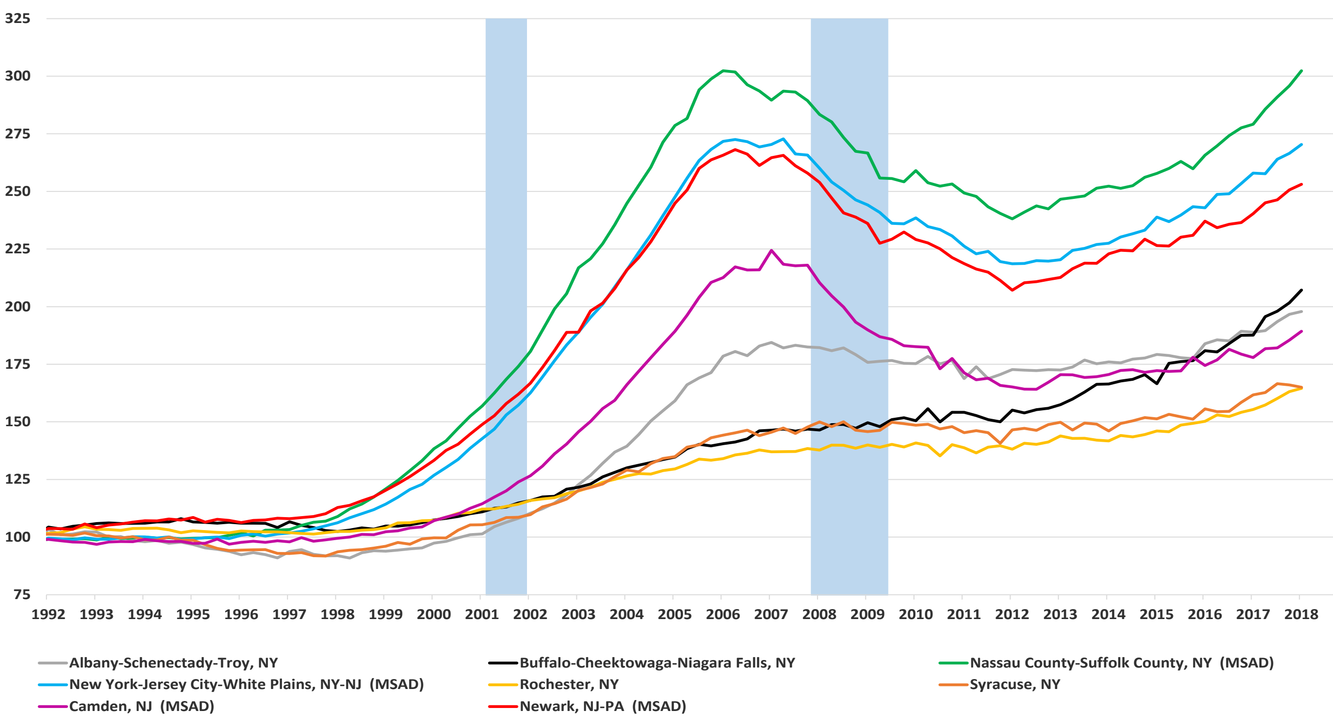
Note: Shaded areas denote recessions. Sources: Federal Housing Finance Agency, Bureau of Labor Statistics and FHLBNY estimates.

DIVERGENCES IN HOME-PRICE PERFORMANCE HAVE BEEN LARGE ACROSS THE FHLBNY DISTRICT

Drilling deeper, divergences in home-price performance have been even greater across selected segments of the FHLBNY district covered by the FHFA data since the Millennium began (see Exhibit 3). Several major metropolitan areas in New York and New Jersey witnessed a veritable explosion in nominal home values during the late boom period. Indeed the New York City metropolitan area, along with Camden and Newark, New Jersey, saw home-selling prices climb at an annualized clip of 13.2% on average from the trough of the 2001 recession to their respective peaks. Other portions of the FHLBNY district, primarily upstate New York metropolitan areas, enjoyed far less impressive home-value gains. In the wake of the housing bubble burst, the aforementioned areas experiencing the largest home-price appreciations saw a little over half of those gains evaporate on average. Those that the boom passed by, conversely, saw little change in values. The Capital District of New York State was the one exception to the above. Home values in the Albany-Schenectady-Troy area climbed at an annual rate of 10.7% during the housing upturn, but subsequently gave back only one fifth of the recorded gain. Since 2012, nominal home prices have moved higher in all FHLBNY district metropolitan areas canvassed by the FHFA, but only Nassau and Suffolk Counties have seen values return to their pre-financial-crisis top.

Exhibit 3: The FHLBNY District Has Experienced a Wide Dispersion in Home-Price Performance

FHFA Purchase-Only Home Price Indexes (Seasonally Adjusted, Q1 1991 = 100)



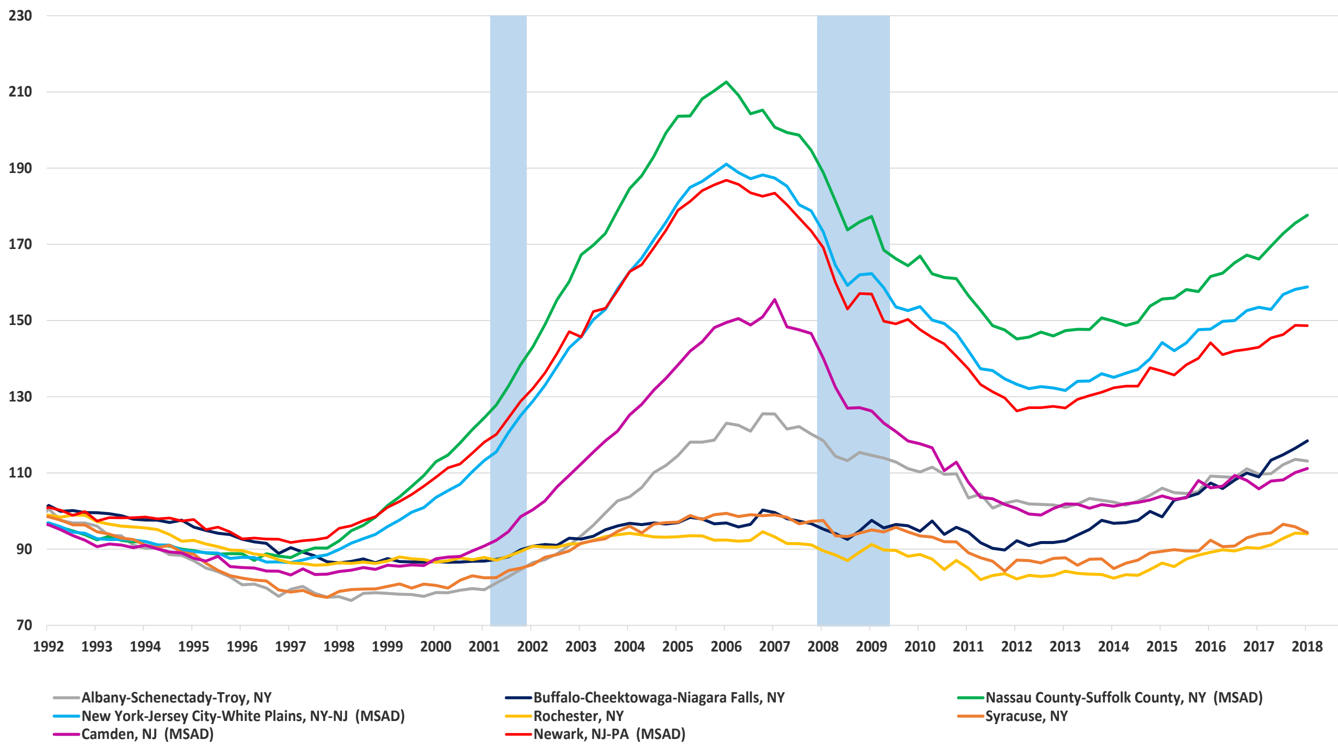
Note: Shaded areas denote recessions. Sources: Federal Housing Finance Agency.

REAL HOME VALUES CONTINUE TO IMPROVE ACROSS THE FHLBNY DISTRICT

Taking movements in consumer prices excluding shelter costs into account, real home prices continue to trend higher across major metropolitan areas within the FHLBNY district, but with one notable exception remain below their respective boom-period peaks (see Exhibit 4). Inflation-adjusted home values in the New York City metropolitan area have been climbing at an average annual rate of 3.6% since bottoming, yet remain about 16½% below the record pre-crisis levels. Real home prices in Camden and Newark, New Jersey have risen 12.4% and 17.0% from their respective 2012-2013 lows, but having lost one third of their values in the housing downturn still have considerable ground to make up. Since 2011, the weakest appreciations in inflation-adjusted prices have been posted in Rochester and Syracuse, New York. The Buffalo-Cheektowaga-Niagara Falls area has been a notable bright spot in upstate New York. Homes in that area lost a little over 10% of their real values in the wake of the housing bust, but have since climbed by almost 32% to an all-time high. Indeed, rising at an average annual rate of 4½% over the past six years, the westernmost portion of the Empire State has enjoyed the strongest growth in real home prices in the District.

Exhibit 4: Inflation-Adjusted Home Prices Higher in FHLBNY District, But Still Shy of Previous All-Time Highs

Real FHFA Purchase-Only Home Price Indexes (Seasonally Adjusted, Q1 1991 = 100)



Note: Shaded areas denote recessions. Sources: Federal Housing Finance Agency, Bureau of Labor Statistics and FHLBNY estimates.

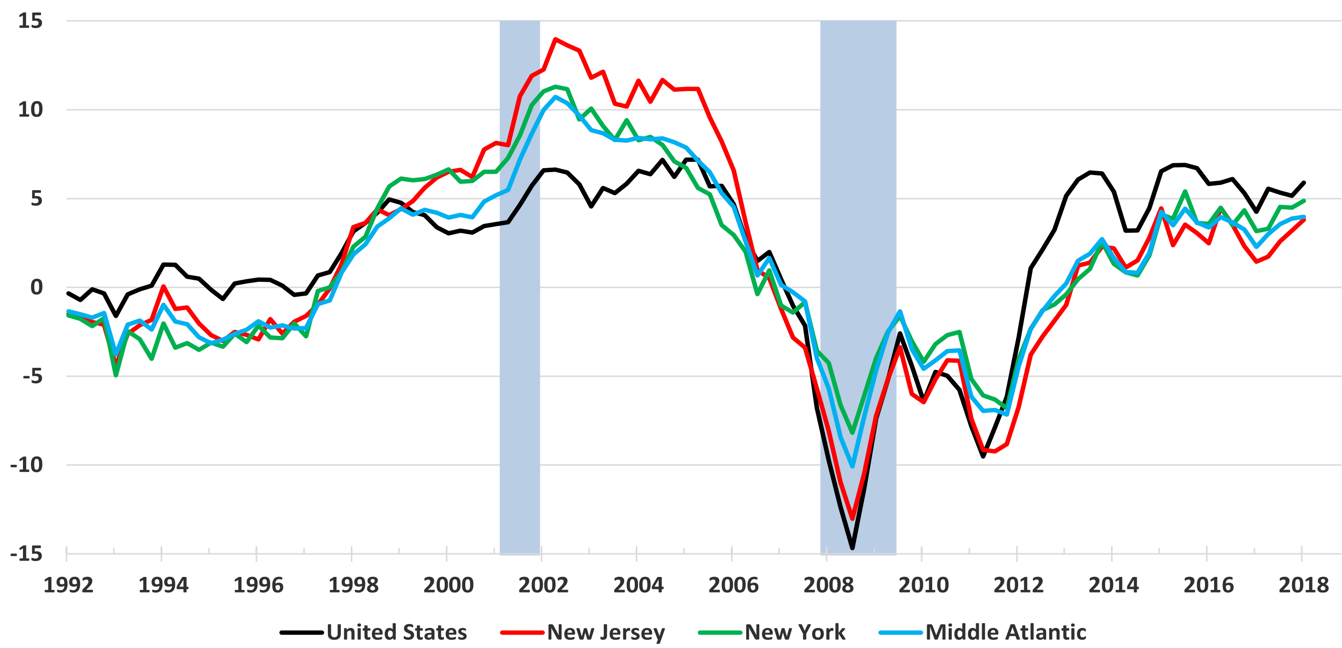
DEMAND/SUPPLY DYNAMICS IMPLY IT WOULD BE PREMATURE TO CALL A TOP IN HOME PRICES

Looking ahead, it appears to be way too early to call a top in residential real estate prices either nationally or locally. While marking its ninth anniversary this month, the current economic expansion shows few signs of fatigue. Indeed, business activity appears to have reaccelerated during the spring quarter. Labor market conditions remain firm and appear poised to tighten further in coming months. At 3.8% of the civilian labor force nationwide, unemployment last month dipped to a level last seen in December 1969 and further below the figure economists generally associate with full employment. With the exception of Puerto Rico, where joblessness remains elevated in the wake of last year's devastating storms, most of the FHLBNY coverage area is operating at full employment. Higher median prices and mortgage interest rates have certainly weighed on housing affordability across the country and our district. However, median family incomes remain well above the 25% qualifying ratio for monthly housing expense to gross monthly income with a 20% down payment. Indeed, the median family income in the Northeast stood 63½% above the qualifying income in March. Data from local realtor associations for April placed median family incomes in New York and New Jersey 31% and 48% above their respective qualifying levels. While demand-side variables likely will continue to support higher home-selling prices, the current dearth of available supply suggests little chance of a decline in values anytime soon. At 1.8 million, the stock of available homes across the country was 6.3% below the level recorded in April 2017. Supply conditions were considerable tighter in the Empire and Garden States where the number of dwellings on the market stood 9.1% and 14.9% below their respective year-ago levels.

Reflecting the aforementioned demand-supply dynamics, home values nationally, regionally and within the FHLBNY district have been steadily accelerating since the summer of 2014. This trend is likely to continue for the foreseeable future. Current-dollar sales prices in the Middle Atlantic States have firmed by 5.6% since the winter of 2017, bracketed by a 5.2% increase in New Jersey and a 6.2% increase in New York. After adjusting for increases in consumer prices excluding shelter costs, year-to-year increases in real home values have been fairly stable over the past three years, rising by 3.6% in the Middle Atlantic States and by 2.9% in New Jersey and 4.0% in New York (see Exhibit 5).

Exhibit 5: Growth in Real Home Prices Has Been Steady Over the Past Three Years.

Real FHFA Purchase-Only Home Price Indexes (Percent Change from a Year Ago)



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QUESTIONS / COMMENTS?

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