

# Price Gains Slow; Will We See 7% Next Year?

By: Jann Swanson | Tue, Dec 28 2021, 11:38 AM

Home price gains slowed slightly in October with both S&P CoreLogic Case-Shiller and the Federal Housing Finance Agency (FHFA) reporting lower annual increases in October than in September. There was a slight uptick, however, in the monthly gain in FHFA's House Price Index (HPI).

The Case Shiller U.S. National Home Price Index, covering all nine U.S. census divisions, **rose 19.1 percent on an annual basis in October**. The annual gain in September was 19.7 percent. The 10-City Composite came in with a 17.1 percent increase, down from 17.9 percent and the 20-City Composite posted an 18.4 percent year-over-year gain compared to 19.1 percent the previous month.

Phoenix had the highest annual appreciation, its 29<sup>th</sup> consecutive month in first place, at 32.3 percent. Tampa, and Miami retained their second and third places positions amidst the 20 cities tracked; their respective gains were 28.1 and 25.7 percent. **Six of the 20 cities reported higher price increases in the year ending October 2021** versus the year ending September 2021.

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CoreLogic Deputy Chief Economist Selma Hepp said, "While the U.S. S&P CoreLogic Case-Shiller index continued to slow in October, up 19.1 percent but down from 20 percent peak annual gain two months prior, home prices are still increasing at double-digit rates in all metros reported by the index. The slowing of home prices is most notable in colder and more expensive areas, as well as middle-tier priced homes where homebuyers may have less wiggle room in their budgets. Low-tier priced homes are still in higher demand as entry-level buyers and investors continue to compete for the very limited supply. This suggests that 2022 will be another year of strong home price growth, averaging **7 percent for the year - which is slower than 2021 but still above the 5 percent average increase** seen between 2010 and 2020."

All three of the indices posted the same monthly gains before seasonal adjustment, 0.8 percent. After adjustment, the U.S. National Index was up 1.0 percent, and the 10-City and 20-City Composites posted increases of 0.8 percent and 0.9 percent, respectively. Eighteen of the 20 cities reported increases before seasonal adjustments and all 20 cities did so after adjustments.

Craig J. Lazzara, Managing Director at S&P DJI noted that while October prices moved higher, it was at a decelerating rate. In each of the three indices, October's gains were below September's, and September's gains were below August's. "That said, October's 19.1 percent gain in the National Composite is the fourth-highest reading in the 34 years covered by our data, Lazzara said, and the top three were the three months immediately preceding October."

**"We continue to see very strong growth at the city level,"** he said. "All 20 cities saw price increases in the year ended October 2021. October's increase ranked in the top quintile of historical experience for 19 cities, and in the top decile for 17 of them. As was the case last month, however, in 14 of 20 cities, prices decelerated - i.e., increased by less in October than they had done in September.

"We have previously suggested that the strength in the U.S. housing market is being driven in part by a change in locational preferences as households react to the COVID pandemic. More data will be required to understand whether this demand surge represents an acceleration of purchases that would have occurred over the next several years or reflects a more permanent secular change."

Since hitting their early winter 2012 troughs, prices in both the National Index and the 20-City composite have **slightly more than doubled** (rising 104.3 and 108.5 percent respectively) while the 10-City Composite has increased by 99.1 percent. The National Index is now 48.3 percent higher than its prior peak in July 2006 while the 20-City has risen by 35.4 percent and the 10-City by 28.8 percent from their peaks at the same time.

The S&P CoreLogic Case-Shiller Home Price Indices are constructed to accurately track the price path of typical single-family home pairs for thousands of individual houses from the available universe of arms-length sales data. The National U.S. Home Price Index tracks the value of single-family housing within the United States. The indices have a base value of 100 in January 2000; thus, for example, a current index value of 150 translates to a 50 percent appreciation rate since January 2000 for a typical home located within the subject market.

As of October, the National Index was at 273.76 compared to 271.18 September. The 10- and 20-City Composites had readings of 291.53 and 279.54, up from 289.20 and 277.24 the prior month. Los Angeles continues to have the highest index reading at 370.48 while Detroit and Cleveland have been trading off last place on a monthly basis. Detroit reclaimed the bottom rung in October with a reading of 158.61.

The FHFA HPI was up 1.1 percent from September, a slightly greater gain than the August to September growth of 0.9 percent. October's annual rate slowed to 17.4 percent from 18.5 percent for the 12 months that ended in September.

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Seasonally adjusted monthly house price changes from September 2021 to October 2021 in the nine census districts ranged from **-0.3 percent** in the New England division to growth of **1.7 percent** in the East South Central division. Annual changes were all positive, ranging from 13.2 percent in the West North Central division to 23.2 percent in the Mountain division.

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"House price levels continue to rise but the rapid pace is curtailing through October," said Will Doerner, Ph.D., Supervisory Economist in FHFA's Division of Research and Statistics. "The large market appreciations seen this spring peaked in July **and have been cooling this fall with annual trends slowing over the last four consecutive months.**"

The FHFA index is based on prices of homes purchased using financing from one of the GSEs, Fannie Mae or Freddie Mac. The HPI was benchmarked in January 1991 at 100. The October reading was 358.3.

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