

Real Estate Analysis

Home prices continue appreciating in March

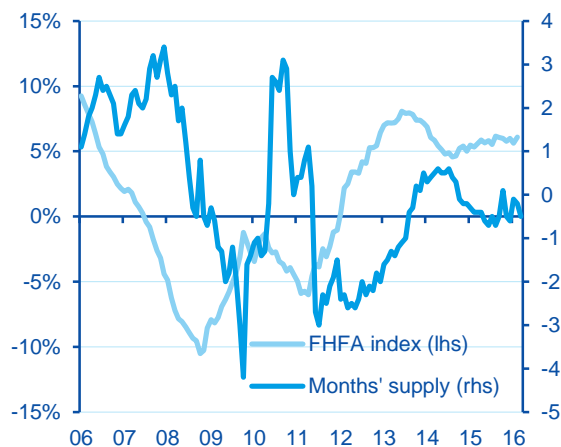
Filip Blazheski

- The FHFA house price index increased 0.7% MoM in March
- The annual growth rate of 6.1% in March was the strongest in six months
- Growth in home prices is expected to remain strong, driven by low inventories, low interest rates and solid labor market

The Federal Housing Finance Agency (FHFA) house price index, which measures price movements for single-family houses financed using conforming, conventional mortgages purchased or securitized by Fannie Mae or Freddie Mac, increased 0.7% MoM on a seasonally adjusted basis in March, posting an annual growth rate of 6.1% (Chart 1). The showing was higher than consensus expectations, which were between 0.4% and 0.6% MoM. Regionally, home price appreciation was strongest and further accelerated in the Pacific region (AK, CA, HI, OR, WA) while it was weakest and slowed down in the Middle Atlantic region (NJ, NY, PA) (Chart 2).

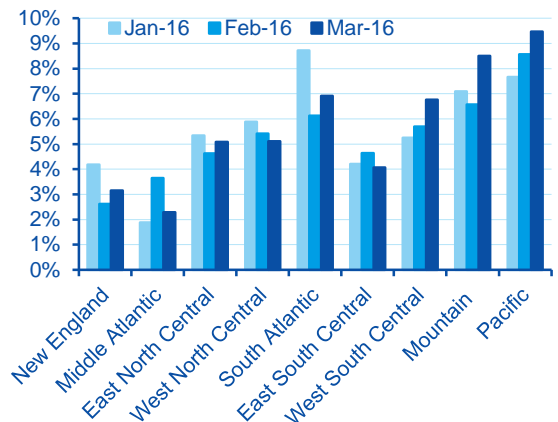
Looking ahead, home prices are expected to continue appreciating, as indicated by the median existing home sales price in April, which was 6.2% higher YoY. The trend of solid gains will be supported by low interest rates; we expect interest rates for 30-year fixed rate mortgages to average 3.8% in 2016. Gains will also result from the limited supply in the market—the months' supply of existing and new homes for sale has started declining on a seasonally adjusted basis and is lower than at the same time last year. The solid employment situation and the gains in income should also support the increase in home prices.

Chart 1
FHFA index and months' supply of existing single-family houses (% YoY and difference YoY)



Source: FHFA, NAR & BBVA Research

Chart 2
House prices by region (% YoY)



Source: FHFA & BBVA Research

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