Home Prices Continue To Rise

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The S&P/Case-Shiller National Home Price Index for January 2016 showed that prices gained 5.4% year-over-year for the month, the 43rd consecutive month of year-over-year growth since prices turned up in June 2012. The January growth rate was in line with the December rate and slightly higher than the average rate over the past year. Looking ahead through 2016, we anticipate home prices rising in the 4.5%-5.5% range.

Our expectation and forecast is derived from inventory levels -- currently there is a tight 4.4-month supply of homes, according to the National Association of Realtors. One risk to the outlook is that these price gains may draw more "shadow inventory" of homes owned by the banks into the market. This would likely slow the pace of price increase as inventory increases. Another risk is the Fed's rate-hike campaign would raise borrowing costs. However, we reckon the Fed has little room for further rate hikes [this year] due to concerns about the global economy.

Several factors could prevent home prices from soaring at a double-digit rate any time soon. In our opinion, this is a good thing as these conditions aren't always the best for sustainable long-term growth. You may recall how rapidly home prices increased leading up to the Great Recession.

For the record, the average price change since 2008 has been -0.9%. Against that benchmark, the current reading should help reverse recent volatile consumer-sentiment trends and real estate continues to stabilize. Assuming that economic conditions don't deteriorate further, housing should continue its recovery while adding to GDP.

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