

THE PAR REPORT

(July 2008 Edition)

by

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Pennsylvania Continues to Buck National Housing Trends ... *But Beware!*

Introduction

For the past several months, there has been consistently bad news about housing as a consumer good, housing as a household asset, or housing as a healthy industry whether the construction or brokerage sides. It is true, however, that in most recent weeks, there is a glimmer of hope that the bottom of the decline might be in sight: the reductions in home values have continued but at a smaller pace than in previous periods. In some cases, there are indications of sales figures picking up which suggests that prices might have fallen sufficiently for that interest among buyers to be growing once again.

Housing markets have always been relatively complex compared to markets for other goods, although we likely didn't appreciate the complexity until this downturn. It was easier to assume that everything worked well and things just went along nicely. Some convinced themselves that the Federal Reserve would solve any potential problems when they arose as the Fed came to the rescue of borrowers, consumers and investors many times in the past. The decline in property values came as a shock to many, since the mantra in some circles was that property prices *always* rose over time due to some unstated fundamental relationships. Some acknowledged that it was conceivable during brief periods for prices to stagnant or even decline a bit, but this view, could not imagine a world where prices truly declined. Other commodities declined in price; land and buildings would not.

Since mid-2006, such talk has ceased and a new reality is upon us. For the first time since the 1930s, housing markets are now working through substantial price declines not witnessed in this country in living memory. In addition, home sales have slowed significantly and credit availability has tightened. With declining prices, household equity evaporates, especially for highly-levered purchases in recent years. With the use of home equity loans and home credit lines, access to housing equity had become easier than ever and this resulted in even greater mortgage finance opportunities. Millions of homeowners are suddenly out of the money as their mortgage situation is now upside-down (i.e., the amount of the mortgage(s) exceeds the market value of their homes).

The procedure of mortgage foreclosure is the traditional legal remedy for enforcing the lender's secured mortgage financing claims against borrowers who have defaulted. While costly to implement, foreclosure is often the last resort lenders are forced to use in order to recover their resources. In this market environment, foreclosure rates have swelled and are expected to exceed 2.5 million homes this year.

These are not doom and gloom scenarios; these observations describe the situation throughout the country. In many cities, this nightmare for the housing and mortgage finance systems has been in play for some time. In others, including many in Pennsylvania, the experience has been considerably less frequent regarding foreclosures. To be sure, the boom period from about 1995-2006 is over and a new national real estate market environment has swept across the nation.

Secretary Paulson's Remarks

On March 26, 2008, Treasury Secretary Henry M. Paulson, Jr. gave a speech to the U.S. Chamber of Commerce on the state of finance and housing markets. With respect to housing, he said:

“The housing downturn and the surrounding uncertainty are significantly impacting our financial institutions and capital markets. However, we should not lose sight of the fact that this downturn was precipitated by unsustainable home price appreciation which was particularly pronounced in a relatively few regions. A correction was inevitable and the sooner we work through it, with a minimum of disorder, the sooner we will see home values stabilize, more buyers return to the housing market, and housing will again contribute to economic growth. Having stability in housing markets will in turn contribute to better condition in credit markets for mortgage-backed securities.

Data releases each month create headlines about declining housing sales, starts and prices. Yet declines are exactly what we should expect during a correction. It takes time to work through the excess inventory - and we are. The question many are asking is how deep the correction will be and how long it will last...But we do not have a national housing market; housing markets are regional - and there is considerable variation in adjustment, with prices changing the most in areas that had the greatest overbuilding.”

There are several items of interest in Secretary Paulson's remarks. First, this passage is a reminder that housing and financial markets are closely linked; this fact seems obvious now during the current housing crisis. However, it was often disregarded in the past as many assumed credit and financial markets had little to do with real estate markets so long as mortgage money was readily available, especially in a variety of forms. There is a new recognition of the importance of mortgage finance for housing markets today. In addition, today's markets serve as painful reminders of the importance of housing for the national economy.

Second, prior to the downturn, real estate prices in many parts of the country (although less so in Pennsylvania) increased year after year often exceeding each revised expectation. Thus, in high-flying markets such as Southern California, Florida, Phoenix, and Las Vegas, it seemed that the boom would never stop. These markets soon gave rise to the reality that housing, too would be subject to the bubble phenomenon, something many observers, (including myself!), did not think possible. When various traditional measures such as the house price-to-household income ratio and the house price-to-house rent ratio differed dramatically with historic averages, looking back now, there was considerable information in the market that the price trend could not continue. This conclusion was apparent only to a few astute observers but there were numerous signs. The problem is that it is often difficult to make such an economic decision against the herd in real estate markets; no one wants to be left behind.

Third, Paulson notes that declining prices were “inevitable”. Some might disagree about the inevitability of lower real estate prices even in formerly, “hot” markets. What is easier to contemplate is that even if one expected markets to cool, it was very difficult to precisely time the turn in market sentiment.

Fourth, it is important to note that the Secretary does not see a collapse in housing markets. He

observes a “correction” has begun to be followed by a “bottoming” of the market and then, he predicts a “stabilization” period. This is the normal process of all markets; it is simply not very visible in housing over short periods since the cycles tend to be relatively long compared to other commodities. Currently, most economists are looking for signs of a bottoming out, (i.e., conditions where prices are no longer falling, where buyers are interested and back in the market, and where inventories are no longer growing each month). As indicated above, there are the beginnings of such bottoming signals. However, as of the end of July, housing markets continue to be weak.

Fifth, note that the Secretary also predicts that stability in the housing market will lead to strengthening in credit markets, including the mortgage market. It is interesting to note that some have traditionally argued that the cause-and-effect process went the other way (i.e., favorable conditions in credit markets would lead to strength in housing markets). In the current environment, the absorption of excess housing units on the market (due to a reduction in sales, increasing new homes becoming available, and foreclosed properties also entering the market) is a necessary condition for the housing market to stabilize regardless of what mortgage rates do. Due to inflation concerns, mortgage rates have risen a bit as well, but some argue that housing will not recover until rates even increase a bit as a signal to reluctant buyers that it is safe to go back in the water.

Sixth, and most importantly for this Report, there is an explicit recognition that the national housing market is a mere aggregation of the numerous regional markets throughout the country. Further, regional markets are aggregated from local markets. Some systemic factors affect all housing markets but many regional and local markets are driven by neighboring or unique conditions. NAR’s campaign that all markets are local certainly applies to changes in house prices and home sales activities.

So, how different in Pennsylvania from the national media reports about housing markets? If Secretary Paulson is correct that markets vary dramatically from region to region, how does Pennsylvania compare with the national averages? These questions are the subject of the remainder of this Report.

House Price Changes

For example, Standard & Poor's/Case-Shiller's Home Price Index, one of the three most-quoted measures (along with the Office of Federal Housing Enterprise Oversight's and the National Association of REALTORS®' indices) reported a 9.1% median price decline nationally during 2007. This was the largest price change in its 20 year history. (*CNNMoney.com*, February 26, 2008)

By the end of 2007, all 20 cities in the Case-Shiller index reported at least four consecutive monthly declines, another record. On April 29, 2008, Case-Shiller reported a 12.7% reduction from February 2007 to February 2008 and 17 of the 20 sample cities posted their largest declines ever. From May 2007 to May 2008, the 20 city index posted a new record low with an annual decline of 15.8%. (*S&P Real Estate Highlights*, July 2008) The decline in the sampled cities was 23% since the peak in July 2006. (*Wall Street Journal*, July 30, 2008)

NAR reported that January 2008 median house prices fell 4.6% year-over-year across the nation. (*Wall Street Journal*, February 25, 2008) Frank Nothaft, chief economist at Freddie Mac, reported 46 states had falling house prices during the Fourth Quarter of 2007. (*Centre Daily Times*, March 28, 2008)

NAR's Pending Home Sales Index fell 21.4% during February 2008 from a year earlier and this measure is thought to be a more forward-looking indicator of the market compared with NAR's existing home sales report and other measures. (*CNNMoney.com*, April 8, 2008)

The most recent numbers from NAR are from April 2007 to April 2008, which show a 4.7% decrease in May 2008, after an unexpected 7.1% increase the previous month. (*Wall Street Journal*, July 9, 2008) The conclusion of a leading analyst after reviewing the NAR results this month, was that it is much too early to call this the bottom of the market...Housing is still desperately weak.

What about Pennsylvania?

The Keystone State is a leading example of Paulson's reminder about differences between housing markets. Pennsylvania's housing markets have not behaved like markets where speculation was rampant and flipping was a wide-spread activity. A review of the data provides some evidence.

Table 1
Single Family Median Home Prices in Pennsylvania
Quarterly Data Year over Year

	PA	SE	NE	SC	NC	SW	NW
2005Q3	197300	225000	205400	172800	101600	121100	109100
2006Q3	196100	224500	207800	185500	109400	120400	103600
% of Total Sales	100%	43%	8%	20%	3%	24%	3%
% Change Y/Y	-0.61%	-0.22%	1.17%	7.35%	7.68%	-0.58%	-5.04%
2005Q4	182100	203600	191200	174800	101200	114300	99700
2006Q4	182200	209600	200400	177400	109000	112200	102600
% of Total Sales	100%	46%	9%	19%	3%	20%	2%
% Change Y/Y	0.05%	2.95%	4.81%	1.49%	7.71%	-1.84%	2.91%
2006Q1	174600	206600	190600	167500	99400	107700	95900
2007Q1	181400	207100	205400	177700	95300	109000	92500
% of Total Sales	100%	40%	10%	20%	3%	23%	3%
% Change Y/Y	3.89%	0.24%	7.76%	6.09%	-4.12%	1.21%	-3.55%
2006Q2	195400	224900	195900	182900	105400	120300	102300
2007Q2	199700	233100	216200	185600	117000	123500	99900
% of Total Sales	100%	42%	8%	20%	3%	23%	3%
% Change Y/Y	2.20%	3.65%	10.36%	1.48%	11.01%	2.66%	-2.35%

Source: NAR, Pennsylvania Home Sales Reports, 2006 and 2007

Table 1 summarizes evidence about median house price changes throughout the NAR regions of Pennsylvania for year-over-year changes during 2005 and 2007 (the latest data available). Note that for the Commonwealth as a whole, the annual median price changes are moderate both in the slight declines from 2005 to 2006 and then on the positive side thereafter. As many markets are showing declines using quarterly data of median price changes, in Pennsylvania, there has been some appreciation. It should be noted that the rates are modest and perhaps even slowing down (following national trends) but there are considerable differences between the Pennsylvania results and those in

many other markets.

Note that a majority of the housing stock is located in three regions: Southeast, South Central, and Southwest Pennsylvania (about 60-65%). In these three regions, median house prices have generally been increasing.

Clearly, Pennsylvania's experience differs from much of the nation. Even when the 2008 data becomes available, the results are expected to be less volatile than in many of the other housing markets in the nation.

Table 2 provides similar median price change results using annual data from PAR on a county-by-county basis.

Table 2
Single Family House Price Changes
Selected Pennsylvania Counties
Annual Data

County	Annual Y/Y			Cumulative Y/Y	
	2004-05 (% Change)	2005-06 (% Change)	2006-07 (% Change)	2005-07 (% Change)	2204-07 (% Change)
Adams	19.5	10.7	2.4	13.4	35.5
Berks	9.6	7.8	4.2	12.4	23.2
Blair	23.9	-34.9	13.7	-25.9	-8.3
Bucks	7.5	7.3	-1.0	6.3	14.2
Carbon	6.8	15.5	10.2	27.3	35.9
Centre	9.4	5.2	2.8	8.1	18.3
Chester	7.1	3.9	2.7	6.7	14.3
Clearfield	14.2	-0.7	-11.8	-12.4	0.0
Clinton	-1.0	18.5	18.9	40.9	39.5
Columbia	13.5	12.7	7.4	21.1	37.4
Cumberland	20.5	0.4	9.4	9.8	32.3
Dauphin	10.3	-2.7	3.5	0.7	11.1
Delaware	9.8	9.5	9.1	19.4	31.1
Elk	-19.6	57.0	-5.3	48.6	19.4
Erie	1.0	0.1	-2.2	-2.2	-1.2
Franklin	20.4	10.5	2.3	13.0	36.0
Fulton	3.4	9.9	1.0	11.0	14.9
Huntingdon	-6.2	-10.5	2.4	-8.3	-14.1

Lackawanna	-51.2	46.0	-15.9	22.8	-40.1
Lancaster	13.7	2.7	4.5	7.3	22.0
Lebanon	8.7	8.1	8.2	17.0	27.2
Lehigh	11.9	5.7	5.7	11.8	25.1
Luzerne	-3.0	-2.9	11.2	8.0	4.8
Mifflin	-30.1	3.6	-17.5	-14.5	-40.3
Monroe	25.8	1.9	1.2	3.1	29.7
Montgomery	9.3	5.7	1.1	6.8	16.8
Montour	8.9	-6.6	18.8	10.9	20.8
Northampton	14.3	5.0	1.9	7.0	22.3
Northumberland	-1.2	-5.1	-0.1	-5.2	-6.4
Philadelphia	20.0	0.0	2.3	2.3	22.7
Pike	98.7	-16.3	8.3	-9.4	80.0
Schuylkill	0.8	8.8	4.7	13.9	14.8
Snyder	18.3	10.9	-0.8	10.0	30.1
Union	13.0	3.9	3.3	7.3	21.2
Wayne	-25.7	236.9	-64.6	19.1	-11.5
York	15.6	6.5	3.7	10.4	27.6
All Counties	20.3	2.9	4.2	7.2	29.0

Source: PAR, 2007

It is important to note that different data bases of housing data can yield different results; this is to be expected. However, there is confirmation that the general trends are similar. Further, the PAR data provides information on a county basis but only for those counties who submit information. Counties which are not included in these tables may not be reporting their results to PAR. Finally, as shown in the NAR data in Table 1, there are varying degrees of density and size of Pennsylvania's local housing markets. This is especially true in states where a large portion of the land is in rural usage. Comparisons of percentage changes where there are relatively few transactions must be tempered with the caveat about problems in interpreting small samples in statistics.

Table 2 shows increasing median prices, on average, in Pennsylvania through the three-year period. There can be no doubt that the rate of appreciation has slowed down during 2006 and 2007. The table shows that many counties enjoyed considerable price appreciation up until the slowdown. However, note that even during 2004-05, several counties reported declines in median prices.

If a county reports a large negative median price change one period followed by a large positive price change the next period (or vice versa), it is likely that the results are dominated by one or more unusual transactions in a relatively small market. Thus, in order to avoid misleading conclusions (all conclusions here are tentative), it would be necessary to track prices changes over several periods to smooth out such outliers in counties with a small number of transactions.

Nonetheless, we can see from the cumulative price changes (over more than one period; these are not annualized price changes) that Pennsylvania has not had the price declines in its housing stock at least not by 2007, as has occurred in many other places. The fact that some counties (i.e., Blair, Huntingdon, Lackawanna, Mifflin, and others) have declines over three years is indicative of some weaknesses in house prices. However, the results in Pennsylvania differ from much of the nation.

Table 3 provides the same calculations using quarterly data and for more recent periods.

Table 3
Single-Family Median House Price Changes
Selected Pennsylvania Counties
Annual Data Quarterly Data

County	Annual Y/Y		Cumulative Y/Y
	2006Q1-2007Q1 (% Change)	2007Q1-2008Q1 (% Change)	2006Q1-2008Q1 (% Change)
Adams	6.1	-6.2	-0.5
Berks	2.1	3.1	5.3
Blair	60.7	-21.5	26.2
Bucks	-1.4	0.0	-1.4
Carbon	23.5	-3.8	18.8
Centre	0.3	4.6	4.9
Chester	5.2	1.6	6.9
Clearfield	6.0	-18.9	-14.0
Columbia	-3.8	9.6	5.4
Cumberland	-5.3	15.0	8.9
Dauphin	25.2	-9.3	13.6
Delaware	19.2	4.6	24.6
Elk	-81.7	-13.9	-84.2
Erie	-5.2	7.8	2.2
Franklin	4.5	-2.7	1.7
Fulton	6.1	-18.6	-13.7
Huntingdon	15.3	-27.0	-15.8
Lackawanna	-35.1	81.8	18.0
Lancaster	6.2	0.0	6.2
Lebanon	1.0	1.0	2.0
Lehigh	7.3	5.1	12.8
Luzerne	20.2	-27.5	-12.8
Mifflin	-16.4	25.0	4.4
Monroe	35.0	-16.7	12.5
Montgomery	6.7	-2.6	3.9

Montour	6.4	-11.8	-6.1
Northampton	6.0	-6.6	-1.0
Northumberland	-14.3	11.7	-4.3
Philadelphia	2.5	-3.9	-1.5
Pike	-25.4	-17.2	-38.3
Schuylkill	26.2	39.8	76.4
Snyder	25.0	9.9	12.7
Union	2.0	13.2	15.4
Wayne	-100.0	NA	-94.1
York	5.4	-4.5	0.7
All Counties	11.8	-1.0	10.7

Source: PAR 2007

The PAR data shows results from the First Quarter 2006 to the First Quarter 2008 (the most recent data available). Note that in this case, rates of appreciation are lower, in general, and the incidence of price declines is prevalent during the most recent period (2007-08). Note also with quarterly data, the calculations are likely to be more volatile, especially in small markets, since there are fewer data points when only a single quarter's numbers are reported.

Although the cumulative price change for Pennsylvania was 10.7% from the First Quarter 2006 through the First Quarter 2008, it is clear that many counties are reporting median price declines. Given the observed lag in Pennsylvania housing markets compared with markets in other states, it is expected that there may be additional price declines in the subsequent data since markets do not appear to have reached a bottom to date.

Home Sales

One measure of market conditions is changes in house prices. There are many others, including an equally important one: the number of home sales. This is especially important to the real estate brokerage industry which is largely transaction based.

It was already reported above that recently, the NAR Existing Home Sales Index was at its lowest point. In July 2007, this index broke the previous low reading from September 2001, when the index was initially created. NAR reported in October, 2007 that buyers were having trouble obtaining financing to buy homes due to the credit crunch. However, as prices continue to fall, buyers remain hesitant to enter the market where their equity will be at risk regardless of financing availability. Mortgage finance has remained available at low rates (inflation adjusted) for borrowers with good credit. While it is true that risky borrowers no longer have access to sub-prime mortgages, it is likely that the slowdown in home sales is explained more by continuing lower prices, increasing inventories, and a general uneasiness on the part of borrowers. Lawrence Yun, chief economist at

NAR, is quoted as saying, “the volume of activity we’re seeing today is below sustainable market fundamentals because some creditworthy people are trying to buy homes but can’t because of the credit crunch.” (*CNNMoney.com*, October 2, 2007) Perhaps, but the past several months have not shown that market fundamentals are as strong as Dr. Yun reported.

A Census Bureau report showed a slight increase in April 2008 sales (up 3.3% over March 2008). (*CNNMoney.com*, May 27, 2008) However, the same report indicated that sales were down 42% in April from a year earlier and at historically-low levels. At about the same time, NAR reported that sales of existing homes had dipped in April 2008 to an annual level of 4.89 million units, down slightly from March 2008. (*CNNMoney.com*, May 23, 2008) Only a few years ago, sales were 7.2 million units during September 2005.

A June 2008 report found that sales fell for the sixth time in seven months during May 2008. This was viewed as continuing evidence of the depth of the nation’s housing woes. (*Yahoo.com*, June 25, 2008) The report indicated that the slowdown in home sales was deepening and widening to parts of the country previously unaffected (perhaps in Pennsylvania, too). However, inventories showed a slight reduction during May 2008 (from an 11.2 month supply to a 10.8 month supply in April). (*CNNMoney.com*, June 26, 2008) Although these levels still represent a large inventory by traditional standards, this metric is one of the glimmers of hope about a turnaround in the recent data.

However, the June 2008 numbers were disappointing as home sales fell more than expected. NAR reported a 2.6% drop during June for a seasonably-adjusted rate of 4.86 million units and inventories rose to an 11.1 month supply, the second highest level in 24 years. (*Yahoo.com*, July 24, 2008) It was noted that until inventories were reduced, housing markets would struggle and with more houses coming on the market due to new waves of mortgage foreclosures, the situation did not look good. The new housing assistance law has been signed and should help up to 400,000 homeowners avoid foreclosure as well as bail out Fannie Mae and Freddie Mac. The last thing housing markets need now is more inventory.

Some see the new law as very critical to housing’s recovery (e.g., Lawrence Yun is quoted as saying that “the housing rescue bill should play a major role in helping the housing market to rebound,” and he predicted that we “are very near to the end of the housing downturn”.) (*Yahoo.com*, July 24, 2008) Others are not so sure. The foreclosure problem is expected to affect 2-3 million households and the bill might best be viewed as a lottery as to who gets FHA financing and a write-down of the old debt. If so, while this bill is helpful to the market, it will not bring about the end of the decline in the markets.

What about Pennsylvania II?

Pennsylvania’s home sales numbers appear to reflect the slowing down of markets seen elsewhere. Whether the decline in sales is similar to the nationally-reported figures is a bit difficult to tell from the limited data available. It is clear that number of home sales in Pennsylvania is fewer than in the last several years.

Table 4
Housing Sales Activity
Selected Pennsylvania Counties
Annual Data Quarterly Data

County	Annual Y/Y		Cumulative Y/Y
	2005Q3-2006Q3 (% Change)	2006Q3-2007Q3 (% Change)	2005Q3-2007Q3 (% Change)
Adams	97.6	-19.6	58.8
Berks	-5.2	-14.4	-18.8
Blair	-44.4	20.0	-33.3
Bucks	-24.3	-0.1	-24.3
Carbon	-16.3	49.4	25.0
Centre	-17.2	6.5	-11.7
Chester	-13.1	-9.1	-21.1
Clearfield	110.0	4.8	120.0
Columbia	-4.1	-16.5	-20.0
Cumberland	62.5	7.7	75.0
Dauphin	-12.6	10.6	-3.4
Delaware	-6.6	-7.1	-13.2
Elk	-20.0	0.0	-20.0
Erie	-9.6	-2.9	-12.2
Franklin	-18.4	-11.8	-28.1
Fulton	-25.9	25.0	-7.4
Huntingdon	-9.1	20.0	9.1
Lackawanna	200.0	-33.3	100.0
Lancaster	-5.1	-8.2	-12.9
Lebanon	0.2	-13.6	-13.4
Lehigh	-8.2	-21.6	-28.1
Luzerne	-10.0	25.9	13.3
Mifflin	50.0	55.6	133.3
Monroe	9.9	19.1	30.9
Montgomery	-14.5	-4.7	-18.6
Montour	23.8	-26.9	-9.5
Northampton	-13.6	-9.1	-21.5
Northumberland	-6.2	3.6	-2.8
Philadelphia	-12.5	-9.6	-20.8

Pike	-63.6	75.0	-36.4
Schuylkill	18.9	-20.5	-5.4
Snyder	11.3	-30.5	-22.6
Union	-10.8	1.1	-9.8
Wayne	-100.0	NA	0.0
York	71.9	-8.7	56.9
All Counties	-7.9	-8.0	-15.3

Source: PAR 2008

Table 4 provides county-by-county data on home sales from 2005-2007 using PAR's quarterly sales data. There is little doubt that in almost all local markets, there is a decline in sales activities over this period. In some cases, it is large (however, recall that large percentage changes in these tables are often associated with very few transactions). Not only is the average number of sales off 15.3% across the Commonwealth, most counties report sizable reductions in the number of transactions.

As a final illustration, Table 5 provides the same calculations but using the most recent data on a monthly basis.

Table 5
Housing Sales Activity
Selected Pennsylvania Counties
Annual Data Monthly Data

County	Annual Y/Y		Cumulative Y/Y
	2006M5-2007M5 (% Change)	2007M5-2008M5 (% Change)	2006M5-2008M5 (% Change)
Adams	-17.9	-28.3	-41.1
Berks	-17.4	-3.7	-20.5
Blair	-33.3	-50.0	-66.7
Bucks	-19.3	-17.2	-33.1
Carbon	39.1	-9.4	26.1
Centre	-28.8	19.8	-14.7
Chester	-18.0	-15.3	-30.6
Columbia	-5.0	0.0	-5.0
Cumberland	175.0	-63.6	0.0
Dauphin	-23.6	-9.5	-30.9
Delaware	-30.8	9.3	-24.4
Erie	-25.4	3.9	-22.5
Franklin	4.6	-17.6	-13.8
Fulton	-22.2	-42.9	-55.6

Huntingdon	-20.0	0.0	-20.0
Lancaster	-9.3	-16.8	-24.5
Lebanon	5.4	-9.5	-4.6
Lehigh	-13.2	-21.9	-32.2
Luzerne	37.5	-54.5	-37.5
Monroe	-39.5	23.1	-25.6
Montgomery	-19.7	0.4	-19.3
Montour	-4.5	-42.9	-45.5
Northampton	-27.3	-22.6	-43.8
Northumberland	-7.0	-12.1	-18.3
Philadelphia	-29.7	-0.5	-30.1
Schuylkill	-61.1	14.3	-55.6
Snyder	14.3	0.0	14.3
Union	-11.4	-6.5	-17.1
York	-3.1	-33.7	-35.8
All Counties	-19.3	-9.8	-27.2

Source: PAR 2007

Table 5 examines home sales from 2006 through 2008 using monthly reports. Note that some of the counties have been dropped although they reported data used in earlier tables because of the very few number of transactions in their markets. This is not due to the slowdown as much as it is to the very thin markets in some rural counties. Also, as a general rule, the variance in the monthly data is likely to be higher than in the quarterly data. In effect, a longer time series with more observations is needed for a more comprehensive analysis using monthly data.

Note that the monthly sales reports show large declines in almost all markets. The most recent rate of -9.8% from 2007-08 is lower than -19.3% during 2006-07 but this comparison must be made cautiously. Nonetheless, it is safe to say that home sales throughout Pennsylvania have slowed significantly.

The Future

If Secretary Paulson was unconcerned about the state of the housing market in 2005 and 2006, it has gotten his attention now. He recently said: “I think it’s going to be months that we’re working our way through this period - clearly months.” (*CNNMoney.com*, July 20, 2008) Further, he said:

“We’re going through a challenging time with our economy. This is a tough time. The three big issues we’re facing right now are, first, the housing correction which is at the heart of the slowdown; secondly, turmoil of the capital markets; and thirdly, the high oil prices, which are going to prolong the slowdown.” (*CNNMoney.com*, July 20, 2008)

One of the key points many have raised about housing markets is the importance of the strength of general economic conditions. It is now becoming apparent that weakness in the housing sector is beginning to have its effect on the overall economy. Coupled with the problems in financial markets

and high commodity prices, especially oil, some think we are in for a prolonged weak housing market. Each forecast about the timing of a recovery seems to get pushed back, now often to 2010 or later.

But there are a few changes underway. Price declines are not as dramatic as they have been in recent months. There is a sense that the financial industry is becoming a bit healthier. Oil and other commodity prices have been on the decline in recent days, perhaps the beginning of a significant decline from their peaks. Strength in the US dollar has assisted in leading to reduced oil prices as well.

Housing markets are far from devastated in most places, especially throughout Pennsylvania. This housing decline is a significant event compared with house price and activity performance in many recent years. However, there will come a time when prices do indeed stabilize and inventories return to normal. Buyers will return to the market and borrow at risk-adjusted rates (probably somewhat higher than during the super-charged “liquidity years,” however). Housing will once again be viewed as the consumer durable it has always been and life will return to “normal” once again.