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Health of Housing Markets (HoHM) Report

From Nationwide Economics

2020 Q4
Data as of 2020 Q3

Forbearance for delinquent loans keeps the housing outlook positive

- The spike in mortgage delinquencies in the third quarter would normally have had a significantly negative impact on the national LIHHM*. Due to massive and timely forbearance policies, however, many of these delinquent loans have not slipped into foreclosure — nor are they likely to. As a result, we lowered the usual model delinquency factor to reflect current and expected policy, which left the national score little changed from last quarter at a slightly positive rating.
- Within the adjusted data, most of the MSA rankings remained neutral or slightly negative — reflective of the drag on the housing outlook from this year's job losses and elevated unemployment rates. Also, most MSAs are flat or down compared with a year ago due to the extended impacts of the COVID-19 recession.
- In response to the extremely tight supply of homes for sale, home price appreciation has accelerated in many local markets. While mortgage rates remain near record lows, rapidly rising prices are a risk for housing affordability, especially if inventory levels remain very low as is expected.

* *Leading Index of Healthy Housing Markets (LIHHM): A data-driven view of the near-term performance of housing markets for the nation as a whole as well as for 400 metropolitan statistical areas (MSAs) and divisions.*

Housing Market Health Status: **Stable**

National LIHHM: **Positive**

103.0

The national LIHHM remains positive for housing market growth

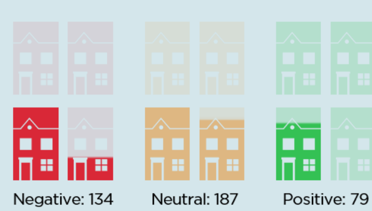
Market Drivers

While delinquency rates have climbed due to job losses, forbearance policies for homeowners should prevent a spike in foreclosures. Demand for housing remains strong while supply conditions are very tight, driving prices higher in many local markets.

- Jobs: **Highly negative**
- Demographics: **Near-Average**
- Prices: **Accelerating Gains**
- Mortgage Market: **Positive**

MSA Performance

The largest share of local housing markets are rated as neutral.



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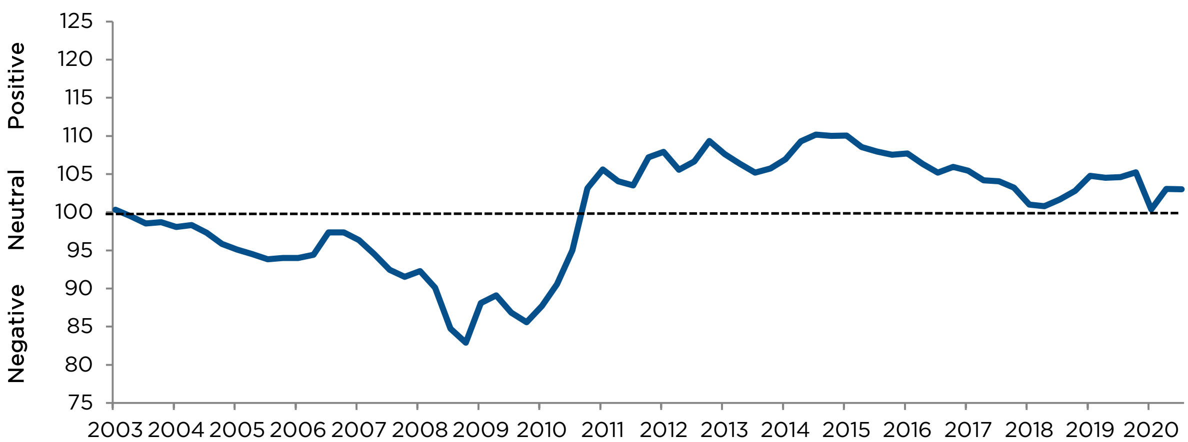
Forbearance policies for homeowners forced a change in the data

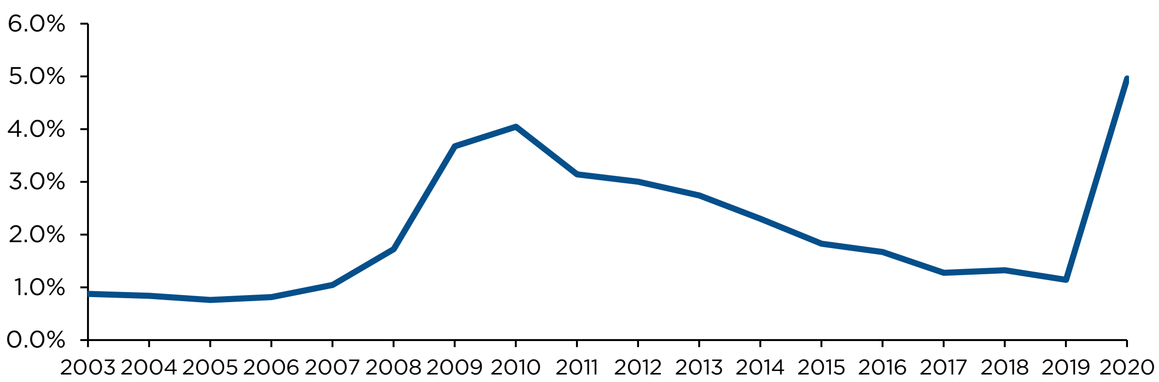
Mortgage delinquencies in third quarter (which shot above the peaks from the Great Recession) had a significantly negative impact on the original data for the national LIHHM*, dropping it below 100 for the first time in 10 years. But delinquencies in the current environment should not be viewed as they have been in the past due to government policy changes. Forbearance on delinquent mortgages will allow many homeowners to postpone payments and reschedule debts with lenders, preventing many (perhaps most) of these delinquencies from turning into foreclosures. It is likely that forbearance policies will be extended further under the incoming Biden administration. Consequently, we adjusted the national and local market delinquency rates to assume that a much smaller share of delinquent loans will ultimately default. After this adjustment, the national LIHHM was little changed from the second quarter, remaining modestly positive.

Even after the delinquency adjustment, elevated unemployment and a large contraction in jobs continue to weigh on the housing sector outlook. House price gains are also accelerating rapidly in response to the persistent imbalance between supply and demand in the market. If these trends continue, higher housing costs will eventually offset the positive affordability benefits from low mortgage rates, potentially pricing out some homebuyers.

National LIHHM (adjusted data)



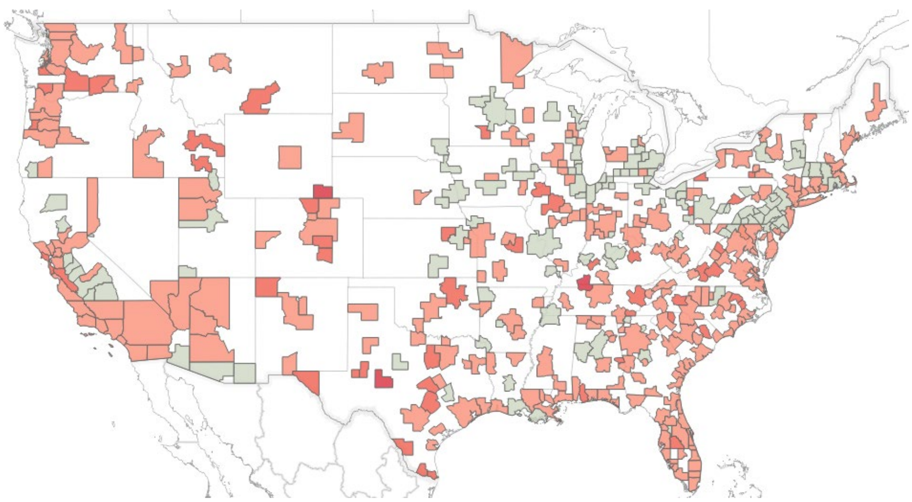
National serious delinquency rate

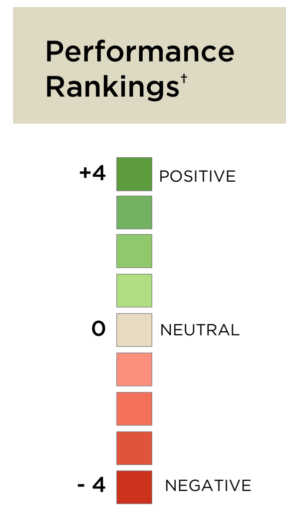


Even after the delinquency adjustments, most markets have a neutral or negative ranking

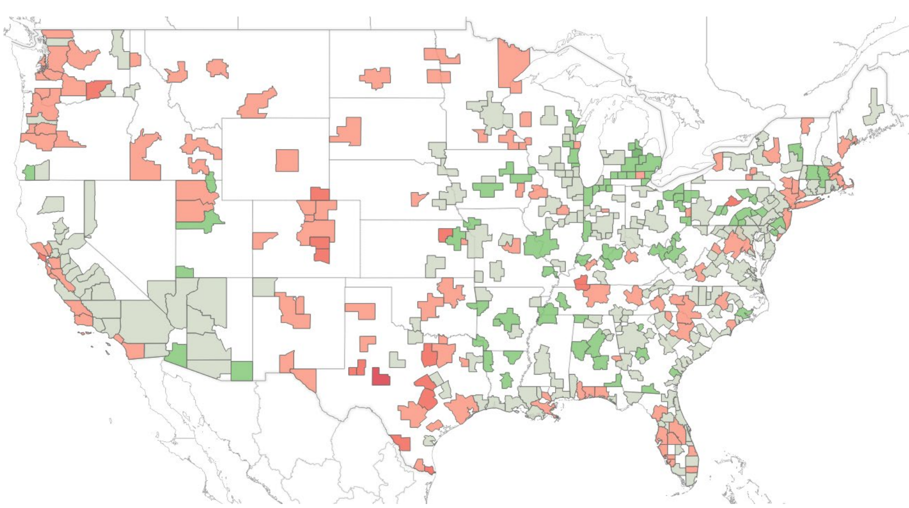
- The spike in delinquency rates helps to hold down the rankings for local housing markets. The unadjusted data show no MSAs with a positive ranking, while a total of 289 markets have a negative ranking. This is the highest number of total negative rankings since 2009 when the rankings for all 400 MSAs were negative.
- After adjusting for fewer expected defaults with extended forbearance, the number of negatively ranked MSAs is less than half of what the original data show, coming in at 134. This lower figure would still be the highest total since 2009 as the massive job losses and high unemployment rates (even after improvements in recent months) weigh on the housing outlook.
- With the adjusted delinquency data, 79 MSAs have a positive ranking, although 78 of them are positive by only one ranking, suggesting a modestly positive outlook for those markets. Mainly due to still poor employment figures, 187 have a neutral ranking, as local markets recover from the COVID-19 recession.

Original delinquency data





Adjusted delinquency data



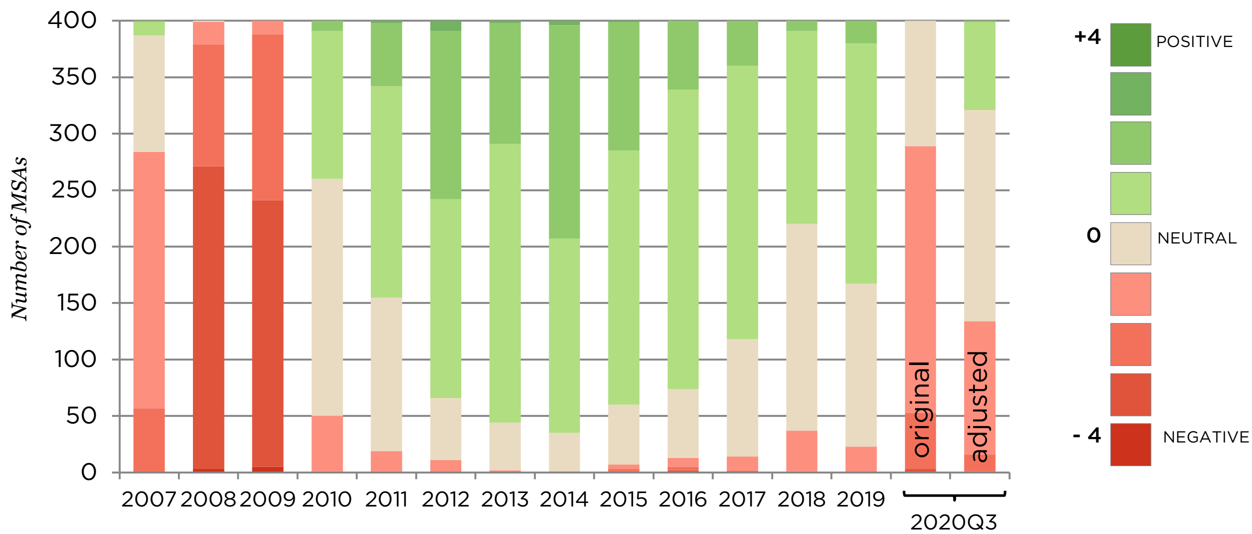
An uptick in positive and neutral rankings can be seen in the adjusted data throughout the Midwest, South, and West regions.

† *Data as of 2020 Q3*

Local performance rankings are at their lowest on average since 2009

- Adjusting for ongoing forbearance policies shifted many of the performance rankings in local housing markets, giving them a more positive outlook.
- Even after the improvement from the change (seen below), the housing outlook in many local markets continue to be weakened by poor labor market conditions as the economy recovers from the COVID-19 recession.
- The areas hit the hardest have been Texas (which shows up four times in the bottom 10 MSAs) and in parts of the Pacific Coast, while the Midwest is still showing a decent number of positive or neutral rankings.

MSA LIHHM Performance Rankings [†]



Top 10 MSAs (Adjusted Data)

Rank	Metropolitan Statistical Area
1	Saginaw MI
2	Johnstown PA
3	St. Joseph MO-KS
4	Tuscaloosa AL
5	Alexandria LA
6	Detroit-Dearborn-Livonia MI
7	Wheeling WV-OH
8	Cape Girardeau MO-IL
9	Flint MI
10	Altoona PA

Bottom 10 MSAs (Adjusted Data)

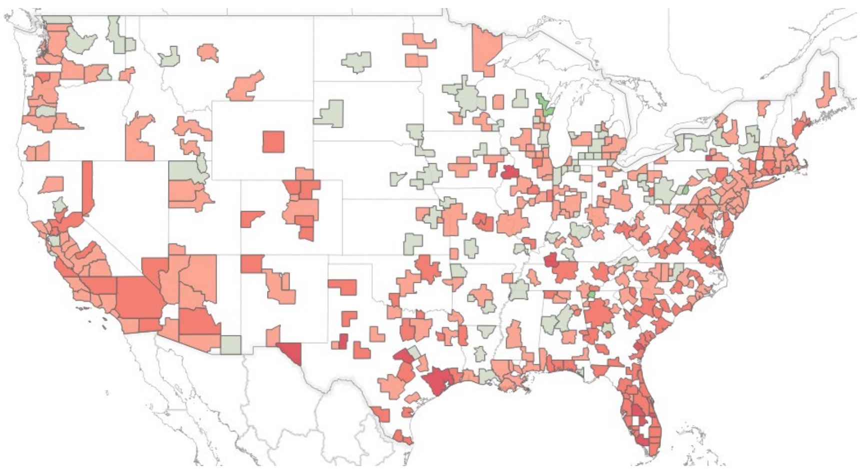
Rank	Metropolitan Statistical Area
400	San Angelo TX
399	Cheyenne WY
398	Odessa TX
397	Clarksville TN-KY
396	Brownsville-Harlingen TX
395	Fort Worth-Arlington TX
394	Kennewick-Richland WA
393	State College PA
392	Manhattan KS
391	San Rafael CA

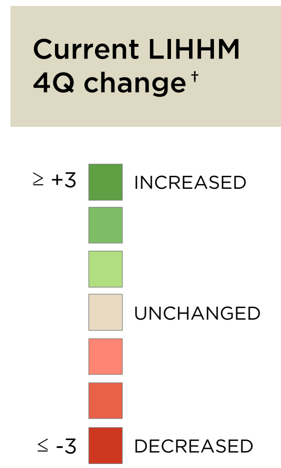
[†] *Change in performance ranking; Data as of 2020 Q3*

Forbearance cushions the bottom, but conditions have deteriorated from a year ago

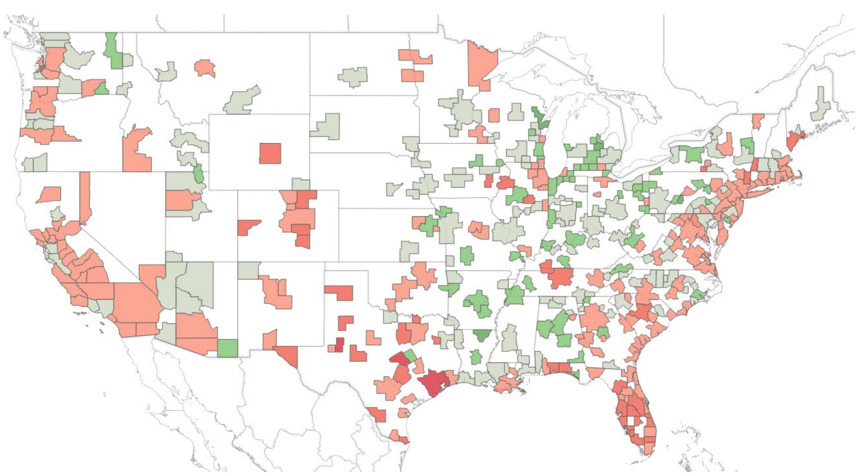
- The near-term sustainability of housing markets is best measured by the current LIHHM (page 3), but looking at shifts in the LIHHM over the course of a year can provide additional insights.
- The figures below again depict the large differences between the original and adjusted data for the four-quarter change in LIHHM. The original data show a decrease in the performance rankings of 315 MSAs, while the adjusted data shows a decrease in only 192 MSAs. Neither is good, but again this suggests continued forbearance should be beneficial for the outlook in many housing markets.
- with the adjusted data, 66 markets show an increase in their performance rankings, which is an improvement from last quarter. Reflective of stable housing markets conditions in those areas, 146 MSAs showed no change in their rankings.

Original delinquency data





Adjusted delinquency data



Some MSAs saw improvement in their ranking over the past year in the adjusted data versus none in the original data.

† *Change in performance ranking; Data as of 2020 Q3*

Appendix

Leading Index of Healthy Housing Markets (LIHHM)

Nationwide's LIHHM is a data-driven view of the near-term performance of housing markets based upon current health indicators for the national housing market and 400 metropolitan statistical areas (MSAs*) and divisions across the country. For each MSA, the LIHHM uses local-level data to incorporate the idiosyncratic characteristics of regional housing markets. The focus of the LIHHM is on the entire housing market's health, rather than a projection of house prices or home sales.

Nationwide Economics LIHHM methodology

The LIHHM is calculated using a number of variables that describe many of the drivers of the housing market for each MSA. In order to provide the best indicator of housing health, the included variables and corresponding weights for each provide the optimal leading perspective on future housing markets for each MSA. The drivers can be grouped into the following categories:

1. **Employment**
2. **Demographics**
3. **Mortgage Market**
4. **House Prices**

As an illustration, if job growth increases in an MSA, then the resulting rise in incomes creates additional housing demand. Consumers have a greater ability to earn and save for home purchases, increasing sales and pushing up house prices. The LIHHM measures the movements in the included employment, demographic, mortgage market, and house price variables versus the long-term trends within each MSA.

These drivers are used to derive an overall LIHHM score on a scale from 75 to 125 centered around a neutral value of 100. These values are placed into performance rankings to allow for better comparisons across MSAs. These performance rankings are the key metric in comparing the MSAs both to each other and across time. Raw LIHHM values are used for calculation purposes only and will only be shown on the national level as the national score is standalone and is not compared to other areas.

* *MSA: Geographical region with high population density and close economic ties throughout the nearby area, capturing 85-90% of the U.S. population*

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David holds a doctorate in Economics and a master's degree in Public Policy from the University of Michigan. Prior to Nationwide, David served as Chief Economist, Strategist and Head of Risk Analytics for The PMI Group, Inc., and Vice President and Chief Economist for Fannie Mae. David has also served as Chief Financial Economist at Wharton Econometrics and visiting scholar at the Federal Reserve Bank of Kansas City. His government experience has included roles with the President's Council of Economic Advisors, U.S. Treasury Department and the Office of the Special Trade Representative. He is a past President of the National Association for Business Economics and is a Certified Business Economist (CBE).

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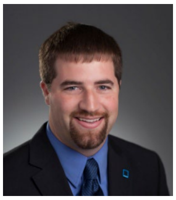
Bryan is a frequent author and knowledgeable source on economic topics, and has been featured in The Wall Street Journal and New York Times. Bryan holds degrees in Economics and Political Science from Miami University and has earned the Chartered Financial Analyst designation. He currently serves as Chairman of the Ohio Council on Economic Education and is a member of the Ohio Governor's Council of Economic Advisors, the National Association for Business Economics, and the Bloomberg monthly economic forecasting panel.



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Ben authors periodic economic analyses from the Nationwide Economics team, as well as commentary on key economic topics. Ben is also responsible for understanding and analyzing the enterprise business drivers to assist the strategic planning process. He holds a Master of Science in Economics from the Ohio State University, specializing in applied economic analysis, and a BSBA from the Fisher College of Business at the Ohio State University, with a focus on economics and international business.

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