Market Minute: December 3, 2018

Housing/Real Estate Market

Upcoming Data Releases

- Construction – 12/03/2018
- ISM Manufacturing – 12/03/2018
- Motor Vehicle Sales – 12/03/2018
- CoreLogic Home Price Index – 12/04/2018
- Productivity and Costs 2nd Rev– 12/05/2018
- ISM Non-Manufacturing– 12/05/2018
- Beige Book – 12/05/2018
- Consumer Credit – 12/05/2018
- Trade Balance – 12/06/2018
- Manufacturing Shipments, Inventories, and Orders – 12/06/2018
- Employment Situation – 12/07/2018
- Wholesale Trade – 12/07/2018

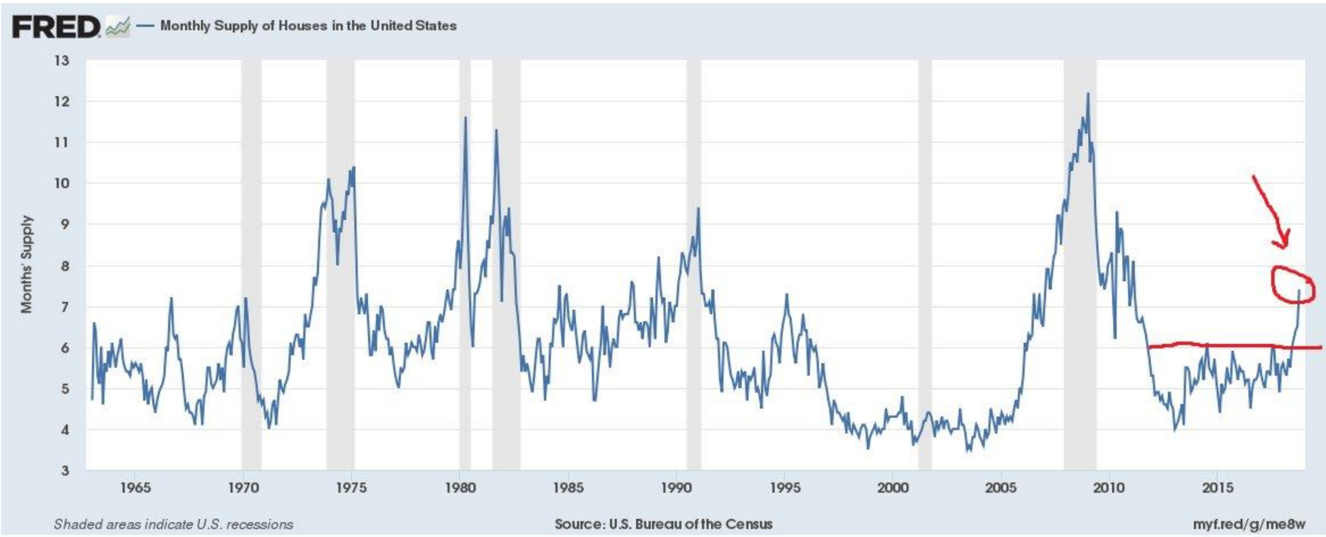
California Home Buyers Can't Always Get What They Want, C.A.R.® Survey Finds: California's competitive housing market and low housing affordability forced homebuyers to make compromises in their home purchases including price, size, location, and school quality. C.A.R.'s **2018 State of the California Consumer Survey**, which examines the attitudes and behaviors of real estate consumers, reveals 44 percent of buyers bought a more expensive home than they wanted, 33 percent purchased a smaller home than desired, 36 percent purchased a home further from school/work than wished, and 30 percent purchased in an area where schools were of lesser quality. The survey also found that the source of down payment for the majority of home buyers was their personal savings. Boomers were more likely to use the proceeds from the sale of a previous home since many were repeat buyers while Millennials were significantly more likely than Gen Xers or boomers to use funds received from parents or family or a gift.

FHFA Conforming Loan Limits Raised for Fannie and Freddie Mac Conforming Loans, CALIFORNIA ASSOCIATION OF REALTORS® Applaud: Federal Housing Finance Agency's (FHFA) announced an increase to the 2019 conforming loan limits for mortgages acquired by Fannie Mae and Freddie Mac. The limit on one-unit properties increased to $484,350 with a cap of $726,525 in high-cost areas. The previous loan limits were $453,100 and $679,650, respectively. C.A.R. President Jared Martin commented that "Increasing the existing Fannie Mae and Freddie Mac conforming loan limits will greatly benefit higher-priced areas of [California] and provide stability and certainty to the housing market." The conforming loan limit determines the maximum size of a mortgage that government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac can buy or "guarantee." Non-conforming or "jumbo loans" typically have tighter underwriting standards and sometimes carry higher mortgage interest rates than conforming loans.

National Pending Home Sales Down 2.6% in October, Increases in West and Midwest: The National Association of REALTORS®(NAR) reports that pending home sales nationwide dropped in October, with declines in all regions except the Northeast. The index dropped to 102.1 down from 104.8 in September and is down 6.7% year-over-year culminating in the 10th straight month of annualized decreases. Lack of available supply, high prices, and declining benefits of tax reform remains largely behind the slowdown. This forward-looking indicator for existing sales indicates a drop in closed contract sales in November and December.

New Residential Sales Very Weak Again, Down 8.9% from September and 12% Year-Over-Year: The Census Bureau reported another very weak (if not unexpected) New Home Sales report for October, with a seasonally adjusted annual rate (SAAR) of 544,000 down from October 2017's estimate of 618,000. Sales year-to-date are now up 2.7%

from last year (compared to 3.5% last month and 6.9% in July) indicating a quickly down-trending rate that has been quickly hurt by interest rate increases. Months of supply increased from 6.5 months to 7.4 months. See chart below.



Home Price Gains Below 6% for Second Time in a Year, Price Growth at 5.5% Annually: The S&P CoreLogic Case-Shiller Index shows that home prices rose by 5.5% in September, continuing the downward trends from previous months: 5.7% in August, 6.0% in July, 6.2% in June and 6.4% in May. Vegas (13.5%), Seattle (8.4%), and San Francisco (9.9%) had the highest year-over-year growth, but only four of the 20 cities in the index reported greater price increases in the year ending September 2018 versus the year ending August 2018.

Notes on Housing Market Shift, Several National Stories On Gear Shifts In The Housing Market: WSJ reports that us housing boom is coming to an end: "Dallas is housing's 'canary in the mine shaft.' Homes are taking longer to sell, bidding wars are rarer and price cuts are more common as buyers absorb the impact of higher mortgage rates." **Redfin reports that market cooling can be seen in price changes**: In October 31.3 percent of homes for sale had at least one price drop of more than 1 percent. This is the highest share of price drops on record since Redfin began tracking this metric in 2010, and 6.3 percentage points above last October's level of 25 percent**.** **In Seattle, almost half of homes for sale had price drops**, with an average price cut of $27,500, down from more than $30,000 a year earlier.

Oil Plunges 7%, To Lowest Level In More Than A Year: Oil prices slumped on Friday to their **lowest levels** in more than a year, deepening a rapid seven-week sell-off that has plunged crude futures deep into a bear market. Brent crude dropped $3.52, or 5.6 percent, to $59.08, its lowest level since last year. Similar price changes were seen for West Texas Intermediate Crude.

Macro Economy

Gross Domestic Product 2nd Estimate for Q3-2018 Still Strong, GDP Advances 3.5%: Bureau of Economic Analysis (BEA) reports GDP increased at a strong annual rate of 3.5% in the third quarter of 2018 (unchanged from the first estimate), with Q2 remaining at its previous rate of 4.2%. The general picture remains unchanged, upward revisions to nonresidential fixed investment and private inventory were offset by downward revisions to personal consumption expenditures and local government spending. PCE growth was revised from 4.0% to 3.6%, and residential investment was revised up from -4.0% to -2.6%.

Personal Income and Expenditures Both Edge Up, Income YoY Growth Steady at 3%: Personal income (PCI) inched up 0.5% in October with an increase of $84.9 billion, according to the latest release from the Bureau of Economic Analysis. Year-over-year PCI change was 2.0%, in line with trend income growth for the past few years. The growth was driven by increases in employee compensation and asset revenue. October Personal Consumption Expenditures (PCE) increased 0.6% month-over-month, and 1.8% year-over-year, while disposable personal income increased $81.7 billion or 0.5% over September.

Advanced Economic Indicators Strong, Trade Deficit Up 1.3%, Wholesale Inventories Up 0.7%, Retail Inventories Up 0.9%: The international trade deficit was $77.2 billion in October, up $1.1 billion from September's $76.3 billion, with the trade deficit growth rate relatively flat from last month. Exports of goods for June were $140.5 billion, $0.5 billion more than September's exports. Wholesale inventories were estimated at an end-of-month level of $650.4 billion, up 0.7% from last month, and up 6.6% from September 2017. Increasing retail inventories for September were estimated at $648.5 billion, up 0.9% from last month, and up 4.0% from last year.

Advanced Durable Goods Orders Down 4.4% in October, Driven by Transportation: Durable goods new orders which have been down three of the last four months, decreased $11.5 billion or 4.4% month-over-month with 12% declines in transportation equipment. Shipments declined 0.6% to $254 billion also driven by transportation shipment. Capital goods orders also decreased 4.2% to $75.3 billion with defense capital goods declining 16.5%.

Richmond 5th District Manufacturing Grew Moderately, New Orders and Employment Slip Slightly: The Fifth District's manufacturing survey showed moderate growth in business activity in its November report: it's composite index decreased from 15 in October to 14, pulled down by drops in new orders and employment while shipments increased. All components continued to reflect expansion and firms reported optimism for growth over the next six months.

Dallas Fed Reports Continuing Manufacturing Expansion But Pace of Growth Continues to Moderate: The Texas Manufacturing Outlook Survey of southern executives showed a strong month, with production falling 9 points to 8.4 (anything positive indicates growth), providing additional evidence of output deceleration. New orders, and new order growth capacity utilization and shipments all slowed to their lowest readings in 20 months. The strongest growth was in labor market measures which indicated hiring and longer work hours. Expectations regarding future growth and activity remained positive but was less optimistic than in previous months. The readings remain solid, are above long-term averages but ultimately suggest slowing growth in the Texas region.

Texas Service Sector Growth Accelerates but Forward Optimism Fading: Texas service sector activity accelerated in November, revenue and labor market indicators growing, but respondents reported more uncertainty in their own business and the market. Revenue increased 2 points to 21.4 while general business activity (11.4) declined 2.7 points from October. Price pressures have eased on inputs while selling prices have declined

National Economic Activity Index Increases, US Manufacturing Level at High Levels: The Chicago Fed's National Activity Index (CFNAI) increased to +.24 from September's +.14 reading. Only one of the four broad categories of indicators that make up the index increased from September, but three of the four categories still made positive contributions to the index. The index's three-month moving average, CFNAI-MA3, edged to +0.31 from +0.30 in September as fall manufacturing activity appears to be coasting at relatively high levels if down from summer highs.

Real Estate Finance

Mortgage Applications Up 5.5%, Refinances Up 1%: The Mortgage Bankers Association report indicates that total application volume jumped up 5.5% from last week and is also 9% higher than applications from the same week last year. Refinances increased 1% from last week and accounts for 37.9% of the total activity. Purchases seem to have responded strongly to a relatively strong drop in interest rates: **Freddie Mac's survey reports** that the average mortgage rate decreased strongly after weeks of rising rates. The 30-year mortgage rate is at **3.81%** with 0.5 points, largely flat from last week. The 5-year ARM increased slightly to 4.12**%** with a fee of 0.3 points.

Homes Delinquencies Drop 8.2% in October, Number of Seriously Past-Due Below 2006 Rates: Black Knight reports that foreclosure starts fell 8.2% in October, down 18% from this time last year. The percent of homes in the foreclosure process decreased 0.5% to 0.52% of total loans and is down 24.2% from last year. Past due loans fell by 14,000 from last month to fall below 500,000 and fall for the first time below 2006 rates.