# Market Minute: December 10, 2018

## Housing/Real Estate Market

**Construction Spending Decreased Slightly in October Spending Up 4.9% Year-Over-Year:** The Census Bureau reports that construction spending in October 2018 decreased an annualized rate of $1,308.8 billion, down 0.1% from September's $1,310.8 billion estimate but 4.9% higher than September 2017's rate. Overall for the month, growth dipped in private residential construction market and was positive in the public space. Private residential remains 21% below the previous bubble peak, while non-residential is 11% higher.

*Upcoming Data Releases*

- JOLTS – 12/10/2018
- Consumer Expectations – 12/11/2018
- CPI – 12/12/2018
- Real Earnings – 12/12/2018
- Fed Inflation Expectations – 12/12/2018
- Imports / Exports – 12/13/2018
- Advanced Retail Sales– 12/14/2018
- Industrial Production – 12/14/2018

**CoreLogic HPI Up 5.4% Year-Over-Year, Forecasts Growth Slow to 4.8% by October 2019:** October's CoreLogic 3-month moving averaged HPI increased by 0.5% from last month. CoreLogic forecasts that home prices will decrease 0.7% next month, while on track for a 4.8% increase next year. Price increases have been in the 5% to 7% range for the past few years, so a dip below that represents a slow but on-going change in long term trends.

**Notes on Housing Market Shifts, Gear Shifts In Las Vegas / Seattle Housing Markets:** GLVAR reports that November sales in southern Nevada were down 11.6% for homes and 7.1% for condos and townhomes, while total inventory increased by 64% year-over-year. Short sales and foreclosures were extremely low, down 50% from last year. Meanwhile, **King County's SFH median prices dropping 11%** over six months from the spring; falling to $644,000 from $726,000. Inventory surged 41% year-over-year in the 23 county Northwest MLS and surged 135% in Kings County. Sales declined 20% as "more inventory and only slightly increased interest rates, coupled with 'more receptive and savvy sellers' are resulting in a 'more reasoned approach to buying and selling.'"

## Macro Economy

**155,000 Jobs Added In November – Unemployment at 3.7%, Wages Grow at 3.1%:** BLS reports that the U.S. added 155,000 jobs in November as the unemployment rate remained steady at 3.7%. Previous two months' employment was revised down a combined 12,000, but growth remained strong if marred by seasonal issues. Other optimistic signs: real hourly wages increased 3.1% for the year, as wage growth has started to trend up. Year-over-year growth in jobs was a positive seasonally adjusted 2.443 million. Despite previous months' downward revisions, the report remains strong at this point in the labor cycle.

**Fed Beige Book Reports Modest Expansion Across Country, Firms Complain about 'Ghosting' Employees:** The Fed's Beige Book reports that most of the twelve Federal Reserve Districts economies' expanded at modest or moderate paces, with new and existing home construction and sales declining or holding steady, and non-residential structures rising or remaining flat. Lending volumes grew modestly, with declines in some Districts. Labor markets have tightened across a broad range of occupations, but capacity expansion has been constrained by an inability to attract and retain qualified workers.

**ISM Manufacturing Index Up in November, New Orders, Production, and Employment Growing:** November's PMI increased to 59.3% up from 57.7% in October following strong growth in new orders, production, and employment. The index indicates that manufacturing economic activity expanded from October. However, **advanced durable goods orders were down 4.4% in October.**

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**ISM Non-Manufacturing General and Employment Indexes Up Slightly from October; Growth in Services Remains Strong, 17 Non-Manufacturing Industries Report Growth:** The ISM's service-sector index rose to 60.7% in November, down from October's record 60.3% reading—well above the threshold of 50 indicating further expansion. The employment index also drew down 1.3% to 58.4% in November from 59.7% in October. Business activity, new orders, and employment all were positive, although respondents issued worries about employment resources and tariffs.

**New Vehicle Sales Down Slightly, Sales Have Likely Peaked for Market Cycle**: U.S. auto sales are down 0.5% from last month at 17.4 million seasonally adjusted car sales. Year-over-year sales are also down 0.7% but have been generally moving sideways since 2017. 2018 appears to be the 4th best year for sales, down from a strong 2015-2017 run. Going forward, sales may be supplemented by relaxation of EPA mandated fleet-mixes allowing more sales of SUV/light trucks vs sedans, and increased interest in electrics.

**Productivity Rises 2.3% In Third-Quarter 2018; Unit Labor Costs Rise 0.9% Annually:** Productivity increased 2.3% in the nonfarm business sector in the third quarter of 2018; unit labor costs increased 0.9% (seasonally adjusted annual rates). In manufacturing, productivity increased 1% and unit labor costs decreased 1.2%.

**Consumer Credit Up 7.75%, Revolving Credit Up 10.75% while Non-Revolving Credit Up 6.75%:** The Fed reports that consumer credit increased on a year-to-year basis in October, with consumer credit up by $39 billion. Revolving credit, which is primarily comprised of credit cards, was behind much of the gain with a jump of nearly 110 billion dollars in October. Non-revolving credit (like auto and home loans) experienced stable growth compared with previous months. Debt levels remain relatively "healthy" but will continue to be influenced by rates.

**US Deficit Up as Exports Decreased and Imports Increased, Trade-Deficit with China Up:** The Bureau of Economic Analysis reports that the U.S. trade deficit grew in October to $55.5 billion, up $1.5 billion from September's $54.6 billion. Total exports which totaled $211 billion, are down $0.3 billion from September. October imports grew $0.6 billion to $266.5 billion. The China trade deficit grew substantially from this time last year, increasing to $43.1 billion from $35.2 billion in October 2017.

**Wholesale Trade Inventories Up 0.8% Sales Down, Sales/Inventory Ratio Flat:** Wholesalers saw sales of $510 billion, down 0.2% from September but up 6.8% year-over-year on a seasonally-adjusted basis. Inventories rose 0.8% month-to-month and 6.8% year-over-year, while the inventory-to-sales ratio was flat at 1.28.

## Real Estate Finance

**Mortgage Applications Up 2%, Refinances Up 6%:** The Mortgage Bankers Association report indicates that total application volume jumped up 2% from last week and is also 42% higher than applications from the same week last year. Refinances increased 6% from last week and accounts for 40.4% of the total activity. Purchases and refinances 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 **4.75%** with 0.5 points, largely flat from last week. The 5-year ARM declined slightly to 4.07**%** with a fee of 0.3 points.

**As Home Prices Slow, Falling Negative-Equity Also Slows, Equity Growth Per Property Slowest in 8 Quarters:** CoreLogic reports that mortgage holding homeowners saw equity increases of $775 billion from last year, an increase of 9.4%. From Q3 2017, this has helped drive 400,000 fewer properties with negative equity, but only 81,000 homes regained equity from last quarter as price growth has slowed. In Q3 2017, there were 2.6 million properties with negative equity compared to 2.2 million today. Homeowners had an average equity gain of $12,400, the smallest annual increase in the last eight quarters.