Market Minute: December 17, 2018

Housing/Real Estate Market

Delinquencies and Foreclosures Sink to Lowest Levels Nationwide: CoreLogic reported that overall delinquencies and foreclosures fell to their lowest level in 12 years. However, the report also notes both a heightened risk of delinquencies rising as well as a jump in delinquency activity associated with natural disasters in California and with Hurricane Florence and elsewhere. Overall, the delinquency rate of 4.4% is low, but high loan-to-value debt-to-income ratios have elevated the risk to the market.

Upcoming Data Releases

- NAHB Index – 12/17/18
- Housing Starts – 12/18/18
- CAR Home Sales/Prices – 12/18/17
- NAR Home Sales – 12/19/18
- FOMC Announcement – 12/19/18
- Leading Econ. Indicators – 12/20/18
- Philly Manuf. Index – 12/20/18
- Q3 GDP Revise – 12/21/18
- Personal Income/Spending – 12/21/18
- Durable Goods – 12/21/18
- Consumer Sentiment – 12/21/18
- CA Employment – 12/21/18

Macro Economy

Jobs Report Still Strong Job Openings and Quits Steady: The Bureau of Labor Statistics' Job Openings and Labor Turnover Survey (JOLTS) reported that there were more than 7.1 million job openings in October—the seventh consecutive month of more openings than new hires. Job opening were flat from September (7.07 million compared to 6.96 million) but remain lower than August's record high of 7.3 million. Jobs openings are up 17% year-over-year. The private sector Quits Rate was largely unchanged at 2.3% (or 3.5 million total quits) and up 9% for the year, while the separations rate was unchanged at 1.1%. There were 6.075 million unemployed recorded for the month. Job openings remain high and quits are steadily increasing, the labor market remains strong.

Real Earnings Post Solid Increases: The tight labor markets have finally given way to more robust growth in real earnings, which were up 0.3% in November. Although this is welcome news, we have yet to experience the breakout growth in wages that one might expect with such low levels of unemployment. The monthly gain in November is significant, but still represents just 0.8% growth on an annual basis.

Consumers Keep on Consumin': Despite cheaper oil and gas prices, retail sales inched up by 0.2% last month, signaling a decent start to the holiday season. This monthly bump puts retail sales on a trajectory for a 4.5% increase in overall holiday season spending this year—a solid number that will help to keep GDP growth elevated as we head into the final leg of the year.

Firm Inflation Expectations Unchanged for Year Ahead; Firms Still Expect Inflation 2.2%: Businesses surveyed by the Atlanta Fed's Business Inflation Expectations Survey expressed beliefs that inflation will be up 2.2% over the year ahead (the previous month's expectations were also 2.2%). They believed that sales improved somewhat from 'normal times,' while profits declined.

Consumer Prices Hover Near Fed's Target Range: Although weak energy prices left the overall CPI unchanged last month, the year-over-year growth remains 2.2%, which is close to the Federal Reserve's target range. However, with unemployment running below typical levels and with the yield curve recently inverting, the Fed will continue to face pressure to prevent an overheating economy—which will likely mean a few more rate hikes in the coming year (with an expected raise this week as well).

Producer Prices Increased 0.1% in November, Demand Prices Index Increased 0.3%: Producer price index rose a relatively small 0.1% in October. Growth in demand was traced to trade services by transportation and warehousing services. Goods prices decreased a relatively large 0.4%, the largest decline since spring 2017, driven by a large decrease in demand for energy use.

Small Business Optimism Declines Slightly A Quarter of Firms Cite Finding Workers as Their Most Important Problem: The National Federation of Independent Businesses (NFIB) reports that small business optimism dropped 2.6 points last month to 104.8, with most of the decline resulting from declining expected conditions and sales. Finally, 25% of owners cited finding qualified workers as their most important problem.

Manufacturers Continue to Face Headwinds Despite Positive Headline: Industrial production rose a solid 0.6% last month. However, much of this was due to an increase in utilities and mining output—both of which are heavily influenced by the cold snap blowing through much of the country. Manufacturing output actually remained unchanged, continuing a string of disappointing showings after a decent year in 2017.

Real Estate Finance

TODO 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 the lowest interest rates in months: **Freddie Mac's survey reports** that the 30-year mortgage rate is at 4.63% with 0.5 points, another decline from last week. The 5-year ARM declined slightly to 4.04**%** with a fee of 0.3 points.

Inventories Rising Year-Over-Year for First Time in Four Years, but Inventory Held Back by Mortgage Lock: Black Knight reports that despite rising inventories for home sales (up on an annual basis for the first time in four years), mortgage lock (the prospect of getting a mortgage at a higher rate than their current mortgage) is keeping 6% of inventory off the market, and reducing downward pressure on prices.