Market Minute: December 24, 2018

Housing/Real Estate Market

> ***Upcoming Data Releases***
>
> - Chi. Fed National Index – 12/24/18
> - Richmond Fed – 12/26/18
> - New Residential Sales – 12/27/17
> - Advanced Ec. Indicators – 12/28/18
> - Pending Home Sales – 12/28/18

California Sales Below 400,000 for Fourth Straight Month, November Also Marks Seventh Straight Month of Declining Sales: CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.) reports that existing, single-family home sales totaled 381,400 in November on a seasonally adjusted annualized rate, down 3.7% from October's revised sales, and down 13.4% from October 2017. October's statewide median home price was $544,700, down 3% from last month and up 1.5% from November 2017. Listings also rose for the 8th consecutive month on a year-over-year basis, increasing 31% from last year.

National Existing-Home Sales Up for Second Consecutive Month, Sales Still Down 7% Year-Over-Year: National Association of Realtors® (NAR): reports that the seasonally adjusted sales of existing homes increased to 5.32 million homes, up 1.9% from October. Sales are down 7.0% from a year ago (5.72 million homes in November 2017). Unsold inventory declined to 3.9 months from 4.3 months but is up from last year's 3.5 months. Three of four regions saw gains in sales.

Positive American Institute of Architects (AIA) Billings Continues, Growth Expands Strongly: The ABI index, a leading indicator for new commercial real estate investment increased 4.3 points to 54.7, with the strongest growth since January and closing the year strongly. Billings indicates positive future growth in new commercial real estate. The index remained positive for the fourteenth consecutive month, with slower growth in Southern and Western regions, and continued billings in the commercial/industrial, mixed, multi-family, and institutional sectors.

Housing Starts Up in November (Driven by Multi-Family) But Remain Slower Than Last Year; Permits Up 5%: The Census housing report shows that housing starts were up 3.2% from October (but down 3.6% from November 2017), closing the month with a seasonally adjusted rate of 1.2 million units in November. Single family starts were down 4.6% from last month and down 13% year-over-year, while multi-family starts were up 22% year-over-year. The 1.32 million permits granted are 5% above the October rate of 1.265 million and are 0.4% below November 2017's rate of 1.33 million.

Homebuilder Sentiment Drops, Affordability Draining Sentiment: Homebuilders remain marginally confident about their business prospects heading into the after a second fall in the NAHB/Wells Fargo's Homebuilder Sentiment Index. The index came in at 56 in December, down 4 points from November's still high 60 (anything over 50 represents expansion). Construction timber prices have fallen, but mortgage rate increases have dampened new home-buying: "We are hearing from builders that consumer demand exists, but that customers are hesitating to make a purchase because of rising home costs."

Macro Economy

California Labor Markets Still Growing in November: The Golden State added 30,700 jobs in November, which represents a 1.8% increase on a year-over-year basis. The unemployment rate remains near historic lows at 4.1%, and every major metropolitan area in the state (except El Centro) has dropped into the single-digits of unemployment. Fortunately, this growth is broad-based, with most major industries contributing to November's gain.

Gross Domestic Product 3rd Estimate for Q3-2018 Still Strong, GDP Advances 3.4% (Down from 3.5%): Bureau of Economic Analysis (BEA) reports GDP increased at a strong annual rate of 3.4% 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, personal consumption expenditures (PCE) and exports were revised down, and private inventory investment was revised up; the general picture of economic growth remains the same. PCE growth was (again) revised from 3.6% to 3.5%, and residential investment was revised up from -2.6% to -3.6%.

Personal Income and Expenditures Both Edge Up, Expenditures Up YoY 1.8% Trending Downwards: Personal income (PCI) inched up 0.2% in November with an increase of $40.2 billion, according to the latest release from the Bureau of Economic Analysis. PCI change was 0.1%, in line with trend income growth for the past few years. The growth was driven by increases in wages and salaries offset by decreases in dividends and social security. November Personal Consumption Expenditures (PCE) increased 0.4% month-over-month, and 1.8% year-over-year, while disposable personal income increased $37.8 billion or 0.2% over October.

New York Fed, Philly Fed, Kansas City Fed Surveys All Indicate Slower Growth in December: Manufacturing activity slowed or grew at a slower pace in the Philadelphia (decreased from 12.9 to 9.4), New York (decreased from 22.9 to 10.9) , and Kansas City (decreased from 15 to 3) Surveys. Employment indexes in each region improved from last month as employers added or tried to add workers. Regional indicators were generally mixed with continuing optimism, but mixed movements in production and orders. The general trend remains down in December.

Fed Raises Rates Move More Hawkish Than Wall Street Hoped, Stocks Have Worst Month Since Financial Crisis: The **Nasdaq declined** more than 20% after intense sell-offs erased $1.2 trillion from leading tech stocks. Investors appear to be looking for cracks in the bull market: despite small labor costs, low inflation, and little risks to the economy (consumers may be more conservative given slowing housing markets and home prices). Fed commitments to rate tightening may have been over-read as Fed "projections continues to maintain an unnecessarily hawkish bias that only allows Wall Street's worries about growth to fester."

Real Estate Finance

Mortgage Applications Up 5.8%, Refinances Down 7%: The Mortgage Bankers Association report indicates that total application volume jumped up 5.7% from last week and is also 2% higher than applications from the same week last year. Refinances decreased 7% from last week and accounts for 43.5% 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 4.62% with 0.4 points, another decline from last week. The 5-year ARM declined slightly to 3.98**%** with a fee of 0.3 points.