Market Minute: January 14, 2019

Housing/Real Estate Market

Upcoming Data Releases

- Consumer Expectations – 1/14/19
- Producer Prices – 1/15/19
- Retail Sales – 1/16/19
- Homebuilder Sentiment – 1/16/19
- Business Inventories – 1/16/19
- Imports/Exports – 1/16/19
- Housing Starts – 1/17/19
- Industrial Production – 1/18/19
- California Employment – 1/18/19
- Mich. Consumer Survey – 1/18/19

Delinquency Rate Lowest in 18 Years: In October, just 4.1% of all mortgages were 30 days or more delinquent. This is the lowest level of delinquency in the mortgage market in nearly two decades. This is down from 5.1% last October. Similarly, the foreclosure rate is currently 0.5%--down from 0.6% at the same point in 2017. In California, 2.5% of mortgages were 30+ days delinquent—which is also down from 2.8% the prior year.

Home Prices Continue Growing Nationwide: CoreLogic reports that home prices nationwide increased by 5.1% in November. Despite slowing price growth in California, the rest of the nation continues to enjoy relatively robust price growth as the economy remains strong and the labor markets hover near historic lows for unemployment. This suggests that the current slowdown in California is due to the nature of our own housing market rather than because of broader national trends.

Macro Economy

Service Sector Cools Its Jets: Although the overall index remains above 50, thereby indicating ongoing expansion, the dip from 60.7 in November to 57.6 in December indicates that the pace of growth in the service sector is poised to slow. Despite this, new orders for services were up so there is still solid demand for services in the economy, but it is also consistent with decelerating economic growth in 2019, which is consistent with C.A.R.'s current forecast.

Small Businesses Less Optimistic: Following a retrenchment of *consumer* confidence last week, the National Federation for Independent Business (NFIB) reports that small business owners are also less optimistic as we enter 2019. This is the 4th month in a row where businesses were feeling less bullish about the future. Driven in part by stock market volatility, broader economic growth has been a source of uncertainty and many businesses are now unsure whether it is still a good time to expand.

Fewer Job Openings Signal Slower Job Growth: Despite a surge in December job growth figures, businesses reported 243,000 fewer job openings in November, which suggests that the pace of future gains may slow in coming months. This is consistent with less optimistic firms, consumers losing some of their confidence in overall economic conditions, and with C.A.R.'s outlook for more modest growth during 2019. However, it does not indicate that a downturn is on the immediate horizon either—there were still 6.9 million unfilled positions—what we are seeing is merely a sign that growth will moderate this year.

Inflation Still Running Close to Fed Target: Oil and gas prices have come down recently, which cause overall inflation to moderate last month. However, when you strip out the volatile food and energy components, core inflation is still running close to the Fed's target of 2%. While this does not suggest that the Fed will raise rates significantly during the year, one rate hike in 2019 still seems likely.

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Real Estate Finance

Buyers Enjoy Small Reprieve in Rates: Following ongoing volatility in the stock market, mortgage rates continue to slide as the economy becomes more uncertain. Freddie Mac reports that the average rate for a 30-year, fixed-rate mo0rtgage dipped from 4.51% the previous week to 4.45% last week. As a result, mortgage applications rose by more than 23% last week as buyers sought to take advantage of the recent reprieve. This brief reversal of rates represents an excellent opportunity for buyers to save money on their monthly mortgage payments before rates start to rise again.