Market Minute: January 22, 2019

Housing/Real Estate Market

California Home Sales Close Year on Downward Trend: California home sales declined for the eighth straight month in December, and pushed sales lower in 2018 for the first time in four years. Sales of existing, single-family detached homes in California were down 2.4% from November and down 11.6% from home sales in December 2017. The statewide median home price for the year was $570,010, up 6.0% from $537,860 in 2017, but slowed to a 1.5% annual pace in November and December.

Upcoming Data Releases

- U.S. Home Sales – 1/22/19
- Leading Indicators – 1/23/19
- Durable Goods – 1/25/19
- New Home Sales – 1/25/19

Lower Rates Encourage Builders: After a steep decline in December, homebuilder sentiment ticked back up in January amidst lower interest rates. Expectations for current sales rose as did foot traffic through new model homes. However, despite this reprieve, builder sentiment remains near its lowest level is over two years. We should expect ongoing construction on the residential side, but growth is likely to continue to disappoint—especially in California.

Macro Economy

California Labor Market Remains Robust in December: California added another 24,500 jobs to nonfarm payrolls to close out the 2018 year. This represents a 284,300 job increase for the year, or a 1.7% expansion. This strength in the current state of the underlying economy in the state is encouraging given that sentiments have declines and uncertainty has risen.

Consumers Continue to Show Signs of Fatigue: Consumer sentiments dipped to their lowest level since 2016 in December—falling by 7.7%. This is worrisome for overall economic growth because consumers have largely been responsible for the bulk of our momentum this cycle. It is also troubling given that consumer confidence plays a large role in real estate transactions/home purchases, and California has already begun to see demand wan. These latest figures suggest that the market will continue to face headwinds during the first half of 2019.

Lower Energy Prices Tame Producer Inflation: Producer Prices fell by their largest margin in two years as energy and gas prices reduced the burden on suppliers. This suggests that the Fed will be more moderate in raising interest rates this year with one additional rate hike seeming likely, rather than the two rate hikes initially envisioned.

Manufacturing Sector Rebounding Modestly: After several difficult months, the nation's manufacturing sector had a bit of a bounce as 2018 ended. The overall index rose 0.3% in December following a 0.4% increase during November. New cars continue to drive both production and consumption on the durable goods side, which has caused more industrial capacity to be utilized. However, there is still slack in the system that may preclude a big acceleration in business investments this year.

Real Estate Finance

Rates Yet to Rise: After declining significantly to start the year, 30-year mortgage rates held steady at 4.45% last week. As a result, mortgage applications continue to improve—rising by 13.5% from the previous week, which itself was up by more than 23%.

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