



Market Minute - September 24, 2018

Housing/Real Estate Market

California Home Sales Backpedal in August for Fourth Straight Month of Declines. CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.) reports that existing, single-family home sales totaled 499,600 in August on a seasonally adjusted annualized rate, down 1.8% from July and down 6.8% from August 2017. August's statewide median home price was \$596,410, up .8% from last month and up 5.5% from August 2017. Listings also rose for the 5th consecutive month, increasing 17.2 % from last year. Changes were driven by affordability crunch caused by high prices and increasing mortgage rates.

National Existing Home Sales Flat in August: NATIONAL ASSOCIATION OF REALTORS® (N.A.R.) reports that home sales held still from July, after four months of straight declines. Sales were mixed regionally, increasing in the Northeast and Midwest, canceling out declines in the West and South. Sales were flat from July and were down 1.5% from this time last year. The current annualized pace of sales was 5.34 million on a seasonally adjusted basis. Inventory also remained steady from last month and is up 2.6 % from last year. Signals still point to the impact of higher interest rates or changes in the tax law as contributing to these factors.

Homebuilder Sentiment High, Remains Firm: Homebuilders remain confident about their business prospects heading into the fall. The NAHB/Wells Fargo's Homebuilder Sentiment Index came in at a strong 67 in September (anything over 50 represents expansion) flat from August. Builders were more optimistic about sales and prospective buyer traffic. Regionally, the growth stemmed from the West and South, while the Northeast and Midwest saw builder sentiment decline. Lumber prices backed off from historic highs providing relief to builder costs.

Housing Starts/Permits Up, Driven by Multi-Family; Starts Up 9%, Permits 6% From July: A strong builder report from Census shows that housing starts were up strongly from July to a seasonally adjusted rate 1.28 million units in August. Single family starts were up 2% from last month and down slightly from last year, while multi-family starts increased 38% year-over-year. While existing home sales have likely peaked, new home sales can only grow from their current lukewarm rates and represent a key indicator for overall economic growth this late in the economic cycle.

The American Institute of Architects (AIA) Billings Rebounds, Growth in South and Multi-Family. The ABI score grew 4 points to 54.2, indicating future growth in new commercial real estate. The pace of growth in August rebounded solidly from July and counts as eleven consecutive months of growth.

Macro Economy

New York Region Business Leaders Survey Expands Strongly Service Sector at Highest Level in 10 Years: After a slight drop-off in August, the NY Fed Business Leader Survey reached its highest level in more than a decade growing 8 points to 22.5, indicating a very strong business climate, with declining input prices, moderated wage growth and modest declines in employment growth.

Businesses' forward-looking outlooks declined somewhat as firms began to express pessimism about the future past the 6-month horizon.

Empire State Fed Manufacturing Surveys Slows but Remains Positive for September, Indicating Continuing Growth: The New York Fed's Empire State Manufacturing Survey remained positive but moved down 7 points to 19 points suggesting continued growth and strong business activity with slower new orders, more inventories and delayed shipments. Firms reported continuing growth in employment and unchanged input and selling prices.

California Labor Markets Pick Up, Hiring and Workforce Entry Accelerates: The Bureau of Labor Statistics reported that California added 44,800 jobs in August, strong growth after a flat July. Payrolls have grown by an average of 33,500 jobs for the last three months. **The unemployment rate** remained at its historic low of 4.2% for the fourth straight month, the labor force expanded by 7,000 and the total employed population has increased by 85,000 year-over-year on a seasonally adjusted rate.

Leading Economic Index Up Above Previous Peak: The Conference Board's LEI posted a 0.4% increase in August following .7% and .5% increases in July and June, culminating in widespread signals of strength across the economy. This forward-looking indicator suggests that growth will continue at a pace above 3% for the remainder of 2018.

Real Estate Finance

Mortgage Applications Up 1.6%, Rates Up Slightly: The Mortgage Bankers Association report indicates that applications were up from last week along with refinances which rose 4% increasing to 39 percent of the total activity. Meanwhile, **Freddie Mac reports** that mortgage rates increased slightly with the 30 year at 4.65% with 0.5 points, up from last week's 4.6% rate. Rates have edged out of the 4.45% – 4.6% band that has held since April. The 5-year was steady at 3.93% with 0.276 points.

Household Net Worth Increased in Q2 2018, Reaching \$106.9 trillion: The Federal Reserve Flow of Funds reports that the value of corporate equities increased \$.8 trillion and the value of real estate increased \$0.6 trillion. The percentage of real estate equity held by households increased to 60%, the highest rate since 2002 driven by home price gains. **CoreLogic also reported** that mortgage holding homeowners saw equity increases of \$980 billion from last year, an increase of 12%. From Q2 2017, this has helped drive a 20% decline in underwater mortgage properties, to 2.2 million homes which represents 4.3% of all mortgaged properties.

Past Market Minutes

September 24, 2018 - Homebuilder sentiment, economic index, Freddie Mac

September 12, 2018 - Nonresidential construction, consumer expectations, mortgage applications

September 10, 2018 - Construction spending, trade deficit, loan delinquencies

August 27, 2018 - Single family rent, service sector, mortgage applications

August 20, 2018 - Homebuilder sentiment, industrial production, mortgage delinquency

