

Market Minute: February 11, 2019

Housing/Real Estate Market

National Home Prices Slow: On an annual basis, home prices rose 4.6% in December, according to a recent report by CoreLogic. This is the slowest pace of growth in more than 6 years. Prices are expected to continue to moderate, with CoreLogic forecasting a 3.4% increase for 2019. CAR is also forecasting slower prices here in California this year.

Over-Asking-Price Home Sales Dwindle: Zillow reports that the percentage of homes selling over asking price declined to 19.4% in December—a 3-year low. This is consistent with homes taking longer to sell and less buyer demand.

Upcoming Data Releases

- CA Housing Afford. – 2/12/19
- Consumer Prices – 2/13/19
- Producer Prices – 2/14/19
- Retail Sales – 2/15/19
- Industrial Production – 2/15/19
- Business Inventory – 2/15/19
- Consumer Sentiment – 2/15/19

Macro Economy

Factory Sector Shows Clear Signs of Slowing: Although this data was delayed due to the government shutdown, the end of 2018 was looking decidedly less upbeat for manufacturing as factory orders dipped 0.6% in November, which will mitigate economic growth moving forward as output downshifts to match orders.

Service Sector Slowing Too: Due in part to furloughs associated with the shutdown, the service sector dipped in December. The index remains above 50, indicating future growth, but the pace of that growth is likely to slow—particularly given that the current slowdown is only partially explained by the shutdown.

Worker Productivity Rising: Productivity increased by 1.3% on a seasonally adjusted basis to close out 2018. Taken together with tight labor markets, this should contribute to more robust wage growth moving forward.

Consumer Credit Surpasses \$4T, But Slowing: Consumer credit rose in December, but by its slowest pace in three months. Fortunately, the financial obligations ratio suggests that this level of debt isn't unsustainable, due in large part to the low rates associated with current debt levels.

Trade Deficit Narrows, But Not Likely a Trend: The trade gap declined by 11.5% from last month. However, much of this decline was due to lower petroleum import prices as well as a brief pause in cellphone imports from China. As the stock market has stabilized some, expectations are for imports to begin to rise again.

Small Business Still Cautiously Optimistic: Business sentiments remained above 50, which suggests more optimism than pessimism. However, this number has fallen recently as business owners are slightly less optimistic than they were earlier in 2018. Fewer respondents plan to hire more staff this year, so job growth should be expected to slow.

Real Estate Finance

Mortgage Rates Fall to 3-Month Low: After holding course last week, mortgage rates dipped back down to 3.41% last week. Buyers continue to enjoy a brief reprieve due to economic uncertainty and caution signaled by the Fed.

Mortgage Applications Fall Again: Unfortunately, the reduction in rates has yet to be met with an uptick in mortgage applications. This underscores the underlying demand issues in the housing market, above-and-beyond a higher-rate environment.