# Weekly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from first tuesday

May 27, 2014 • Vol. 3 • Issue 21 • ***Low sales volume + high prices = hold phase***

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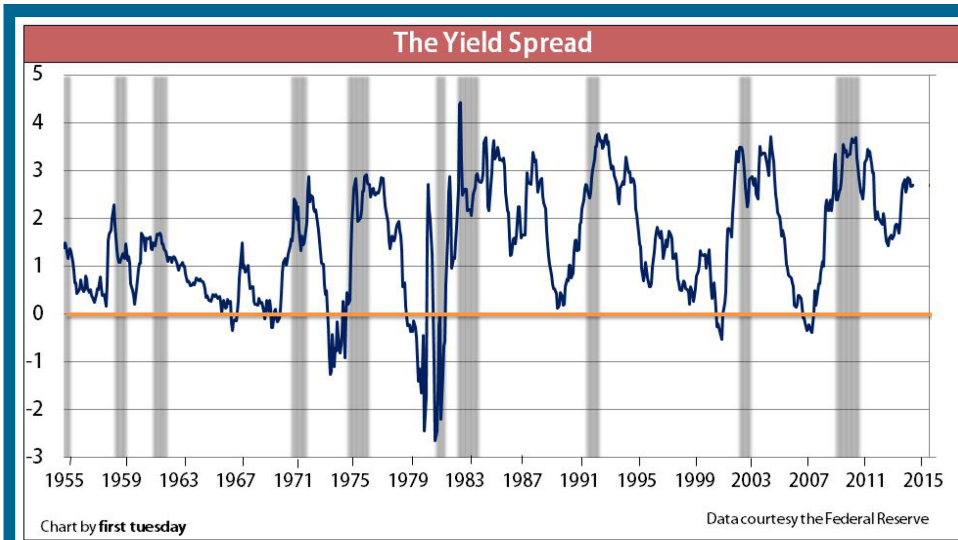
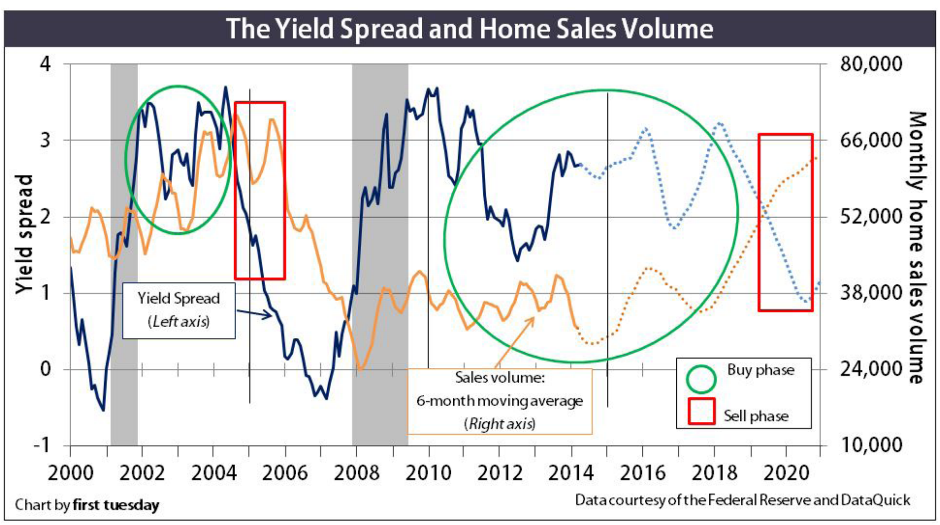
## Yield spread increase forecasts economic recovery

The **yield spread** is an indicator of a **recession** or **recovery** one year forward. The yield spread is the difference between the 10-year Treasury Note rate and the 3-month Treasury Bill rate. When the yield spread dips below zero (the orange line), it foretells of a business recession, indicated by the vertical gray bars, in one year.

The yield spread grew to an average of 2.69 in April 2014, up from 1.7 a year earlier. This follows an **upward trend** since July 2012, its lowest point following the 2008 recession. April's relatively high yield spread suggests increased vigor in the nation's economic recovery throughout the coming year.

In spite of a strong yield spread, a sustainable rise in home prices only boots up after at least 9 months of consistently increasing **home sales volume.** Sales volume continues to plummet in early 2014 following a flat 2012-2013.




## Yield spread and home sales volume send mixed signals

This chart examines the **yield spread** as your guide to anticipate the best time to **buy, sell or hold** real estate.

Today's yield spread is near the highest it has been since 2011. However, it's not enough by itself to signal future prosperity for the housing market. Today's meager home sales volume and inflated home prices portends a **flat housing market** for the remainder of 2014.

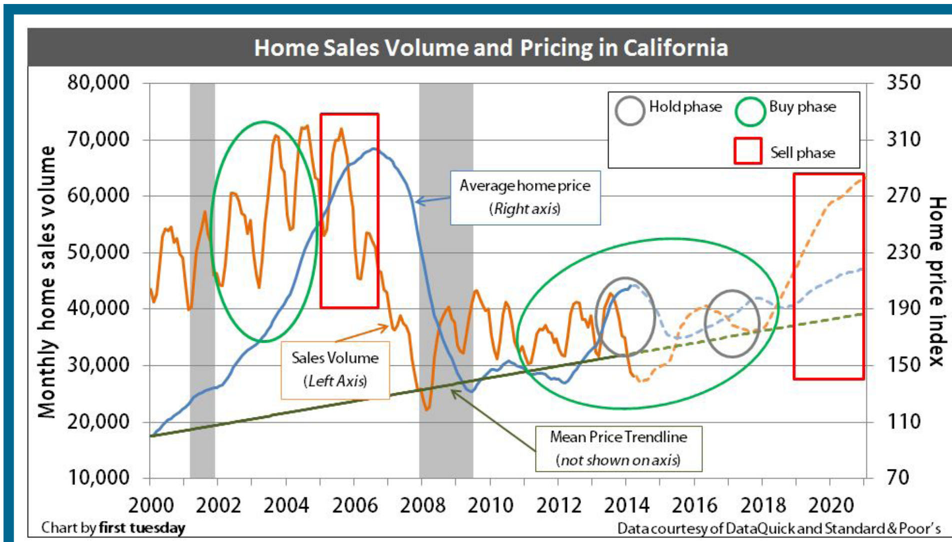
Home prices are still riding high on a wave of speculator activity, but are expected to ebb in the next few months. Home pricing won't likely return to today's **speculator-driven levels** until the next peak in pricing, expected in 2019-2020. However, today's price bump does not constitute a sell phase, as it is not supported by sales volume or yield spread trends. Rather, when the yield spread, sales volume and pricing display mixed signals, it constitutes a **hold phase**.

## Home sales volume suggests a price dip

This chart helps you further anticipate the best time to **buy, sell or hold** real estate by examining **home sales volume** and **pricing**.

Current home sales volume and price deceleration confirms we are now in a **hold phase**. Home sales volume has experienced no long-term change since 2009 and will not until 2018. Speculator interference in 2012-2013 distorted pricing, causing an **unsustainable price bump**. Thus, prices will now fall in response. When they bottom, prices will level out for about 18 months.

Exuberant home price increases eventually return to the annual rate of **consumer inflation** and **wage increases**, generally 2.5%-3.5% for California. However, prices do not run parallel with the mean price trendline. Rather, they oscillate above and below it. Prices will likely slip to touch the trendline in 2017-2018 and rise to the next peak in 2020.

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