Monthly Real Estate Statistical Update

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

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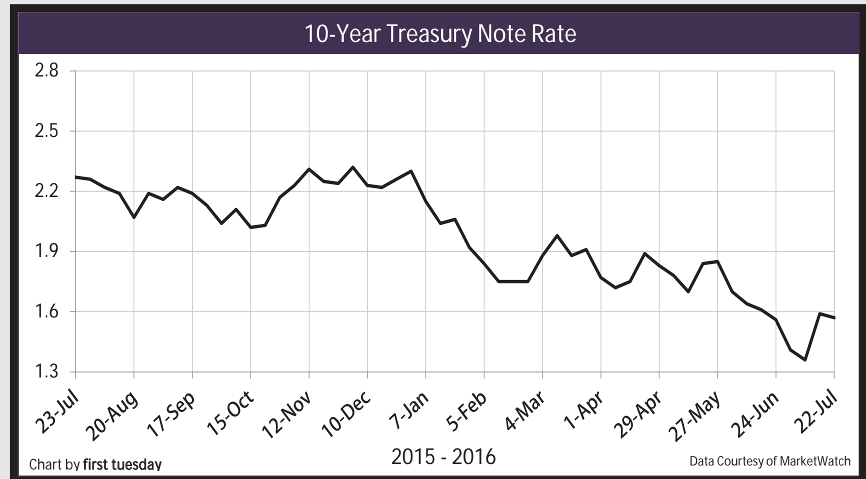
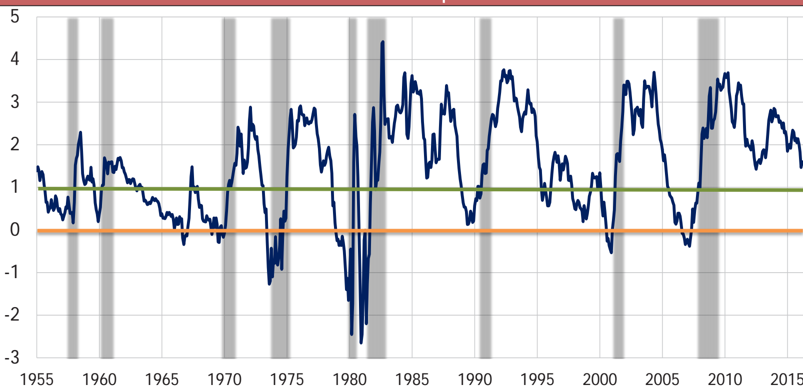
10-year Treasury Note near historic lows

This chart shows the weekly **10-year Treasury Note (T-Note)** rate over the past year. This rate is set by bond market expectations for the future economy. The lower the note rate, the less confidence investors have in the global economy.

At the end of July, the 10-year T-Note was 1.57%. The **historic low** experienced earlier in July was near 1.3%. Low rates are a result of investor uncertainty in the global market. When fears of a **"Brexit"** from the European Union were realized, investors flooded into the U.S. market seeking safety in our 10-year T-Note. The rate tumbled as they bid for bonds.

The good news for real estate: the **fixed rate mortgage (FRM) rate** is tied to the 10-year T-Note. As long as the 10-year T-Note rate remains low, FRM rates will remain similarly low. Expect both the 10-year T-Note and FRM rates to stay near their current low rates well into 2017 and possibly beyond.





Soft yield spread pulses economic uncertainty

This chart shows the difference between the 10-year Treasury Note (T-Note), set by bond market activity, and the short-term borrowing rate set by the Federal Reserve (the Fed). This is called the **yield spread**, and reliably forecasts the possibility of an economic recession one year forward.

Last month's yield spread of 1.37 was the lowest spread since January 2008, after the spread rebounded from the negative figures experienced in 2006-2007. When the spread dips below 1 (the green line on the chart), a **recession** is likely in the coming year. When it dips below zero (the orange line), as it last did to signal the 2008 Great Recession, a recession is imminent.

Today's declining yield spread indicates **uncertainty** from investors and the Fed's inability to respond. Economic growth will be sluggish well into 2017, but a recession is still unlikely.

Low savings need to rise

This chart displays the U.S. **personal savings rate** as a percentage of disposable income. Savings were highest in the 1970s and 1980s, when 10%-12% saving rates were normal. Savings declined in the following decades as deregulated mortgage lending set in, briefly bouncing back during the Great Recession.

In the first quarter (Q1) of 2016, consumers saved on average **5.7% of their income**, up from the 5.2% savings rate the year before.

Still, savings need to rise further for the next generation of first-time homebuyers to accumulate the cash needed for a risk-reduced **down payment**. Otherwise, expensive low down payment mortgages will become the norm yet again, an ominous trend **first tuesday** readers already report taking shape in 2016.

Click on any chart for more information!

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