Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from **RPI (Realty Publications, Inc.)**

August 2019 • Vol. 8 • Issue 8 • ***Interest rates favor buyers for now, signal recession to come***

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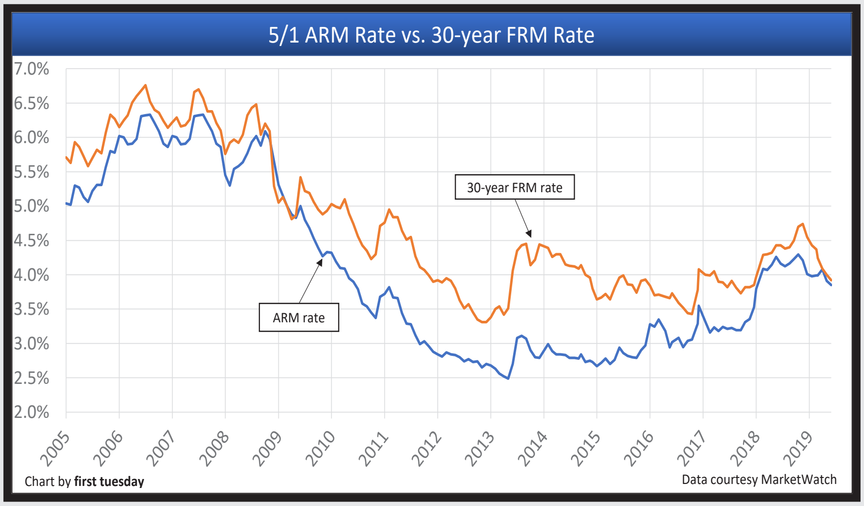
FRM interest rates now cheaper than ARMs

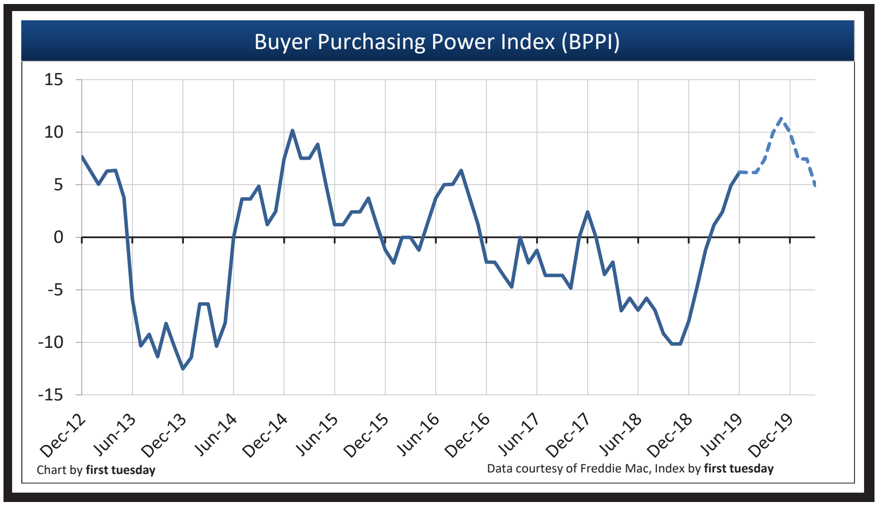
This chart shows the average interest rate on 5/1 **adjustable rate mortgages (ARMs)** in California, alongside the average 30-year fixed rate mortgage (FRM) rate.

The average ARM rate was 3.99% in July 2019, higher than the average 30-year fixed rate mortgage (FRM rate) of 3.80%. The last time the interest rate on an FRM was cheaper than an ARM was during the rocky years of 2008-2009. When ARM rates are higher than FRM rates, their appeal is greatly diminished, and **ARM use drops**.

As the **Federal Reserve (the Fed)** continues to exert its influence on interest rates, FRM rates will remain near their present low level for the next couple of years. Thus, ARM use will likewise remain low even as lenders find themselves competing for a gradually diminishing number of homebuyers and refinancers.



Buyer Purchasing Power rises in 2019



This chart shows the **Buyer Purchasing Power Index (BPPI)**. The index is calculated by comparing today's average 30-year FRM rate with the rate from one year earlier. A positive index means buyers are able to borrow more money with the same monthly payment, and a negative index means buyers are able to borrow less.

The **BPPI continued to rise** in the first half of the year, at +6.2 in June 2019. In other words, the average income earner in California can borrow 6.2% more principal in June 2019 than a year earlier. This rise is entirely due to lower interest rates.

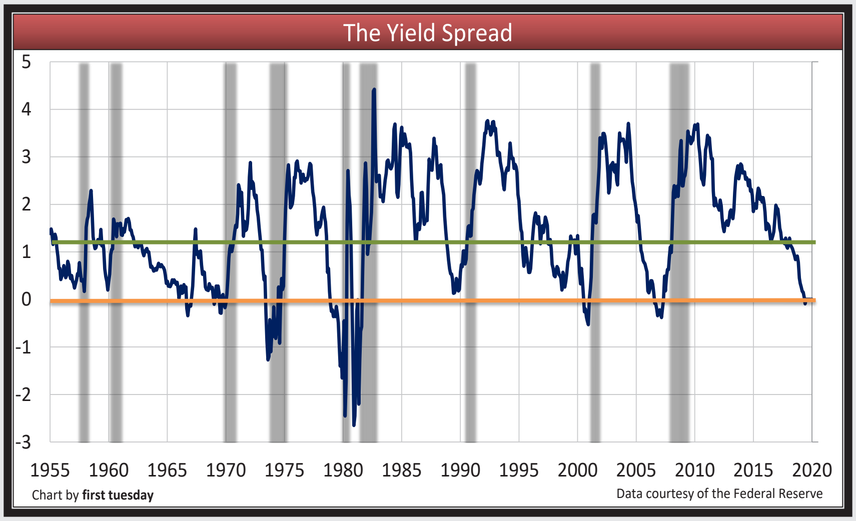
At the end of July 2019, the Fed cut rates for the first time since the lead-up to the 2008 recession, and it has signaled it may cut rates again later this year. These rate cuts are meant to buoy the market, softening the blow of the coming recession. Thus, even though the BPPI will remain positive in the coming months, a **recession** for housing and the broader economy is imminent.

Negative yield spread forecasts recession

This chart shows the **yield spread**, equal to the difference between the short-term borrowing rate set by the Fed and the 10-year Treasury Note, determined by bond market investors. The gray columns show U.S. recessions.

After over a decade of positive activity, the yield spread went **negative** in June 2019, averaging -0.09%. This inversion follows a long downward trend that began in 2014. Today's negative spread is the result of higher short-term interest rates stimulated by the Fed during 2018, and bond market investors seeing less future growth as economies slow.

June's negative yield spread figure forecasts a **recession** to arrive in 12 months. Therefore, real estate professionals have time to position themselves for the recession to arrive in mid-2020. Credit lines, anyone?



Click on any chart for more information!

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