Monthly Real Estate Statistical Update

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

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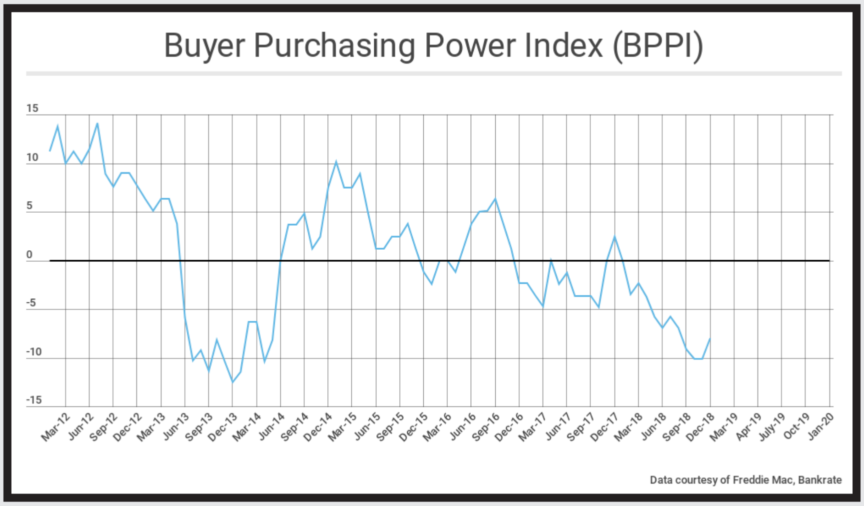
Presented by
Name
DRE #
Phone
Email

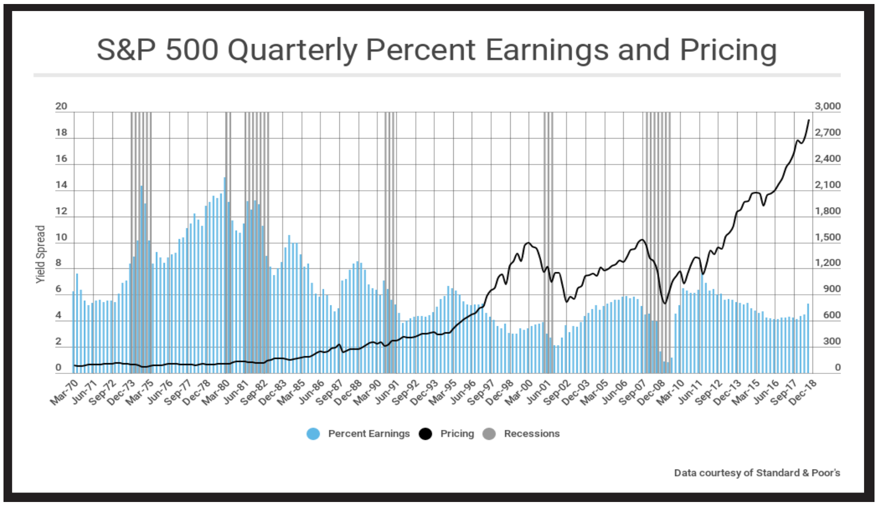
Buyer purchasing power reins in buyers, for now

This chart shows the **Buyer Purchasing Power Index (BPPI)** in California. This figure fluctuates based on mortgage interest rates and represents the amount of money available to a mortgaged homebuyer compared to a year earlier.

The BPPI was -8.0 in December 2018. Thus, the typical homebuyer has access to 8% less in **mortgage money** with the same income and down payment as a year earlier, qualifying them for a less expensive home. Compounding the issue, home prices are higher than this time last year, though prices are already retreating going into 2019.

The BPPI will continue to be negative until investors globally pile into the safety of Treasury bonds as stocks markets fall and the Federal Reserve (the Fed) raises short-term rates, strengthening the dollar. Expect the impact of **slowing home sales** and falling prices to extend into 2019 and 2020, not to rebound until the next buyer's market arrives in 2021-2022.





Stocks past their peak

This chart shows **stock prices** (the black line) and the **percent earnings** (the blue columns, the inverse of the price-to-earnings or P/E ratio) for stocks listed on the S&P 500 stock index.

Stocks peaked in the third quarter (Q3) of 2018, as shown on the chart. Since then, stock prices have plunged as investors expect **rising interest rates**, a slowing economy and eventually a recession, anticipated to arrive in 2020.

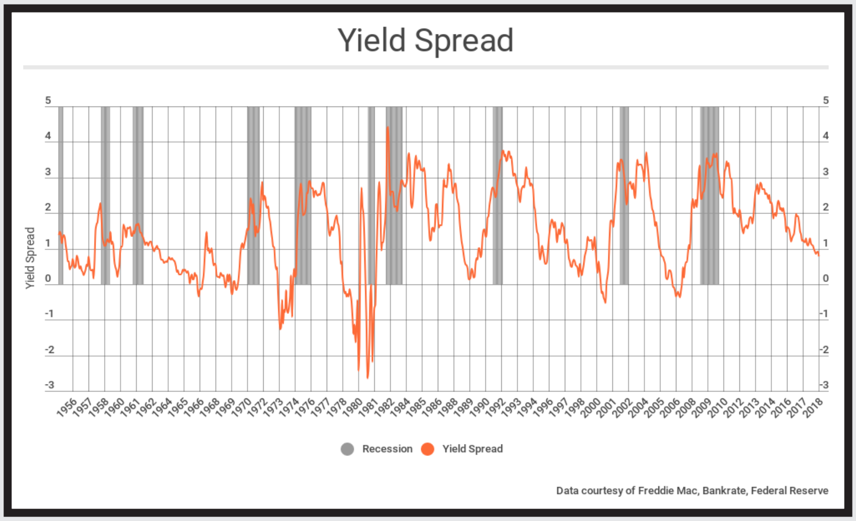
Expect investors to leave the real estate market in 2019 in reaction to 2018's slowing sales and reduced prices. The stock market's rapid decline in December 2018 precludes a slowing market going into 2019. For real estate, this means the ideal **sell phase** has passed, and a **hold phase** has begun. Savvy investors now hoard cash and look ahead to the next buyer's market, still two-to-three years away.

Yield spread indicates recession is in view

This chart shows the **yield spread,** which indicates the likelihood of a recession in the coming 12 months. The figure is the difference between the short-term borrowing rate set by the Fed and the 10-year Treasury rates set by the bond market.

Whenever the yield spread approaches zero, a **recession** is imminent one year forward. The yield spread in November 2018 continued to fall, averaging 0.78 points and falling to 0.45 at the end of December. This is in-line with a long downward trend that began in 2014, the result of investors seeing less future growth.

Expect this spread to fall to zero by Q2 2019, pointing to the next recession's arrival by mid-2020. Optimists by nature will be opportunists in the coming recession. As such, **real estate** professionals need to strategize now to make their services work for them and their clients over the next two years of declining sales.



Click on any chart for more information!

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