Monthly Real Estate Statistical Update

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

July 2017 • Vol. 6 • Issue 7 • ***The Federal Reserve harnesses a runaway market***

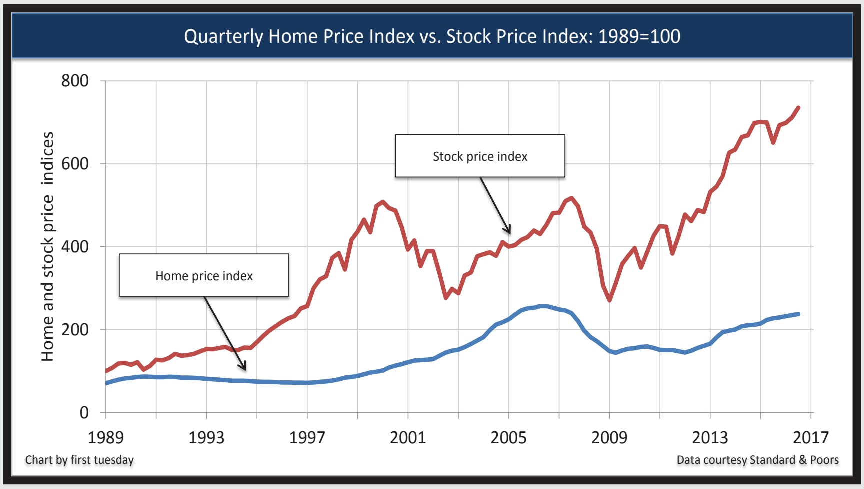
Presented by
Name
CalBRE #
Phone
Email

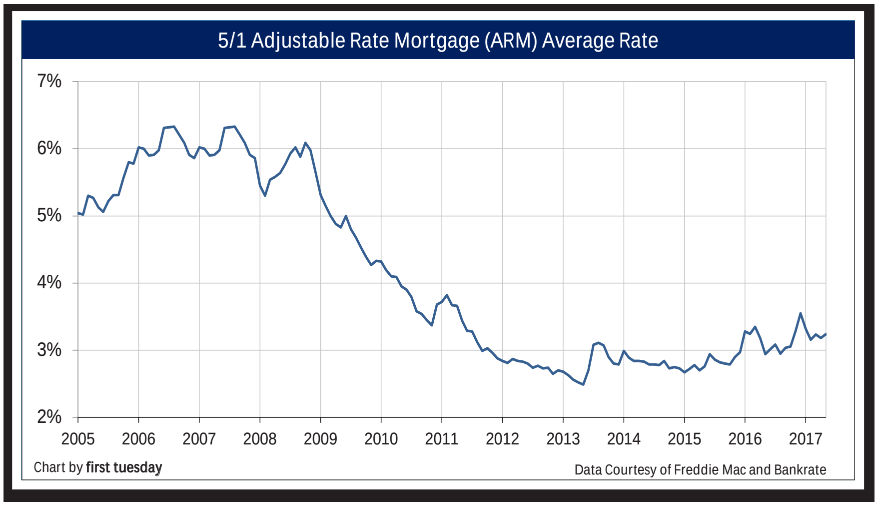
Stocks heights will not endure

This chart shows the **California home price index** (the blue line) alongside the **U.S. stock price index** (the red line).

In the first quarter (Q1) of 2017, stock prices were at unprecedented highs. For reference, the Q1 2017 stock index number of 801 means stocks are valued eight times higher than in 1989, and nearly double their Millennium Boom peak. At the same time, **home prices** in California are two and one-half times their 1989 level, and nearly level with their Millennium Boom peak.

While consumer inflation remains low — below 2%, for lack of wages to share in income growth — the Federal Reserve (the Fed) looks at the stock and housing market (and employment rates) and sees potential for the economy to bubble over. To contain the potential for a **damaging bubble**, the Fed is raising interest rates.





ARM rates are set to climb

This chart displays the average **5/1 adjustable rate mortgage (ARM)** rate in California.

The average 5/1 ARM rate was 3.21% in June 2017. This rate has experienced an upward trend since bottoming in 2013. As the Fed continues its **"normalizing" agenda**, short-term index rates rise, pushing the linked ARM rates higher.

The average ARM rate will continue to increase in the coming months and years. We are now emerging from the bottom of a **60-year interest rate cycle** — 30 years up, then 30 years down. The next two-to-three decades will see gradually rising rates, which will hold back **home sales volume** and **prices.**

FRM rates will lay low, for now

This chart shows fluctuations in the average **30-year fixed rate mortgage (FRM)** rate in California over the past 12 months.

The 30-year FRM rate averaged 3.86% in the last week of June 2017. The FRM rate jumped following the November election due to post-election investor uncertainty about future government economics. It has since gradually pulled back, despite the Fed's actions to increase the short-term rate. Why (other than for **governmental inaction** on hoped-for **infrastructure programs** and **revenue reduction**)?

Today's **low price inflation** outlook has led to more demand for long-term Treasuries, which keeps long-term rates, like the 30-year FRM rate, low. But FRM rates won't stay low indefinitely. Recession-weakened **global economies** are starting to open up investment opportunities. Expect FRM rates to increase in 2018, and continue increasing for the next two-to-three decades.