Monthly Real Estate Statistical Update

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

March 2016 • Vol. 5 • Issue 3 • ***Today's interest rates show low confidence in the economy***

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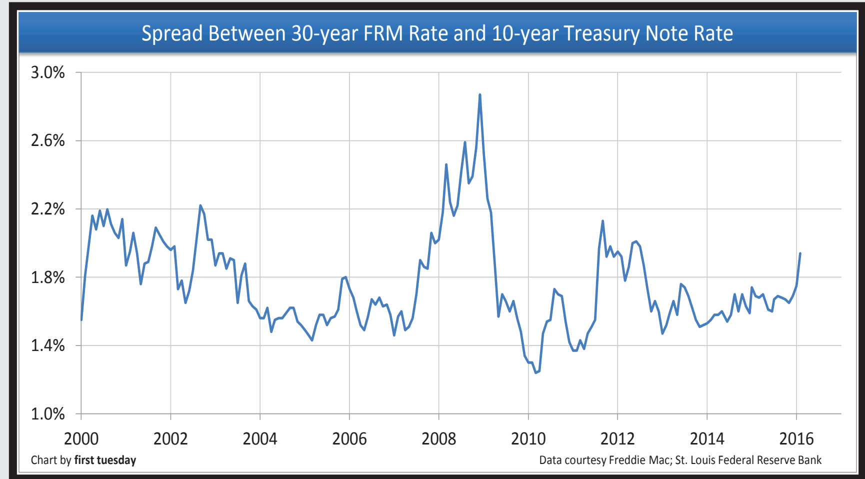
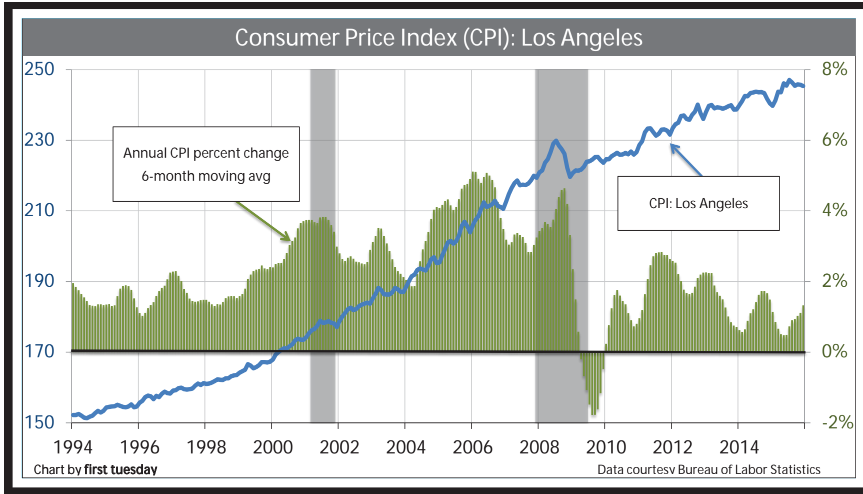
Wall Street sees worsening mortgages

This chart shows the spread, or difference, between the interest rates on the average 30-year fixed rate mortgage (FRM) and the 10-year Treasury Note. This spread represents the lender's **risk premium** for setting mortgage rates.

During a healthy market, this spread is closer to 1.5%. From 2013 until January 2016, the spread hovered at or just above this **historic benchmark**. However, in February 2016, this spread jumped to nearly 2%.

Today's high spread indicates **Wall Street** is very nervous about the mortgage market. Their behavior may be due to a belief foreclosure rates will rise or the desire to increase mortgage revenue to make mortgage originations more profitable. Either way, lenders are unwilling to let FRM interest rates continue to fall with bond rates.





Inflation stalls

This chart shows **consumer price inflation (CPI)** in Los Angeles. The blue line charts the CPI index, and the green bars show the annual percentage change in the CPI as a six-month moving average.

At the end of 2015, CPI in Los Angeles was 2% higher than the previous year. This is actually much better than the majority of the nation, which has essentially experienced zero growth in year-over-year inflation in recent months. However, the LA chart clearly shows a steady slowing in the annual CPI rate-of-change from 2011 to 2016.

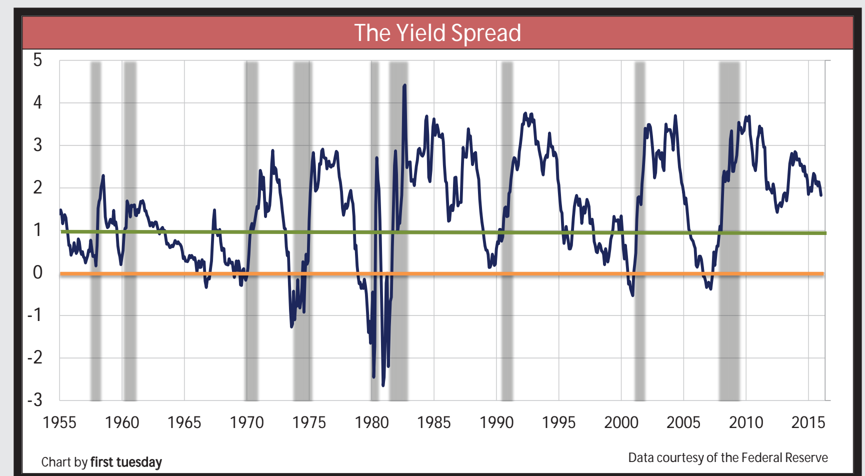
Low consumer inflation is one reason investors are nervous about whether the nation will continue its economic expansion, or fall back into recession.

Yield spread suggests low chance of recession

This chart shows the **yield spread**, which is the difference between the 10-year Treasury Note and the 3-month Treasury Bill. Economists view this spread as a reliable forecast of the likelihood of a recession one year forward. When the spread is high, the economic outlook is likewise high. When it is low, a recession becomes more likely.

The yield spread has steadily declined since 2012, indicating **waning confidence** in the U.S. economy. However, January's yield spread of 1.83 remains above 1, the point when a recession is likely in the coming 12 months, indicated by the green line in the chart.

Today's low CPI and elevated risk premium, both negatives, are confirmed in the yield spread's low (but not dire) rate. A recession is not likely to occur in 2016. However, don't expect the housing market to take off this year either. Forecasts indicate 2018 is the year home sales volume and pricing will reach a **full recovery** and commence the next boom period.



Click on any chart for more information!

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