Monthly Real Estate Statistical Update

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

October 2018 • Vol. 7 • Issue 10 • ***Rising interest rates drag down refinances***

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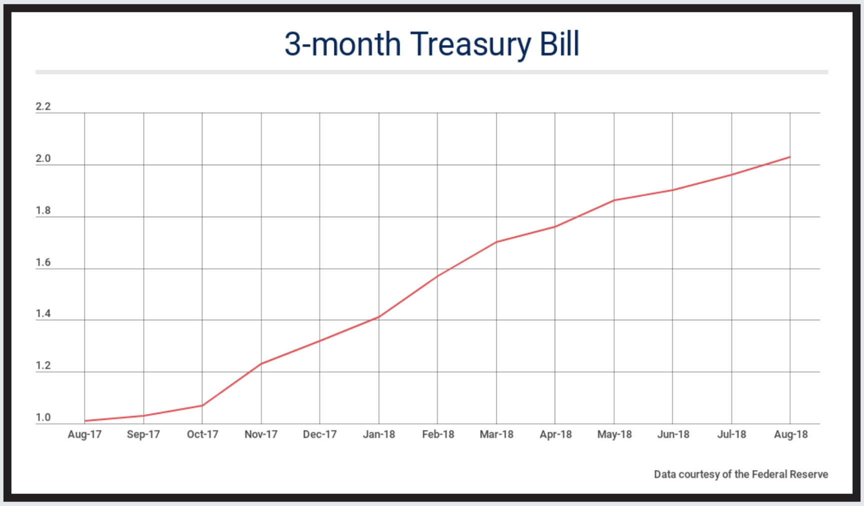
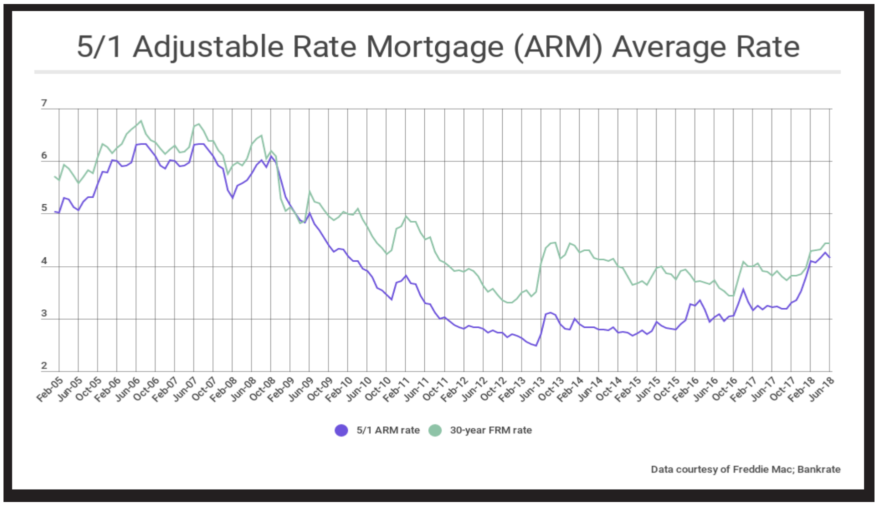
Key short-term rate rises

This chart shows the 3-month **Treasury Bill (T-Bill) rate**, a key interest rate managed by the Federal Reserve (the Fed).

The Fed has acted to raise interest rates three times so far in 2018, and is on track to increase rates once more by year's end. By increasing interest rates, the Fed's aim is to cool down the economy which brings on a **cyclical business recession**. We are just past the start of a 60-year interest rate cycle, where the next 20-30 years will see rising rates, followed by roughly 30 years of falling rates.

Expect to see the 3-month T-Bill continue to rise through the rest of 2018 and into 2019. Higher short-term rates push **fixed rate mortgage (FRM) rates** higher, both holding rising home prices in check.





ARM rates inch higher

This chart shows the average **5/1 adjustable rate mortgage (ARM)** rate alongside the average 30-year fixed rate mortgage (FRM) rate.

ARM rates are tied directly to the Fed's short-term rate, while FRM rates are indirectly influenced by movement in this rate. The interest rate on ARMs is now slightly below the 30-year FRM rate, making it marginally more attractive, while riskier.

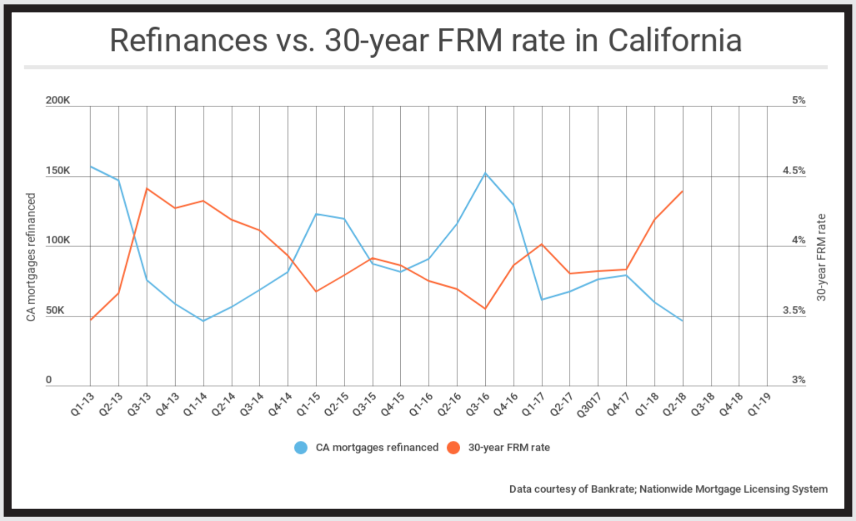
But as the spread between the average 30-year FRM and ARM rate shrinks, ARMs lose their allure of more funds on origination. Expect the interest rate on ARMs and FRMs to continue to rise in 2019 and the years following, except during the coming economic slowdown, reducing **buyer purchasing power** and discouraging **refinances**.

Fewer refinances going forward

This chart shows the number of **refinances** occurring in California each quarter, alongside the average 30-year fixed rate mortgage (FRM) interest rate.

46,000 refinances took place in California during the second quarter (Q2) of 2018, down significantly from 67,500 refinances a year earlier. The decline is due entirely to **higher interest rates**, which discourages refinancing. The average 30-year FRM rate was 4.4% in Q2 2018, up from 3.8% a year earlier.

As long as interest rates continue to rise, refinances will continue to decline. Expect 2019 to be another year of fewer refinances, as interest rates will inevitably climb in the lead up to the next recession, expected to arrive in 2020.



Click on any chart for more information!

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