



# 2019 Economic and Housing Outlook

December 3, 2018



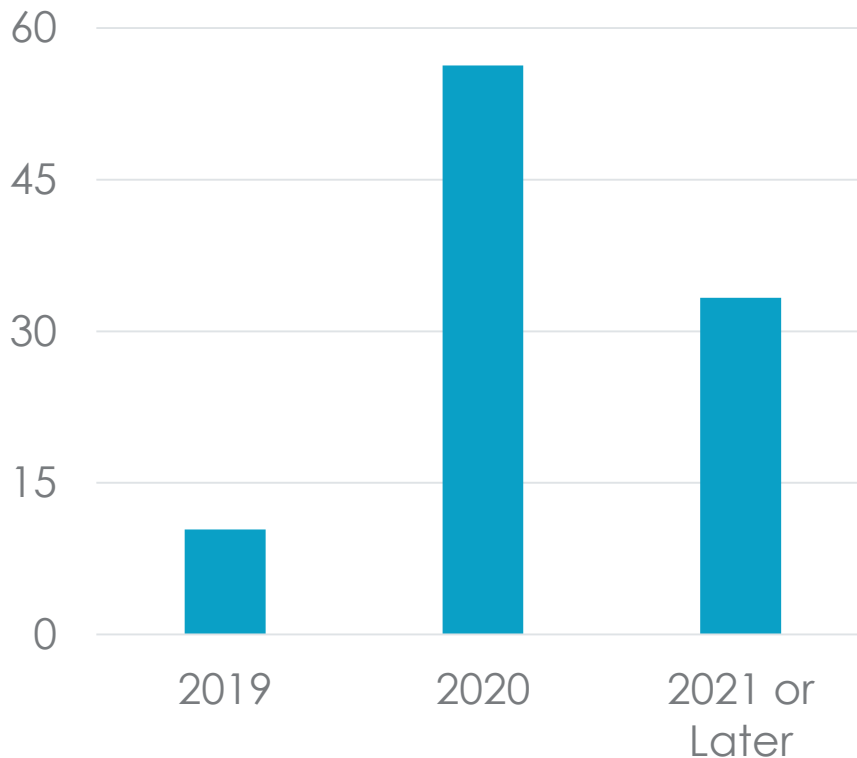
# 2019 Market Environment

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- Fed hikes short-term rates, mortgage rates rise to highest in 10 years
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  - Drop in refinance; refi share forecast to hit 25-year low in 2019
  - HELOC for home-improvement up, HELOC for other purposes down
- Affordability erodes; home-price growth forecast to slow
  - Price growth higher for lower-priced homes: for-sale supply limited
  - No national bubble, some metros 'frothy'
- Special topic: Effect of natural disaster on local housing market

# U.S. Economy Forecast to Grow 2.4% in 2019- When Will the Recession Hit?

In what year do you expect the next recession to begin?

Percent of respondents



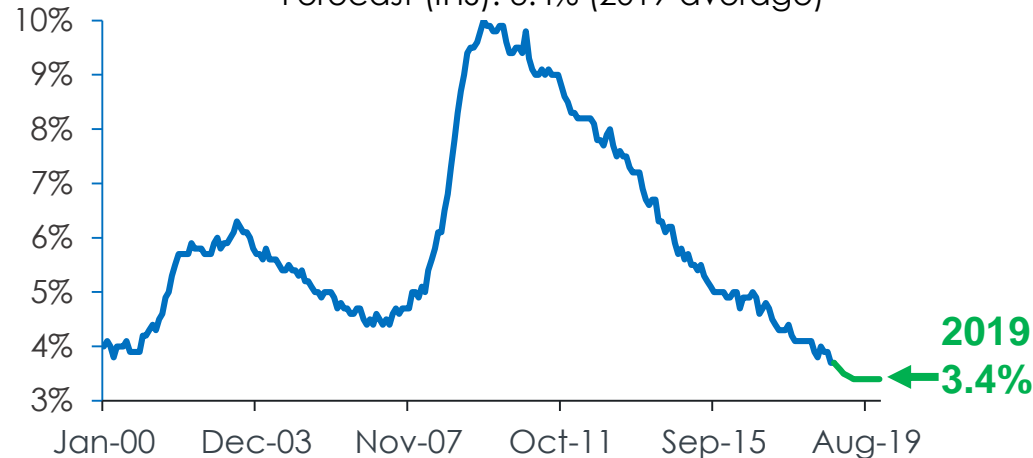
- 2.4% economic growth in 2019 (IHS)
- Expansion becomes longest in U.S. history in July 2019 (NBER)
- 20% 1-year recession probability (WSJ)
- Most economists expect recession starts 2020 or later (NABE)
  - TCJA stimulus dissipates
  - Higher interest rates
  - Trade war uncertainty

Source: IHS Markit (GDP growth 2018Q4 to 2019Q4), *Wall Street Journal* Economic Forecasting Survey (November 2018), National Association for Business Economics Outlook survey (October 1, 2018), National Bureau of Economic Research

# Fed Increasingly Focused on Inflation Risk

- Congressional dual mandate:
  - Maximum employment
  - Price stability
- Unemployment rate 3.7% (Oct.)
  - Lowest since 1969
  - “Full employment”: 4.2-4.5%
- Fed’s “price stability” definition:
  - 2% annual (PCE)
  - Avg. inflation 1.9% since 2000
  - Sep. 2018: 2.0% annual
- Fed expected to raise fed funds target to 2.25-2.50% on Dec. 19
  - 3 more quarter-point hikes expected in 2019

October 2018 Unemployment 3.7%, 49-year low  
Forecast (IHS): 3.4% (2019 average)



September 2018 Inflation At Fed's 2% Target  
Forecast (NABE): 2.1% (2019 Q4/Q4)



Source: BLS (unemployment rate), BEA (PCE price index), IHS Markit (unemployment forecast), NABE (PCE forecast)

# 2019 Mortgage Rate Forecast: Highest Since 2009

30-year FRM at 4.9% (Nov. avg.); forecast to rise to 5.2% by Dec. 2019 & 5.3% by Dec. 2020

## Interest Rate on 30-Year Fixed-Rate Mortgages

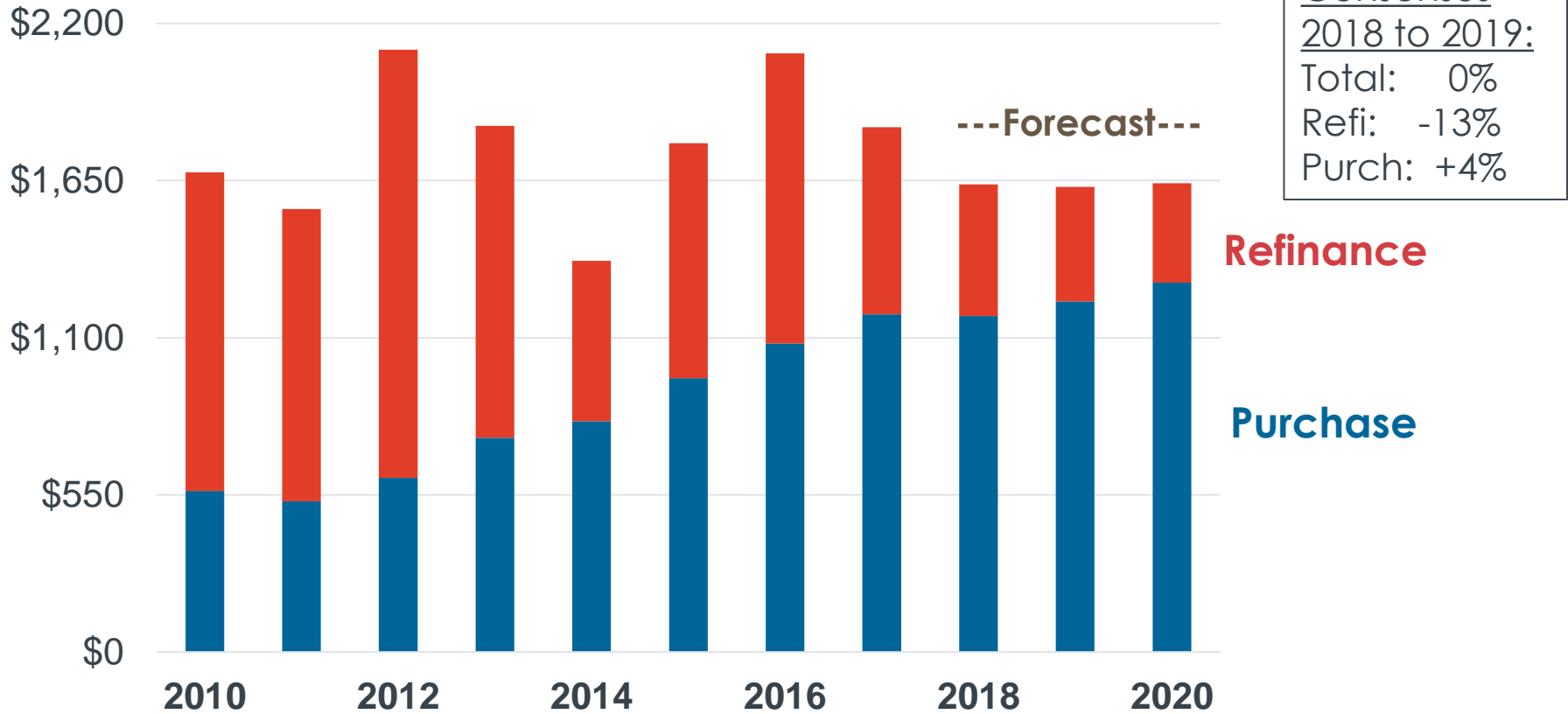


Source: Freddie Mac Primary Mortgage Market Survey®; forecast is an average of MBA, Fannie Mae, Freddie Mac, NAHB, NAR and IHS Market projections.

# Dollar Origination Forecast: Flat

Loan counts down about 5% after adjusting for home-price growth

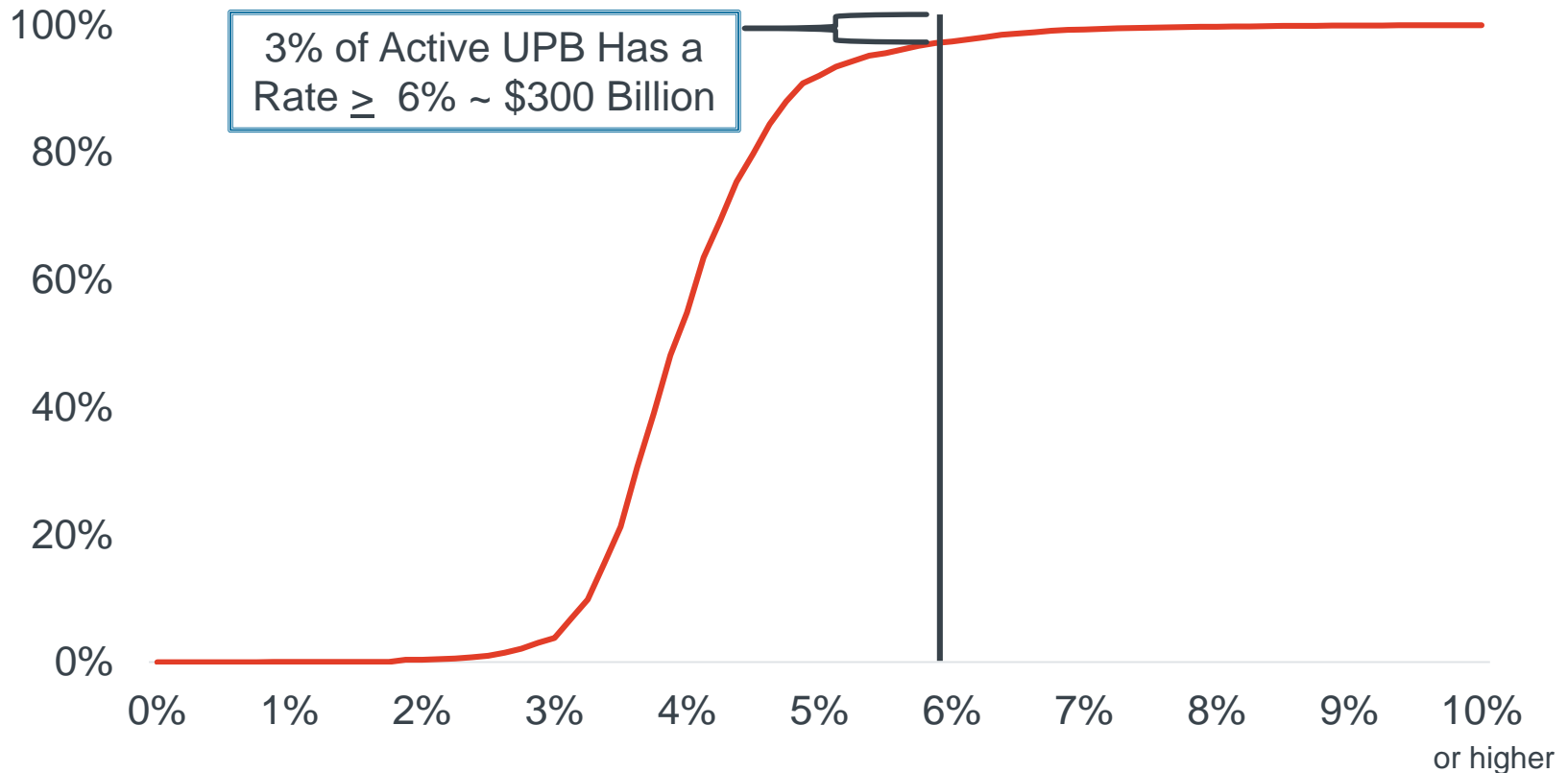
Single-family Mortgage Originations (Billions of U.S. dollars)



Source: Originations for 2010-2017 are from CoreLogic public records (benchmarked to HMDA through 2017); 2018 to 2020 are an average of the latest projections released by Mortgage Bankers Association, Fannie Mae, and Freddie Mac. Originations exclude HELOCs.

# “In the Money” To Refinance Falls As Rates Rise

Cumulative Share of Active Balance by Interest Rate

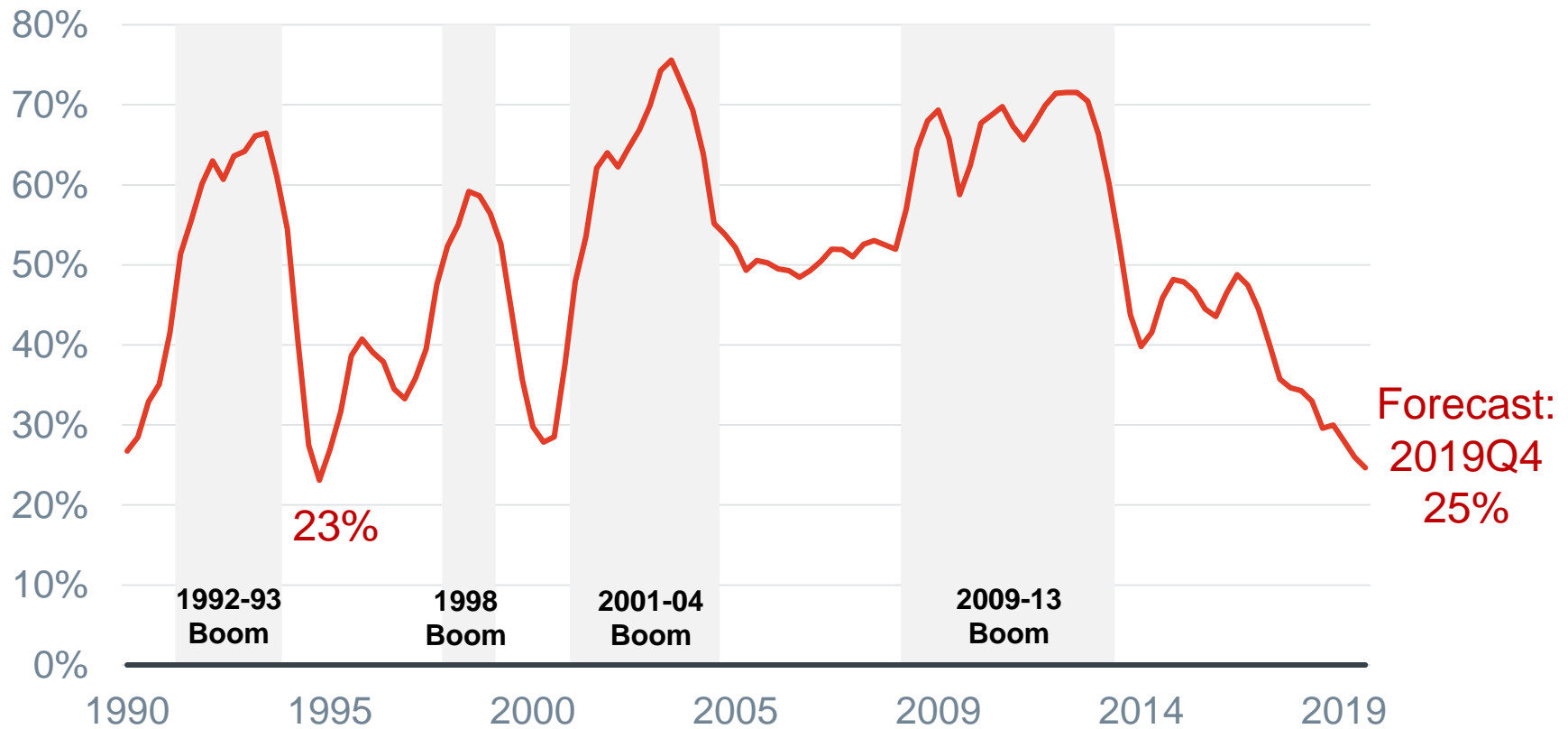


Interest Rate on Mortgage Debt Outstanding In September 2018

Source: CoreLogic TrueStandings

# Refi Share Projected to Fall to 25-Year Low

Refinance Share of Lending (percent, four-quarter moving average)



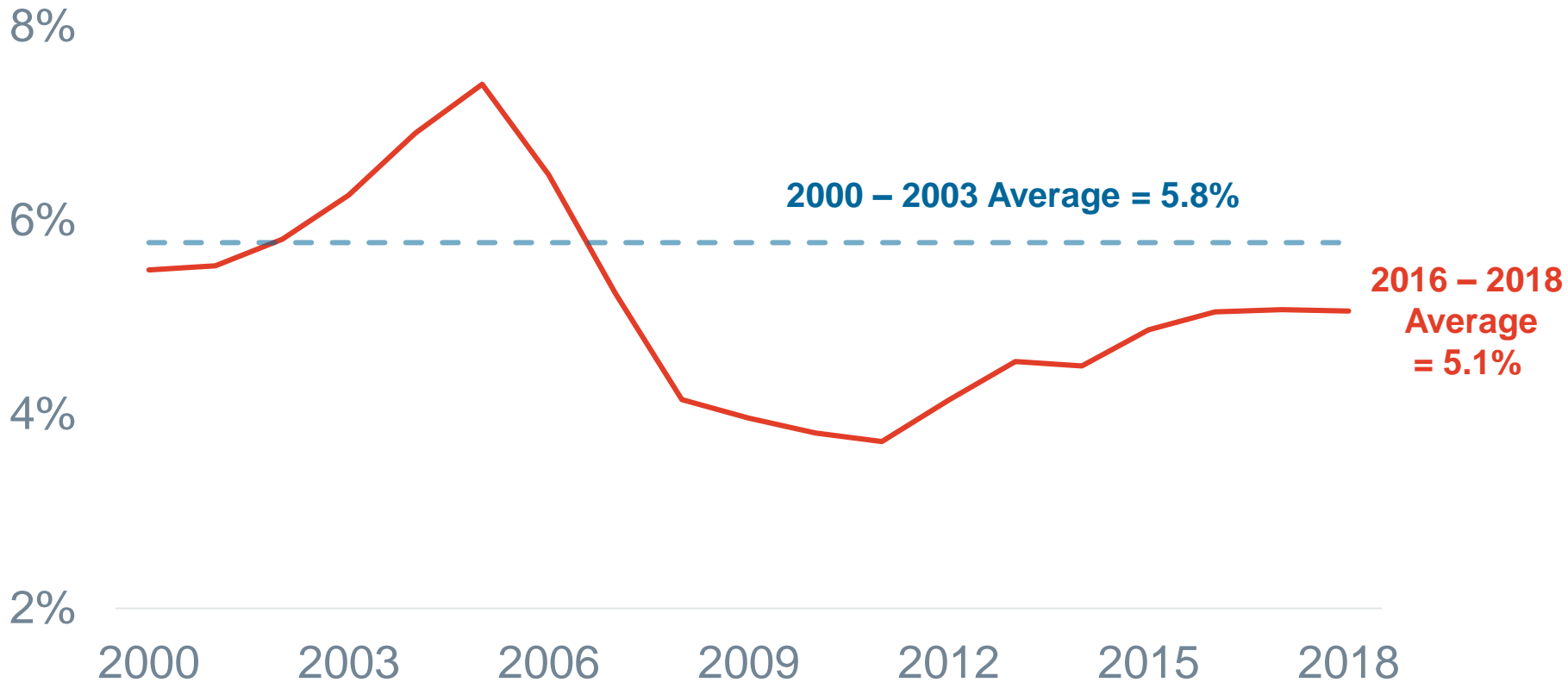
Source: Home Mortgage Disclosure Act (1990-2017); CoreLogic (2018); MBA, FNMA and FHLMC projections (2019)



# Single-Family Turnover Rate Has Not Recovered

## New Normal Is A Million Fewer Sales Per Year

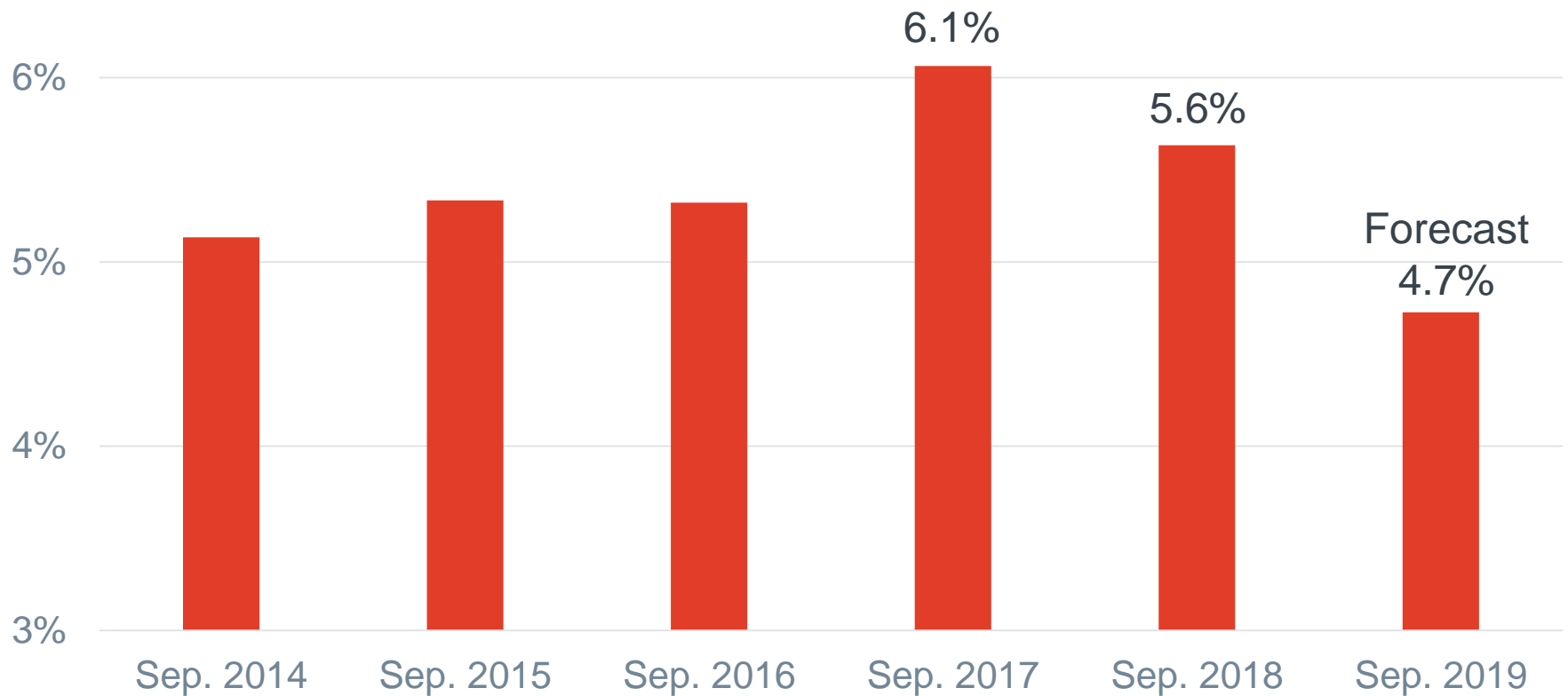
### Home Sales/Households



Source: CoreLogic new construction sales and resales; Census HVS households; MBA, Fannie Mae and Freddie Mac home sales projection for 2018

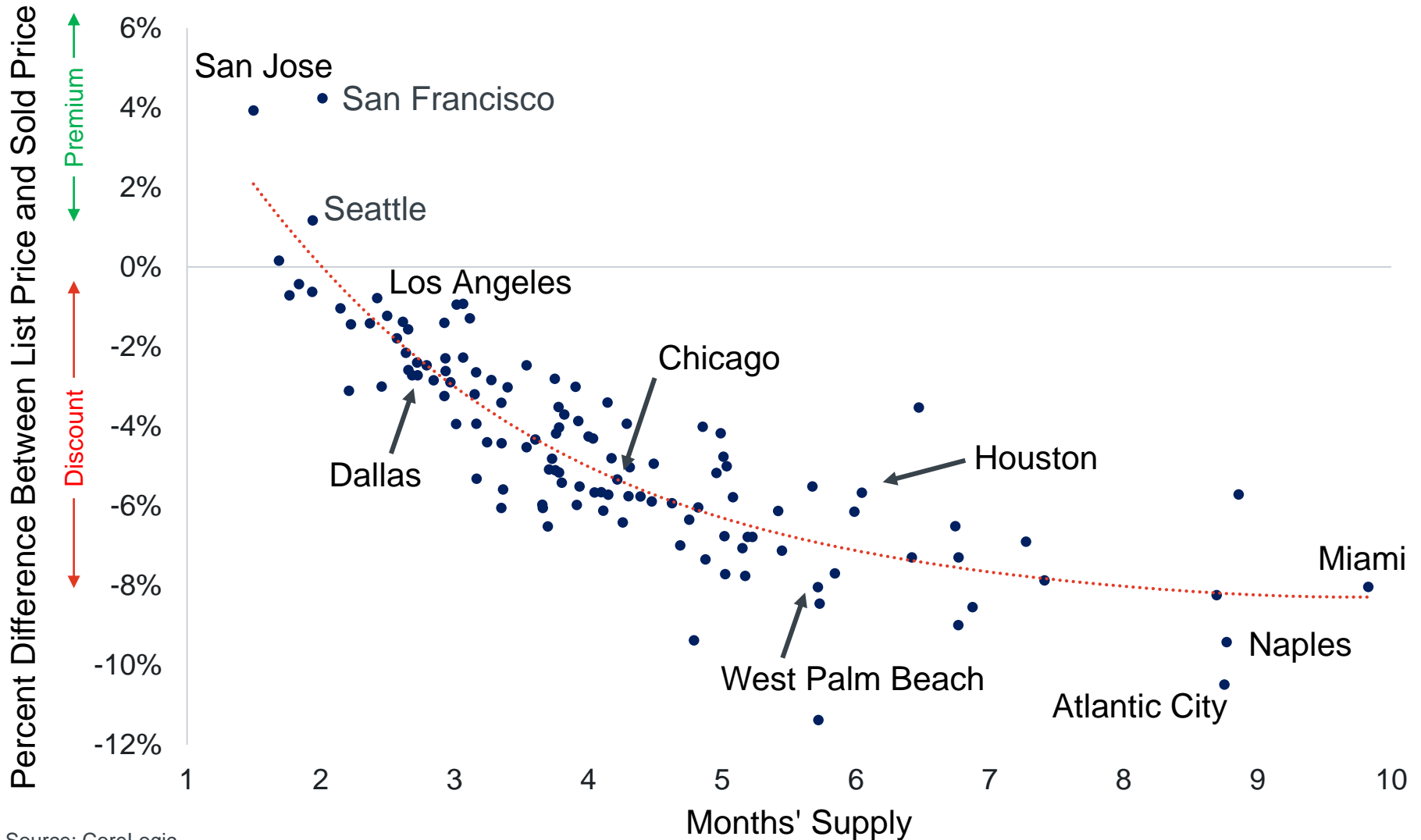
# Home-Price Growth Forecast To Slow in 2019

CoreLogic Home Price Index Growth for U.S. (annual, percent)



Source: CoreLogic Home Price Index and HPI Forecast for U.S. (November 6, 2018 release)

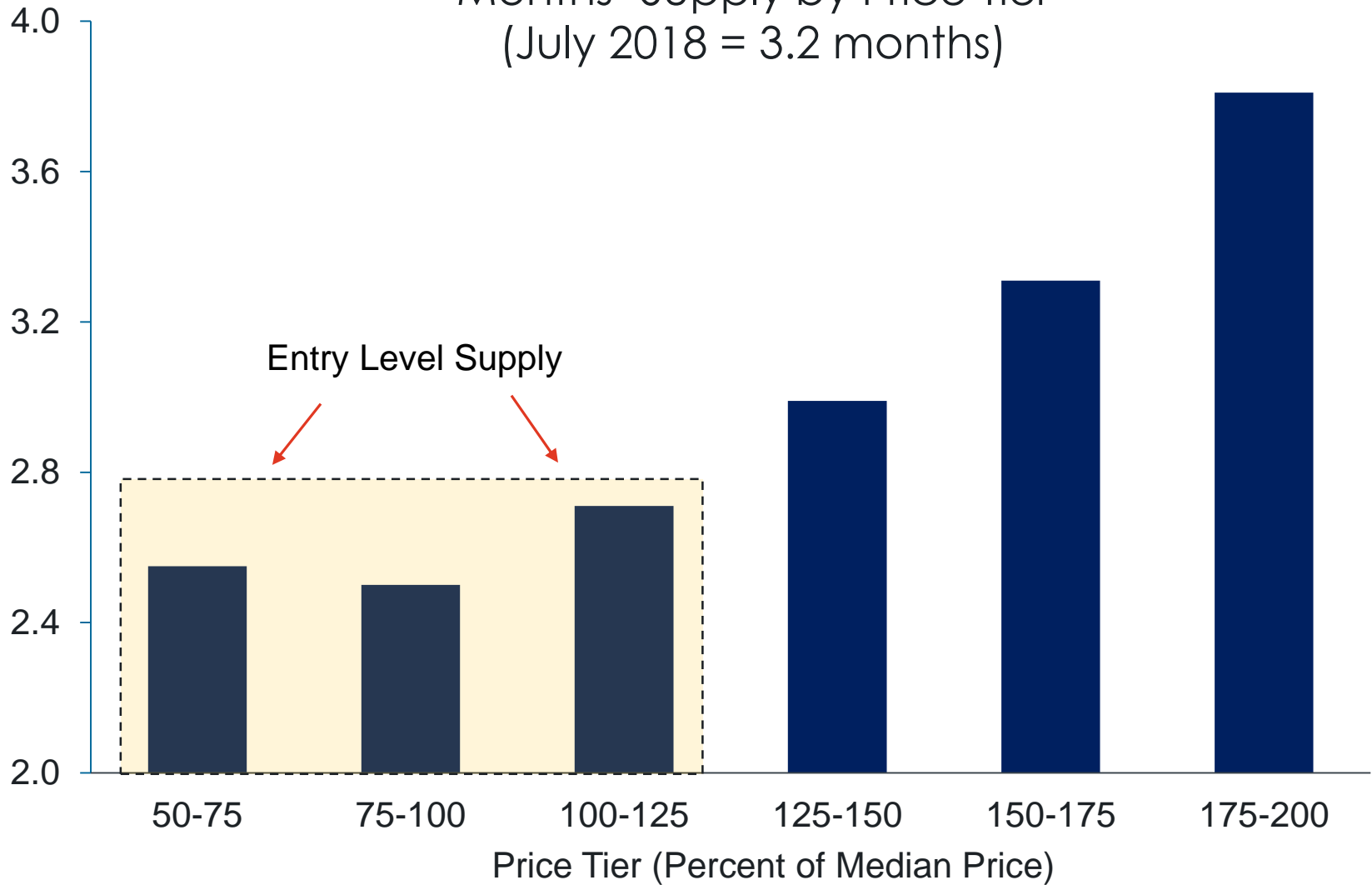
# Price Pressures Rapidly Increase As Supply Drops Below 3 Months



Source: CoreLogic

# Inventory Tighter for Entry-Level Buyers

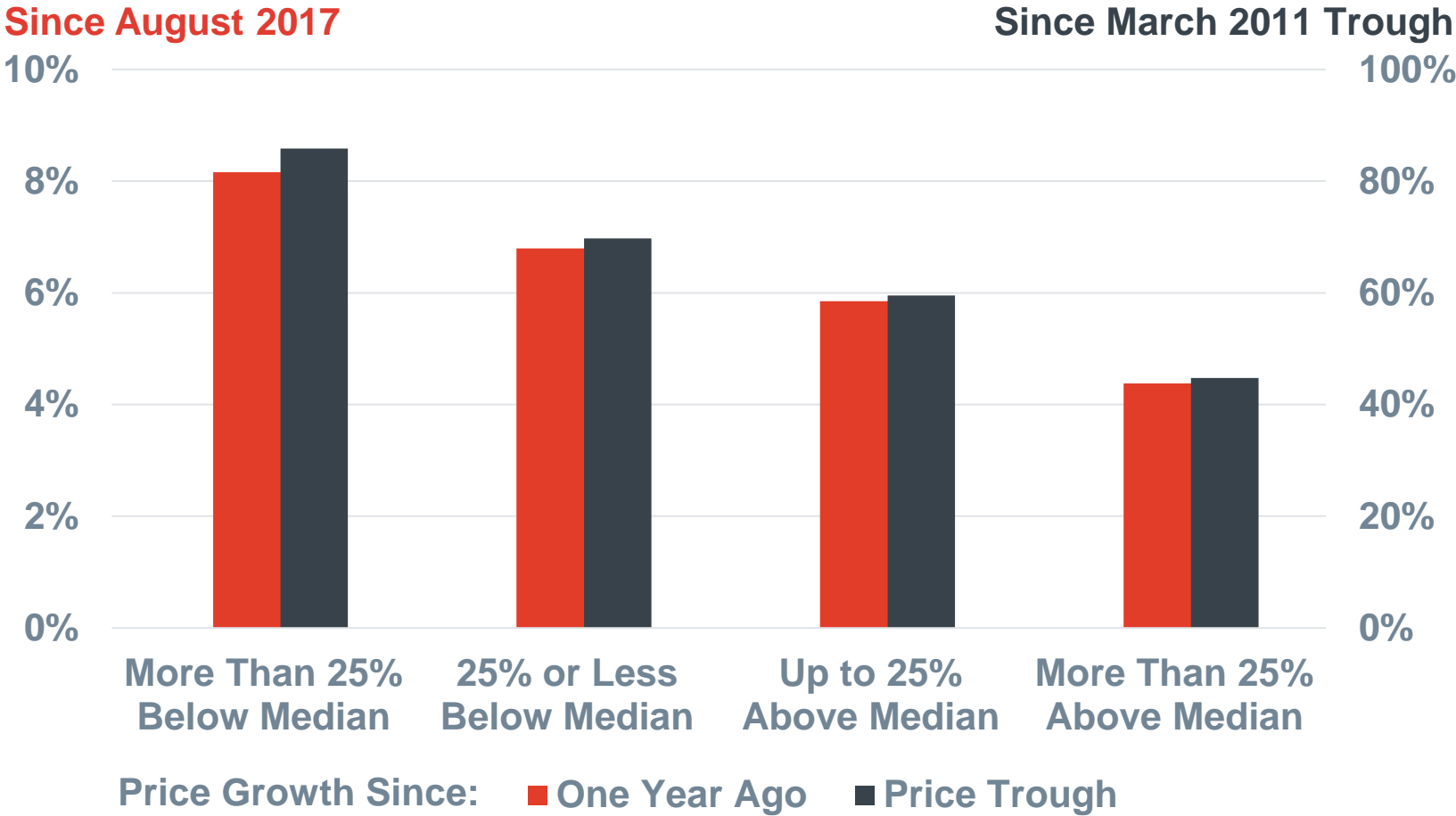
Months' Supply by Price Tier  
(July 2018 = 3.2 months)



Source: CoreLogic

# Price Growth Strongest For Lowest-Priced Houses

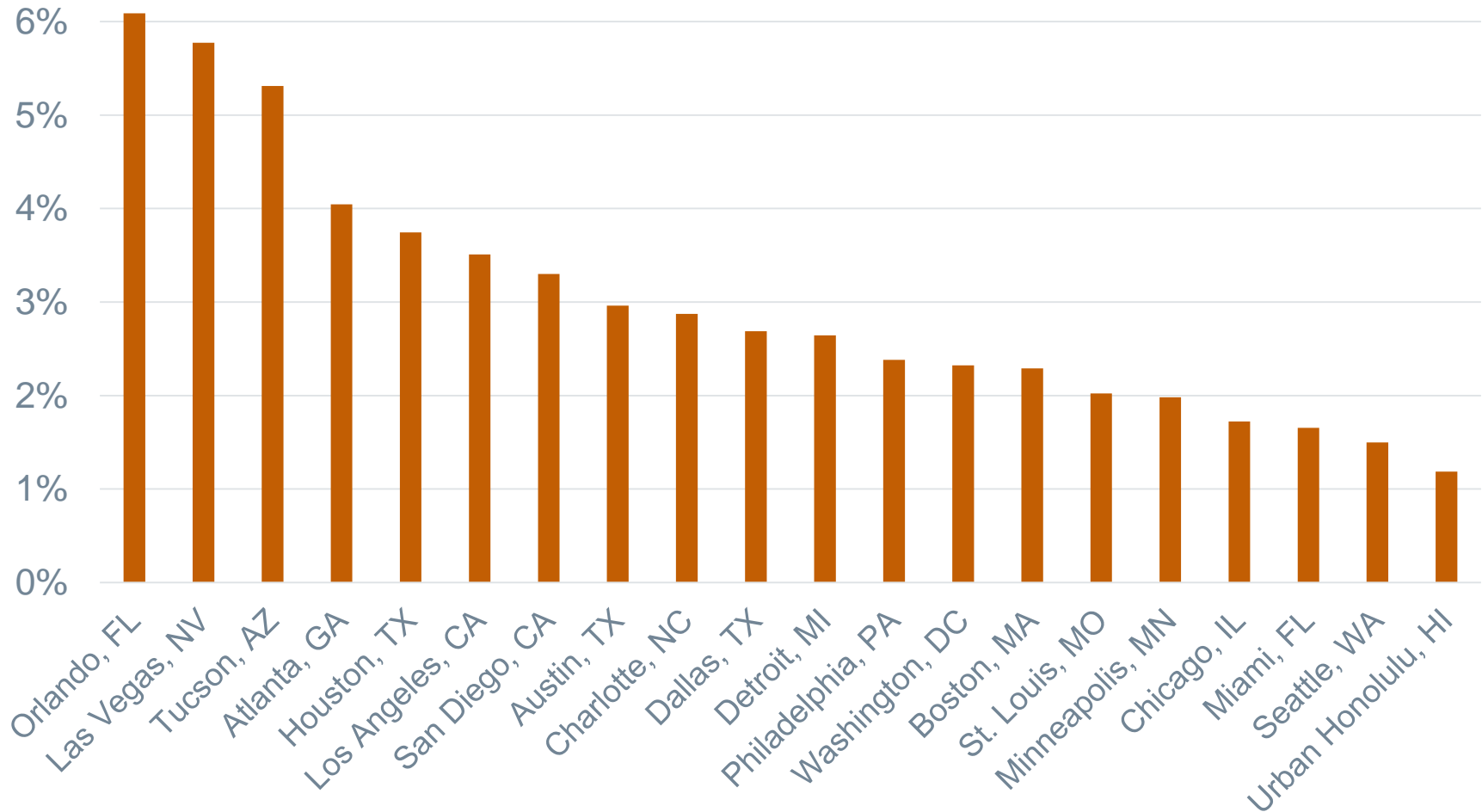
Cumulative Price Growth Through August 2018 (percent)



Source: CoreLogic HPI, Single-family Detached (October 2, 2018 release); National HPI trough occurred March 2011.

# Single-family Rents Are Rising Too

Single-Family Rent Growth (annual percent change, August 2018)



Source: CoreLogic Single-Family Rent Index, August 2018

# Bubbles? Market Conditions Indicator, Price-to-Rent, and Payment-to-Rent Ratio, by Metro

Metro Area	Market Conditions Indicator: 2018Q3	Price-to-Rent: Growth 2001Q1 to 2018Q1 Above or Below 65%	Payment-to-Rent: Growth 2001Q1 to 2018Q1
Los Angeles, CA	Overvalued	Above	33%
West Palm Beach, FL	Overvalued	Above	14%
New York, NY	Overvalued	Below	14%
Seattle, WA	Overvalued	Above	12%
San Francisco, CA	Normal	Above	12%
Washington, DC	Overvalued	Above	8%
Raleigh, NC	Normal	Below	4%
Austin, TX	Overvalued	Above	-3%
Tucson, AZ	Normal	Below	-4%
Houston, TX	Overvalued	Below	-13%
Virginia Beach, VA	Normal	Below	-14%
Trenton, NJ	Normal	Below	-33%
U.S.*	Normal	Below	-15%

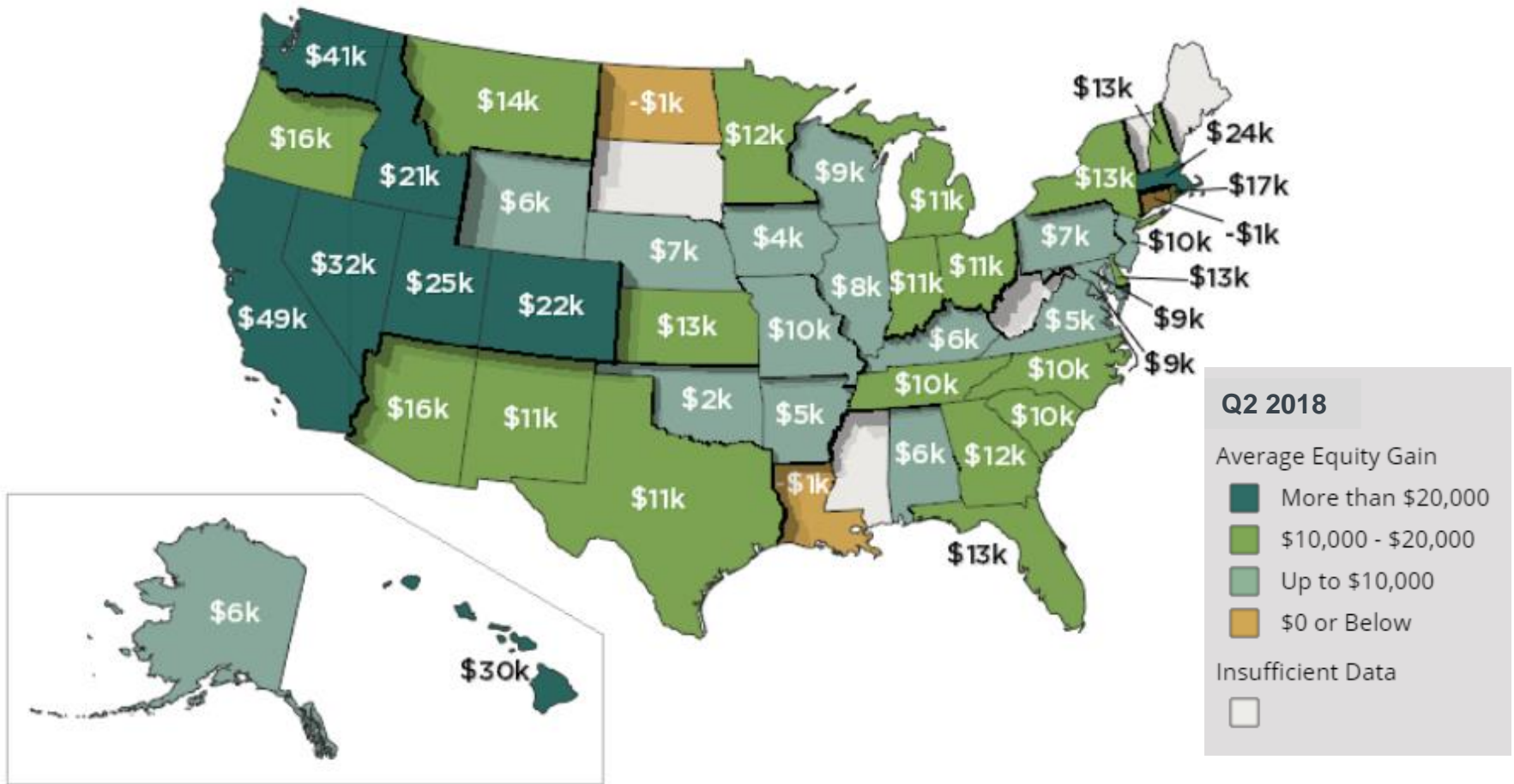
\* U.S. price-to-rent and payment-to-rent analysis begins 2004Q1

Source: CoreLogic median sales price and Single-Family Rent Index, Freddie Mac PMMS for 30-year FRM

# Average Equity Gain per Homeowner

U.S.: \$16,200 per home (June 2017 to June 2018)

Wealth effect adds \$60 billion to consumer spending next 2-3 years

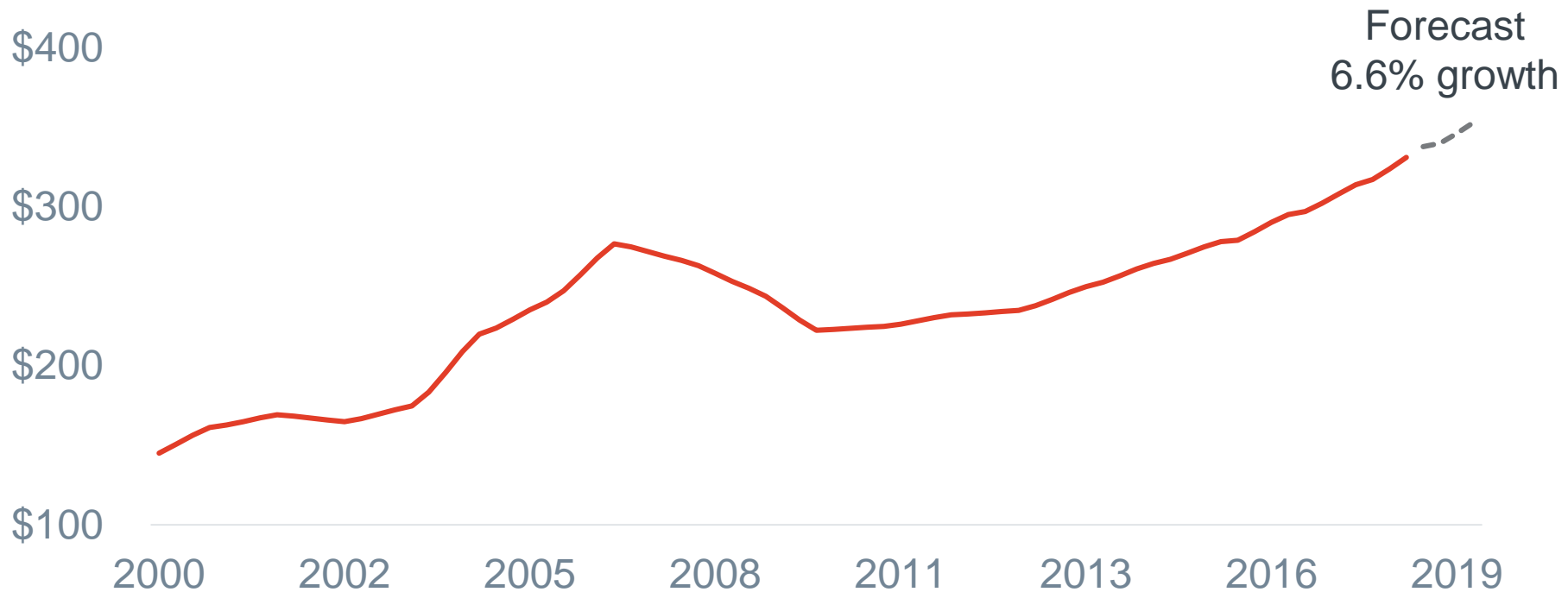


Source: CoreLogic Equity Report for 2018Q2



# Longer Homeowner Duration and Growth in Home Equity Spurs Remodeling Expenditures

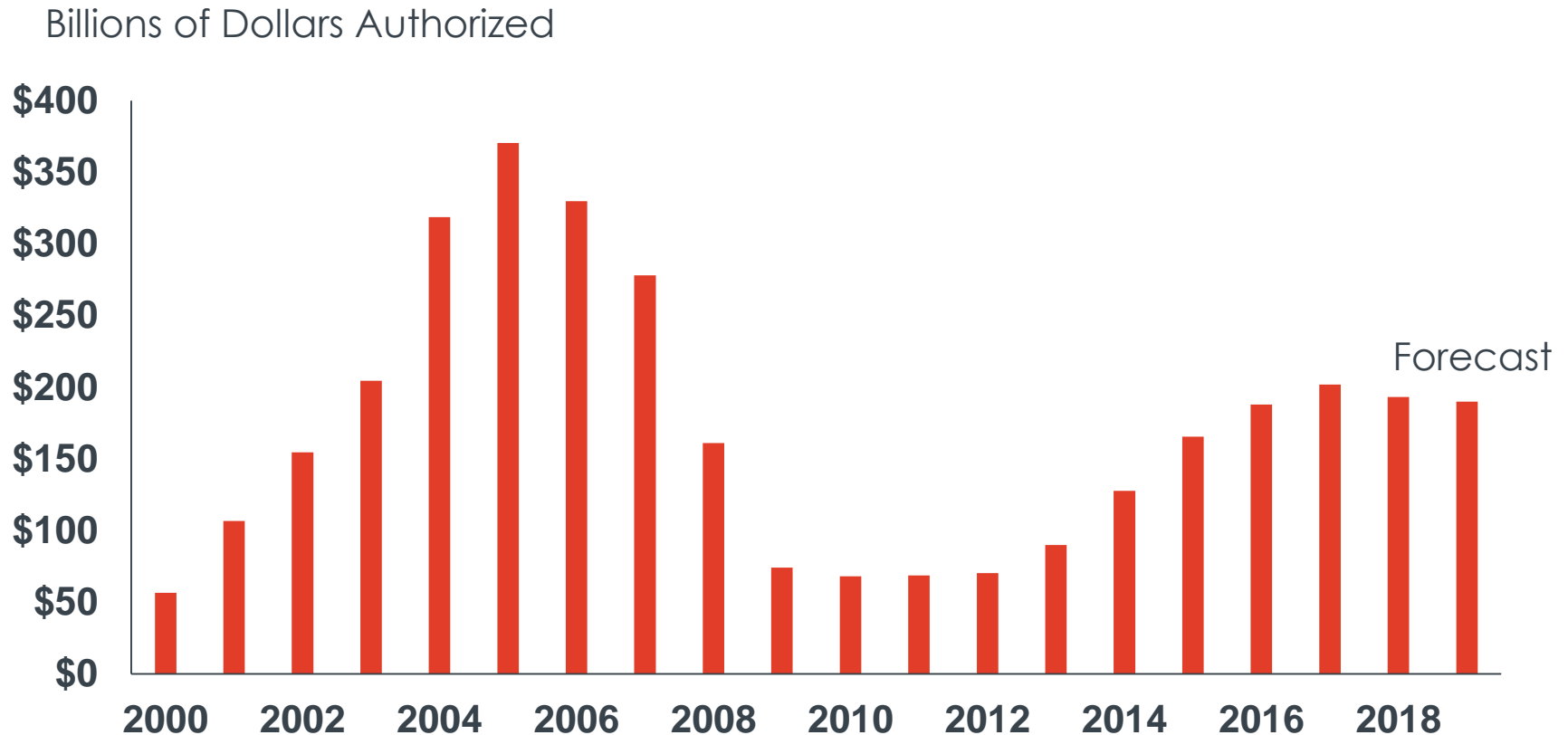
Homeowner Improvements and Repairs (Billions)



Source: Harvard Joint Center for Housing Studies

# HELOC Volume Projected to Hold Steady

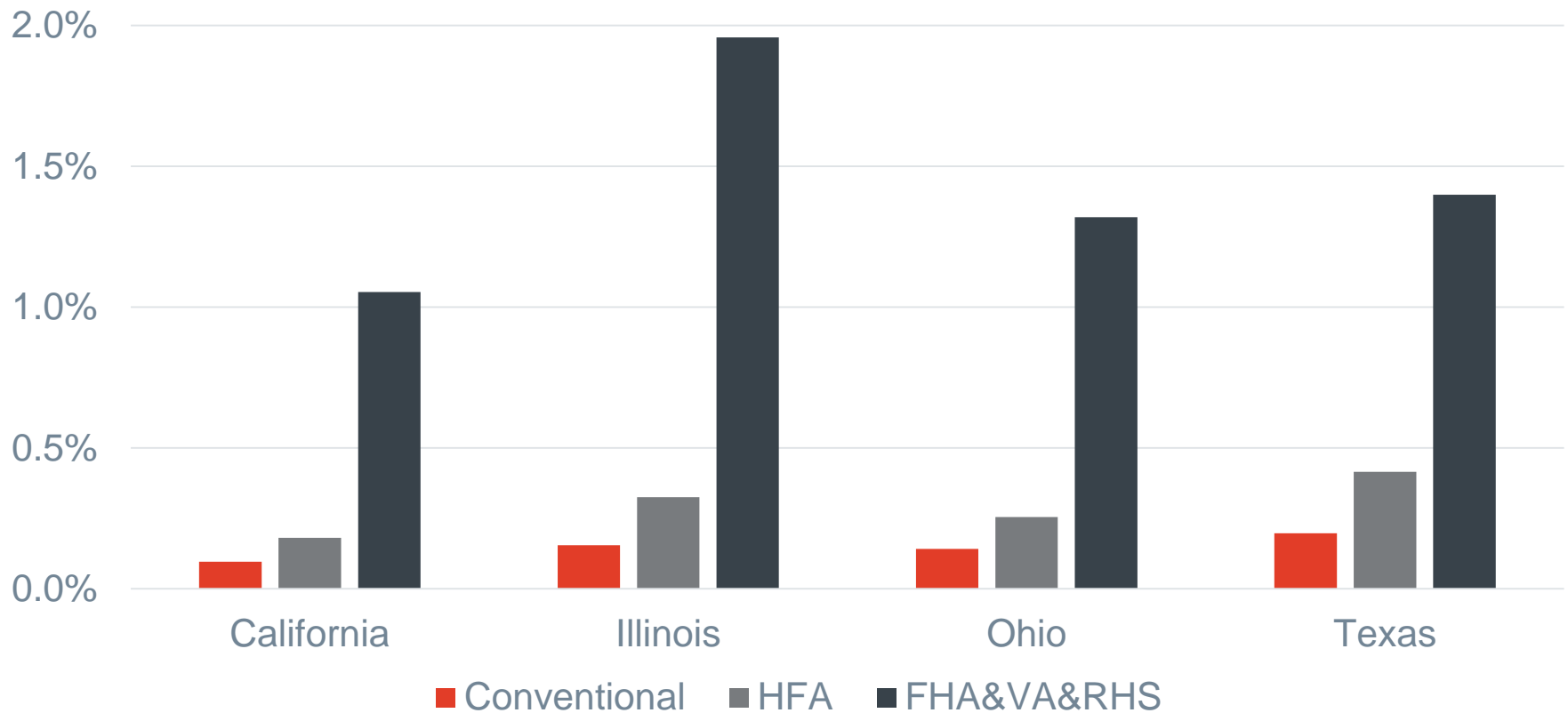
Home Improvement HELOC gain in 2019 expected to offset part of decline in other HELOCs



Source: CoreLogic Public Records; second-lien HELOCs placed more than 60 days after first lien; 2018 reflects first eight months, annualized.

# Recent HFA Loans Have Much Lower Early Payment Default Rates than Federal Programs

Early Payment Default Rate for 2017 Originations (percent seriously delinquent)

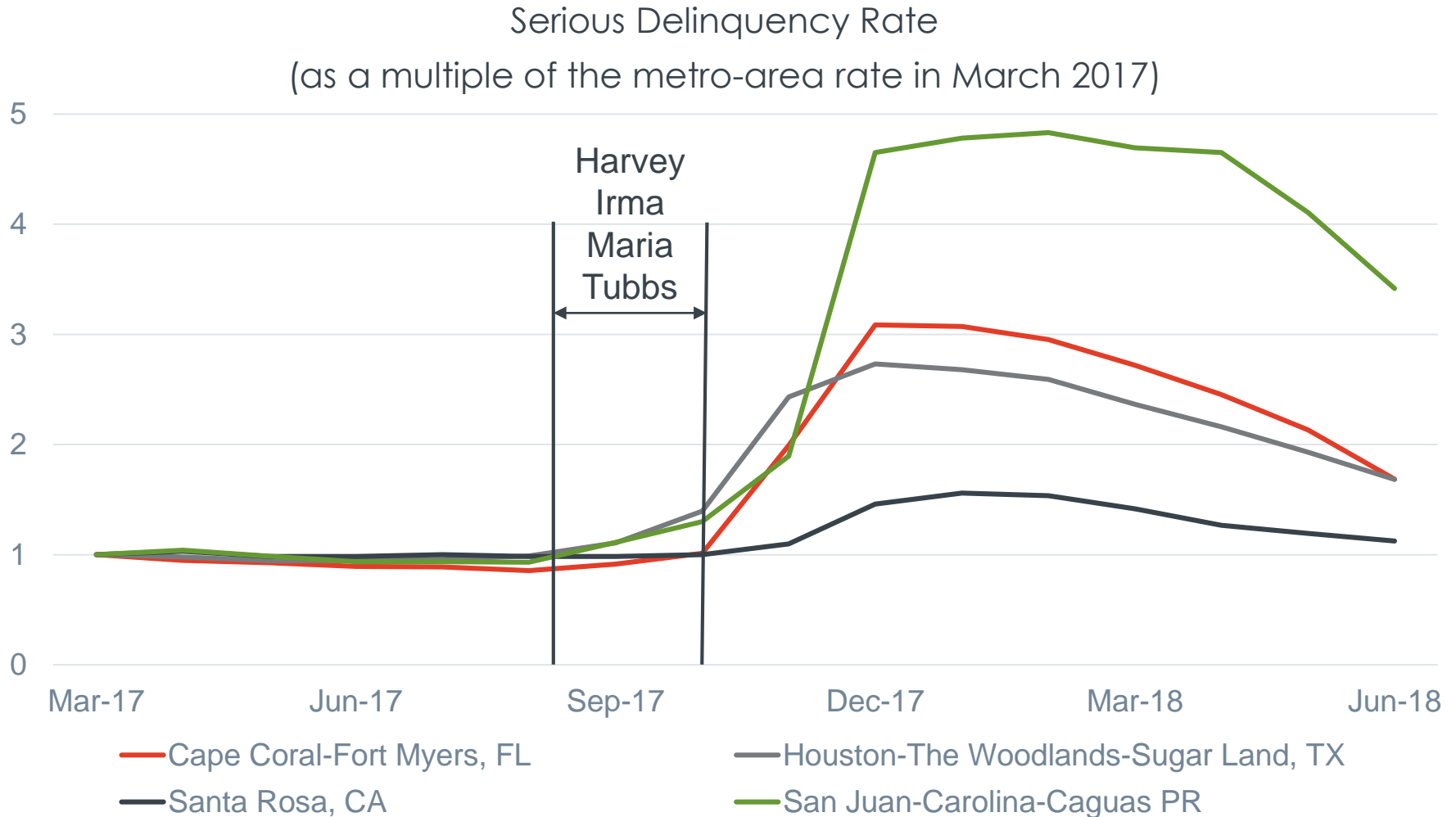


Source: CoreLogic TrueStandings, loans originated 2017 and outstanding as of September 30, 2018

# Natural Disasters: Housing Market Effects

- Disruption to local economy and family income
  - Substantial dollar-value property loss & job loss
  - Mortgage delinquency rates spike up
  - Occurs even for homes without damage in FEMA designated disaster areas
- Destruction/Damage to housing reduces stock
  - Family relocation reduces vacancy rates
  - Upward pressure on prices and rent for undamaged homes

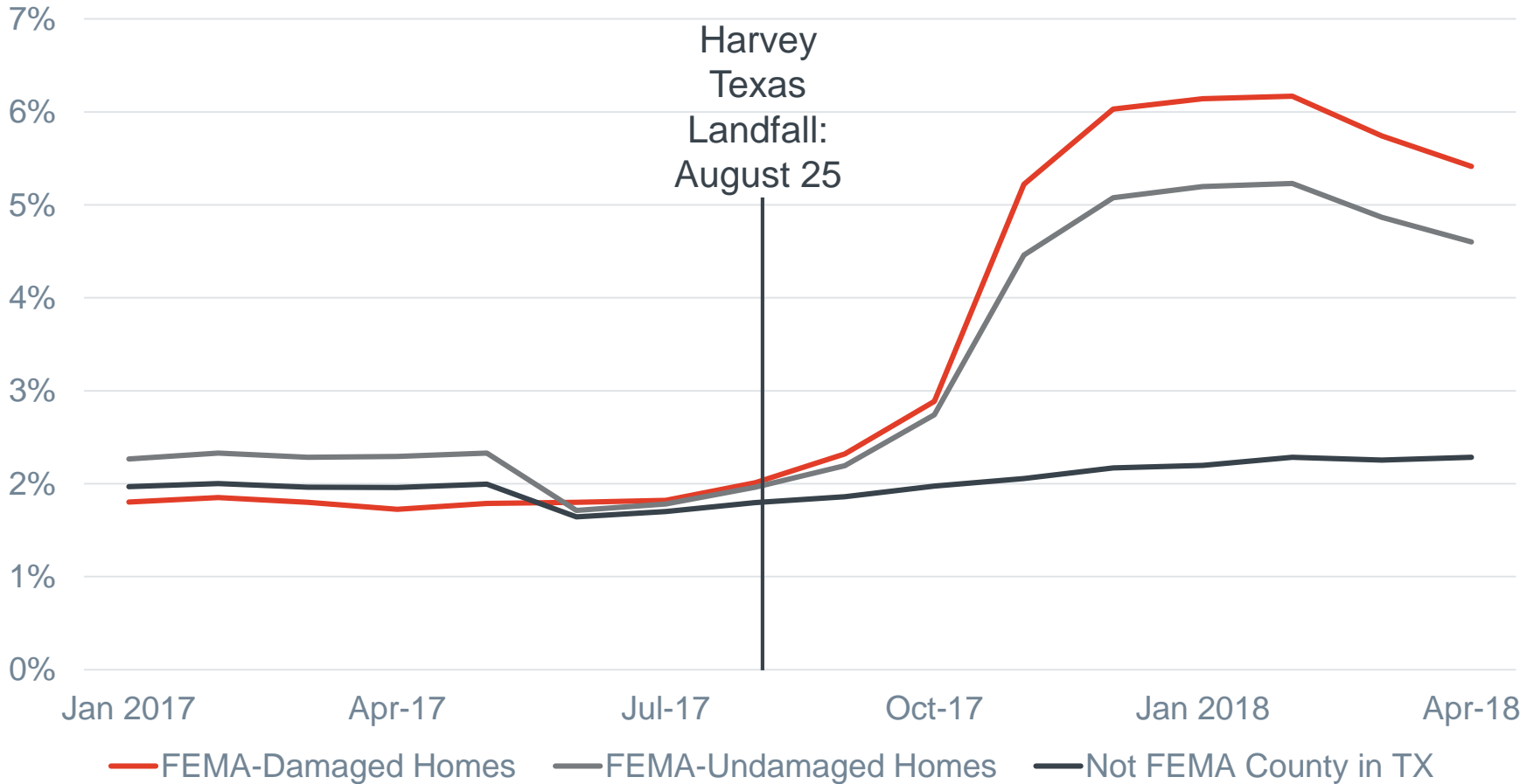
# Delinquency Rates Jump After a Disaster



Source: CoreLogic TrueStandings Servicing, percent of loans that were 90-or-more days delinquent or in foreclosure measured relative to March 2017

# Hurricane Harvey: Delinquency Jumped for All Homes in FEMA-Designated Disaster Areas

Serious Delinquency Rate

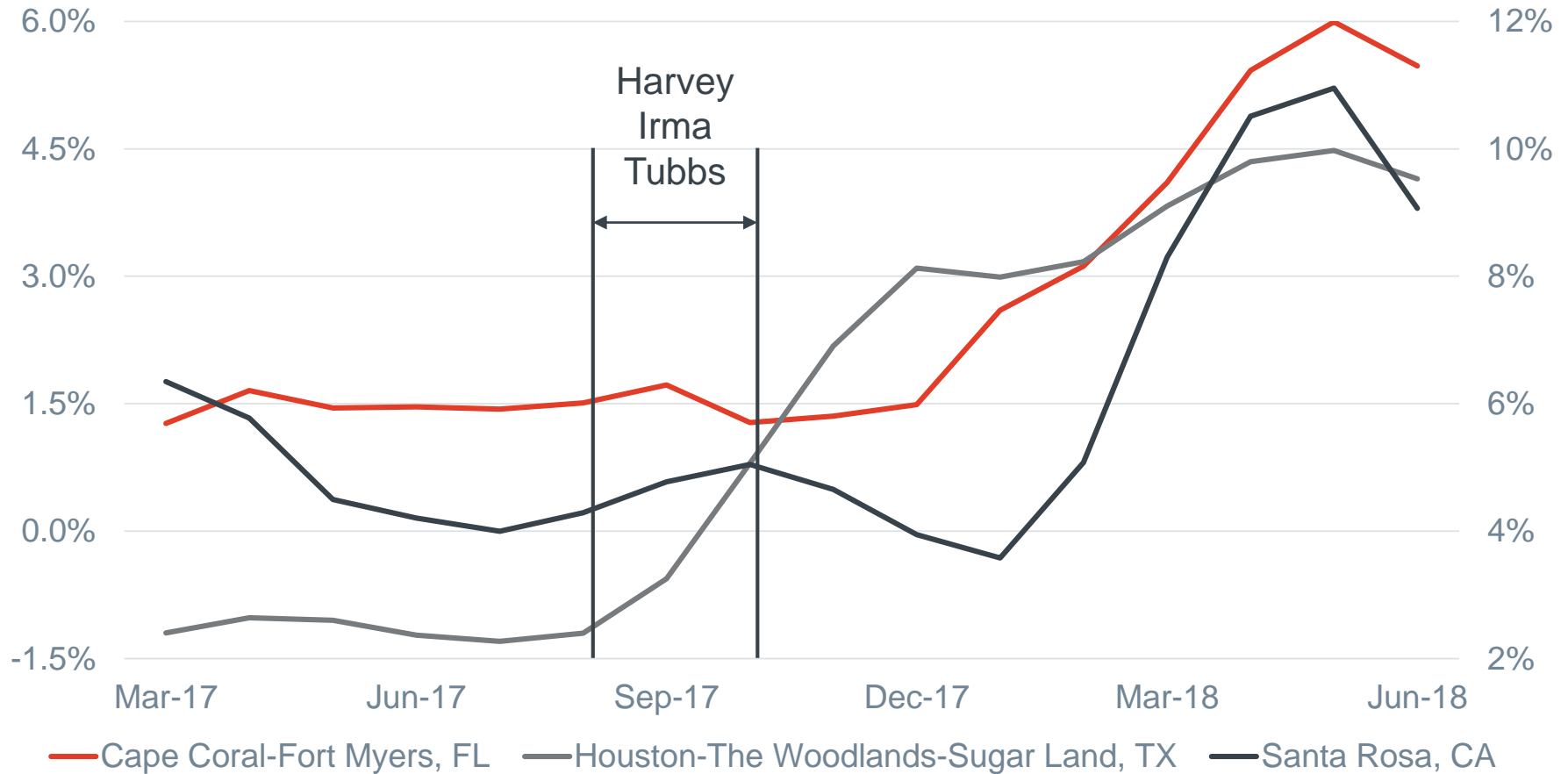


Source: CoreLogic, FEMA

# Rent Growth Quickens After a Disaster

Annual Rent Growth,  
Cape Coral and Houston Metros

Annual Rent Growth,  
Santa Rosa Metro



Source: CoreLogic Single-Family Rent Index (Cape Coral and Houston) and Rental Trends (Santa Rosa, 2-bedroom median rent, 3-month moving average)

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# Where to find more information

Look for regular updates to our housing forecast, commentary and data at

<http://www.corelogic.com/blog>

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