Central Coast Lending Newsletter | January 2017

The Federal Reserve Raises Rates in December FOMC Meeting

As most were expecting, the Federal Reserve raised its target rate up 0.25 percent to a range of 0.50 to 0.75 percent. The assessments of the economy are roughly the same as the November meeting, with jobs gains described as "solid", household spending called "moderate" and business investments still "soft". Inflation is also described as mostly soft, though the inflation compensation got an upgrade; the inflation compensation is the yield difference between inflation-protected securities and regular securities. The committee still sees the economy as expanding at a moderate pace and sees near term risks as roughly balanced. The vote to raise rates was unanimous, 10 to 0. The FOMC forecasted up to three rate hikes for the next year, up from the two predicted in September. Inflation forecasts are unchanged but the unemployment rate forecast has been lowered.

Mortgage Applications

Despite the sharply higher mortgage rates, purchase applications for home mortgages rose 3.0 percent on a seasonally adjusted basis in the week of December 16th. This puts the purchase index 1 percent above the level in the same week a year ago. Refinancing also rose 3.0 percent from the prior week. Interest rates on the 30-year fixed rate conforming mortgages climbed 13 basis points from the week prior to 4.41 percent to the highest level since May 2014.

New Home Sales

New home sales jumped 5.2 percent in November to a 592,000 annualized rate that is the second strongest of the recovery. But this report is very volatile on a monthly basis which points to the need to look at the three month average that at 575,000 has shown little change since the summer. Lack of supply, at 5.1 months for the November sales rate, is very thin, it is holding down sales but isn't giving much lift to prices where the median is at 305,400, up 0.9 percent on the month but down 3.7 percent on a yearly basis. But, the year on year sales rate has been very strong, reflecting an upshift in trend that started in July when sales hit the cycle peak of 622,000. New home sales are up 16.5 percent compared to November last year in what contrasts sharply with the decline in prices.

Existing Home Sales

Sales rose a surprise 0.7 percent to a 5.610 annualized rate which is a cycle high, this is well ahead of October's 5.570 million which is the second highest of the cycle. Resale of single family homes slipped 0.4 percent in the month but the 4.950 million rate is the cycle's second highest, next only to October's 4.970 million. Condo resales were the strength of the November report, up 10.0 percent to a 660,000 rate. Year on year rates have barely been in the plus column this year. Total resales were up 15.4 percent in November with single family resales up 16.2 percent and condos up 10.0 percent. Supply is very thing in the market right now which is resulting in driving up prices. Supply fell a steep 8.0 percent in the month to 1.850 million which is down 9.3 percent on a yearly basis. The median price rose 0.3 percent higher in the month to $234,900 for a yearly gain of 6.8 percent. Aside from the rising prices, rising mortgage rates are another factor that will limit the affordability of resales.

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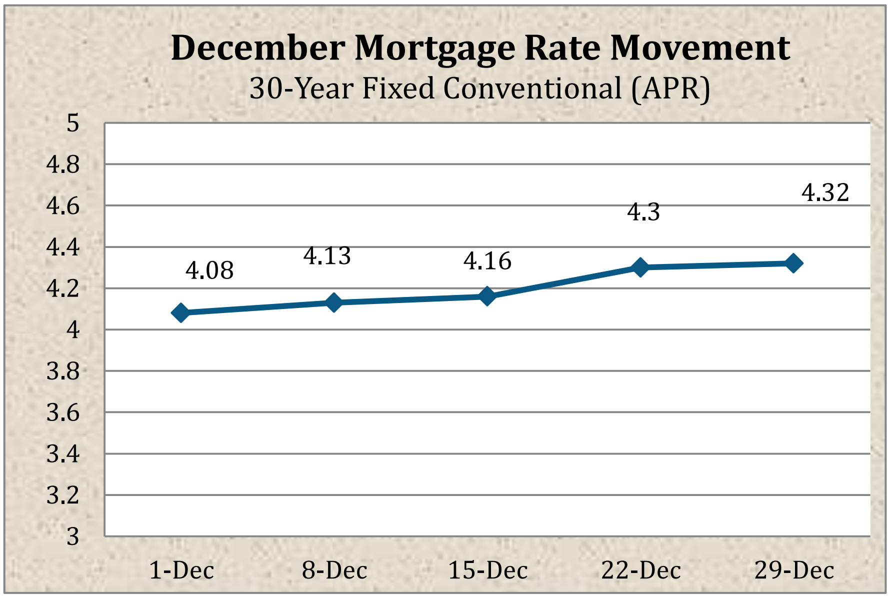
Mortgage Rates

Rates continued to rise in the month of December. They reached highs we have not seen since April of 2014. Rates began to rise following the presidential election back in November and have not stopped increasing. In the week of December 22nd rates went up in response to the Fed's decision to raise rates for the first and only time in 2016, they went up by 14 basis points for the largest week to week change seen in the month. The week of December 29th marks the ninth consecutive week that rates have increased. As mortgage rates continue to increase, home sales and affordability will continue to be a concern for the housing market in 2017.



News Briefs

GDP

The third quarter lived up to its early expectations, rising with each new revision to an inflation adjusted 3.5 percent annualized rate for the best showing in two years. The consumer was the driving force in the quarter, spending at a 3.0 percent rate (up from 2.7 percent in the prior estimate) on top of the second quarter's very strong 4.3 percent rate. Exports, benefiting from agriculture, were another positive as was nonresidential fixed investment which got an upgrade in the latest estimate to show a plus 1.4 percent annualized rate. Inventories also added to the quarter, but less so than prior estimates predicted, which is a positive for fourth quarter production and employment. The GDP price index is unrevised at 1.4 percent. The fourth quarter, held down by a reversal for exports and perhaps by less strength in consumer spending, isn't as strong at the third quarter proved to be.

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To subscribe, email Rachel at
rachel@centralcoastlending.com

805.543.LOAN

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CA BRE #01839608 NMLS#328358 CA DBO #6054783

Atascadero
5955 East Mall | **Morro Bay**
601 Morro Bay Blvd. | **San Luis Obispo**
1319 Marsh Street | **Paso Robles**
513 13th Street