Central Coast Lending Newsletter | March 2016

FOMC: Slower Pace for Future Rate Hikes

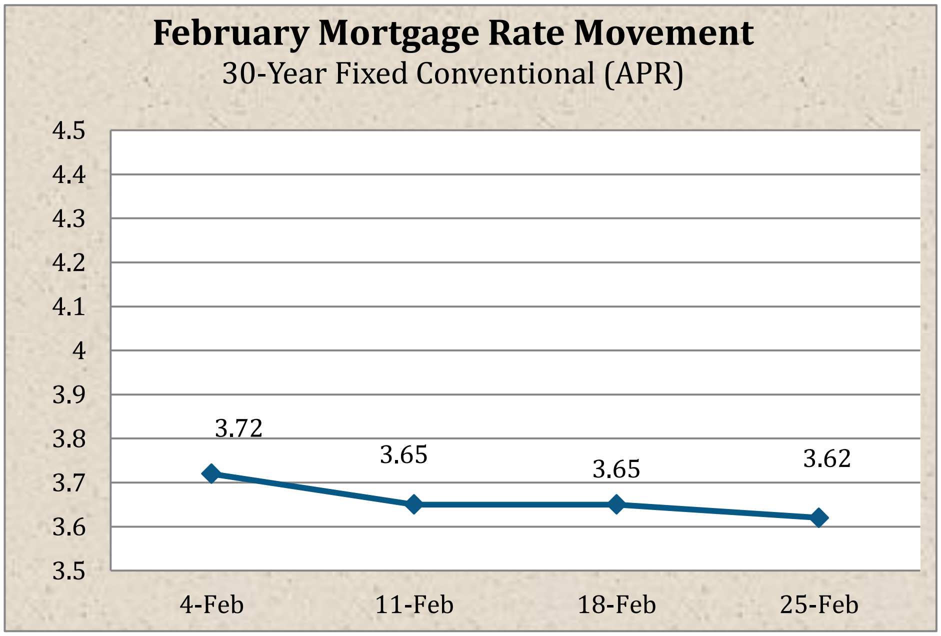
In the first FOMC meeting of the New Year, policy makers monitored global economic and financial developments closely. They expect inflation to remain low due partly to the drop in oil prices. Rates remained unchanged as expected staying at the 0.25 and 0.50 percent target range implemented last month. The FOMC remains confident on the jobs front calling improvement “strong” and “continuing.” Economic growth is slow and the low level of inflations is expected to change over time. “Inflation is expected to remain low in the near term, in part because of the further decline in energy prices, but rise to 2 percent over the medium term as the transitory effects of declines in energy and import prices dissipate and the labor market strengthens further,” the statement put out by the FOMC said. Future rate hikes are promised to be gradual. Traders now expect the Fed to raise rates only once this year and not until the second half of 2016.

Risks, in particular global risks were the theme of the meeting. Highlighting that continuing deterioration of financial conditions could amplify downside risks to the US economy. Policy makers assessed the implication of global economic and financial developments on the outlook for the labor market and inflation. Several of the 17 members called for direct evidence of inflation before further hiking rates, while others were concerned that policy was less well positioned to respond to shocks. Some members did not that wage pressures had picked up. Many participants agreed that uncertainties had increased. The vote to hold policy unchanged was unanimous at 10 to zero.

Federal Reserve chair Janet Yellen spoke after the FOMC meeting. She presented the semi-annual monetary report to the House Financial Services Committee, in Washington. She stated that chances of a March rate hike are uncertain at best, but the door remains open despite the risk tied to global financial stress. She suggested that the central bank may delay, abandon, planned interest rate increases in response to the recent turmoil in financial markets. She emphasized the strength of the US economy and she predicted that GDP is to pick up in the first quarter, after showing a slowing in the fourth quarter of last year. Employment growth is expected to continue and wage pressures are anticipated to rise. This in turn, will result in gains for consumer spending predicts Yellen. She doesn’t see a reversal in policy ahead, saying she doesn’t expect the Fed will have to cut rates any time soon. Yellen forecasts moderate economic expansion ahead that would warrant gradual rate hikes. On the subject of inflation, she agreed that near term pressure have declined due to low energy prices but she continues to see a rise to the 2 percent target rate in the medium term, strengthened by wages and strength in the labor market.

Mortgage Rates

The 30-year fixed rate conventional mortgage APR rate continues to decline for seven of the past eight weeks. These low rates are aiding homebuyer affordability in a tight supply of for sale homes in many markets. Rates are now the lowest they have been in 55 weeks defying expectations of the consumer and Wall Street. Rates this year had been forecasted to reach five percent, but this data points to rates falling closer to the 2 percent range. As mortgage rates drop home buyers are finding themselves able to purchase larger homes and more than six million U.S. households are now potentially eligible to refinance.



News Briefs

GDP
An upward revision to inventory growth made for an upward revision to the second estimate of fourth quarter GDP to an annualized plus 1.0 percent, a 3 tenths increase from the initial estimate. Slowing demand is resulting in building inventories, inventories were up 91.7 billion vs. an initial estimate of 68.6 billion. A clear negative in the report was a downgrade in personal consumption expenditures while residential investments remained a large positive rising 8.0 percent.

Housing Market Index
The housing market index for February is down 3 points to 58, the lowest reading since May of last year. Though the reading came short of last month's, 58 it is still well above the breakeven point of 50. The future sales component actually rose 1 point to a reading of 65, yet the current sales component decreased by 3 points to 65. The traffic of prospective buyers' component is what is holding down the housing market index reading, it is down a steep 5 points to 39. These weaknesses reflect the lack of first time buyers in the market.

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