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YOUR MARKET UPDATE | AT-A-GLANCE

The Economy Accelerates Outlook for Housing

After five years of economic growth averaging over 2.0 percent annually, the economy should grow 3.0 percent during the next couple of years, forecasts The Wells Fargo Securities Economics Group in June 2014.

Winter weather delayed shoppers, but spending picked up in March and the second quarter appears to be up a solid 3.8 percent.

According to the Brookings Institute, May 2014 was the 51st consecutive month in which private payrolls increased. Better-paying sectors such as construction are growing, and overall real after-tax income should rise 2.3 percent this year and another 2.7 percent in 2015.

So where does that leave housing? Under pressure. An improving economy means higher mortgage interest rates. In Freddie Mac's weekly mortgage survey, interest rates have climbed for two consecutive weeks and are expected to continue this upward trend.

Frank Nothaft, vice president and chief economist for Freddie Mac explains, "Rates follow 10-year treasury yields. The economy added 217,000 jobs in May, following a 282,000 surge in April and a 203,000 increase in March. Meanwhile, the unemployment rate in May held steady at 6.3 percent."

Consumer Price Index (CPI) also impacts mortgage interest rates. Core CPI statistics exclude the most volatile commodities - food and energy, but it's an important indicator of consumer spending.

When consumers feel confident, they spend more money. When demand increases, prices rise. In May, the CPI rose 0.4 percent higher than in April; the biggest increase since February 2013. On an annual basis, the increase was 2.1 percent higher than in May 2013. Core CPI was up 0.3 percent; the biggest increase since August 2011.

With jobs and consumer spending on the mend, the Federal Reserve is expected to buy fewer mortgage-backed securities, allowing the private sector opportunity to take the risks and rewards of investments.

Economists for Freddie Mac predict that low for-sale inventory will spur home prices and rentals higher. Home purchase applications have picked up into the summer home buying season, but they are currently 13 percent below last year.

Low inventory in California held sales volume back, yet the median home price rose to the highest level since December 2007. According to the California Association of REALTORS®, May marked the seventh straight month that sales were below the 400,000 level. The median home price in May was $465,960, up 11.7 percent from the revised $417,140 recorded in May 2013.

The statewide median home price has increased year over year for 27 months, presenting affordability challenges to some home buyers. C.A.R. Vice President and Chief Economist Leslie Appleton-Young explained, "Though housing inventory is up from last year, it's still half of what is considered normal, with some of it being overpriced."

That may be what's causing Southern California home sales to ease. DataQuick analyst Andrew LePage said, "We expected rising prices to unlock more inventory this spring and that's happened. But the supply of homes for sale still falls short of demand in many markets, contributing to a rise in prices and a below-average sales pace."

The median price paid for all new and resale houses and condos sold in Southland was $410,000, up 11.4 percent from $368,000 in May 2013 and it was the highest median home price since $415,000 in January 2008.

Prices are rising, but at a much slower pace than a year ago. For 26 consecutive months, the price gains have been in the double digits and as high as 28.3 percent. The 11.4 percent year-over-year median home price increase was the smallest gain since August 2012, when the $309,000 median rose 10.8 percent year over year.

The typical monthly mortgage payment Southland buyers committed themselves to paying last month was $1,602, up from $1,353 a year earlier. Adjusted for inflation, last month's typical payment was 34.1 percent below the typical payment in the spring of 1989, the peak of the previous real estate cycle, calculates DataQuick.

That's 46.0 percent below the current cycle's peak in July 2007. What makes the difference? Mortgage interest rates are much more affordable. In 1989, Freddie Mac's annual average 30-year fixed rate mortgage was 10.32 percent, with 2.1 points. In 2007, the same rate was 6.34 percent with 0.4 points.

Lower mortgage rates are a factor that is likely to increase buyer activity.

ADVICE FOR BUYERS

Expect fixed rates to rise gradually during the second half of the year, ending the year at about 4.4 percent, predicts Freddie Mac. Summertime is the busiest time of year for housing, and with lower mortgage rates buyers should be tempted to lock in their rates and choose a home. Don't wait for prices to fall; homes are very affordable by historical standards and prices are more likely to reach historical highs than lows.

ADVICE FOR SELLERS

Sellers looking for the 20 percent price hikes of 2013 are going to be disappointed. Homes are less affordable, there's more competition due to higher inventories and investors have left the field to buyers who intend to occupy their homes. Take advantage of recent dips in mortgage interest rates to bring more traffic, but don't discourage buyers with an unrealistic asking price.