

2019 ECONOMIC & HOUSING FORECAST



What a year it has been for both for the U.S. economy and the national housing market. After several years of above-average economic and home price growth, 2018 marked the start of a slowdown in the residential real estate market. As the year comes to a close, it's time for me to dust off my crystal ball to see what we can expect in 2019.



THE U.S. ECONOMY

Despite the turbulence that the ongoing trade wars with China are causing, I still expect the U.S. economy to have one more year of relatively solid growth before we likely enter a recession in 2020. Yes, it's the dreaded "R" word, but before you panic, there are some things to bear in mind.

Firstly, any cyclical downturn will not be driven by housing. Although it is almost impossible to predict exactly what will be the "straw that breaks the camel's back", I believe it will likely be caused by one of the following three things: an ongoing trade war, the Federal Reserve raising interest rates too quickly, or excessive corporate debt levels.

That said, we still have another year of solid growth ahead of us, so I think it's more important to focus on 2019 for now

THE U.S. HOUSING MARKET

Existing Home Sales

This paper is being written well before the year-end numbers come out, but I expect 2018 home sales will be about 3.5% lower than the prior year. Sales started to slow last spring as we breached affordability limits and more homes came on the market. In 2019, I anticipate that home sales will rebound modestly and rise by 1.9% to a little over 5.4 million units.



Existing Home Prices

We will likely end 2018 with a median home price of about \$260,000 – up 5.4% from 2017. In 2019 I expect prices to continue rising, but at a slower rate as we move toward a more balanced housing market. I'm forecasting the median home price to increase by 4.4% as rising mortgage rates continue to act as a headwind to home price growth.

New Home Sales

In a somewhat similar manner to existing home sales, new home sales started to slow in the spring of 2018, but the overall trend has been positive since 2011. I expect that to continue in 2019 with sales increasing by 6.9% to 695,000 units – the highest level seen since 2007.

CONCLUSION

There are still voices out there that seem to suggest the housing market is headed for calamity and that another housing bubble is forming, or in some cases, is already deflating. In all the data that I review, I just don't see this happening. Credit quality for new mortgage holders remains very high and the median down payment (as a percentage of home price) is at its highest level since 2004.

That being said, the level of new construction remains well below the long-term average. Builders continue to struggle with land, labor, and material costs, and this is an issue that is not likely to be solved in 2019. Furthermore, these constraints are forcing developers to primarily build higher-priced homes, which does little to meet the substantial demand by first-time buyers.

Mortgage Rates

In last year's forecast I suggested that 5% interest rates would be a 2019 story, not a 2018 story. This prediction has proven accurate with the average 30-year conforming rates measured at 4.87% in November, and highly unlikely to breach the 5% barrier before the end of the year.

That is not to say that there aren't several markets around the country that are overpriced, but just because a market is overvalued, does not mean that a bubble is in place. It simply means that forward price growth in these markets will be lower to allow income levels to rise sufficiently.

Finally, if there is a big story for 2019, I believe it will be the ongoing

In 2019, I expect interest rates to continue trending higher, but we may see periods of modest contraction or levelling. We will likely end the year with the 30-year fixed rate at around 5.7%, which means that 6% interest rates are more apt to be a 2020 story.

I also believe that non-conforming (or jumbo) rates will remain remarkably competitive. Banks appear to be comfortable with the risk and ultimately, the return, that this product offers, so expect jumbo loan yields to track conforming loans quite closely.

resurgence of first-time buyers. While these buyers face challenges regarding student debt and the ability to save for a down payment, they are definitely on the comeback and likely to purchase more homes next year than any other buyer demographic.