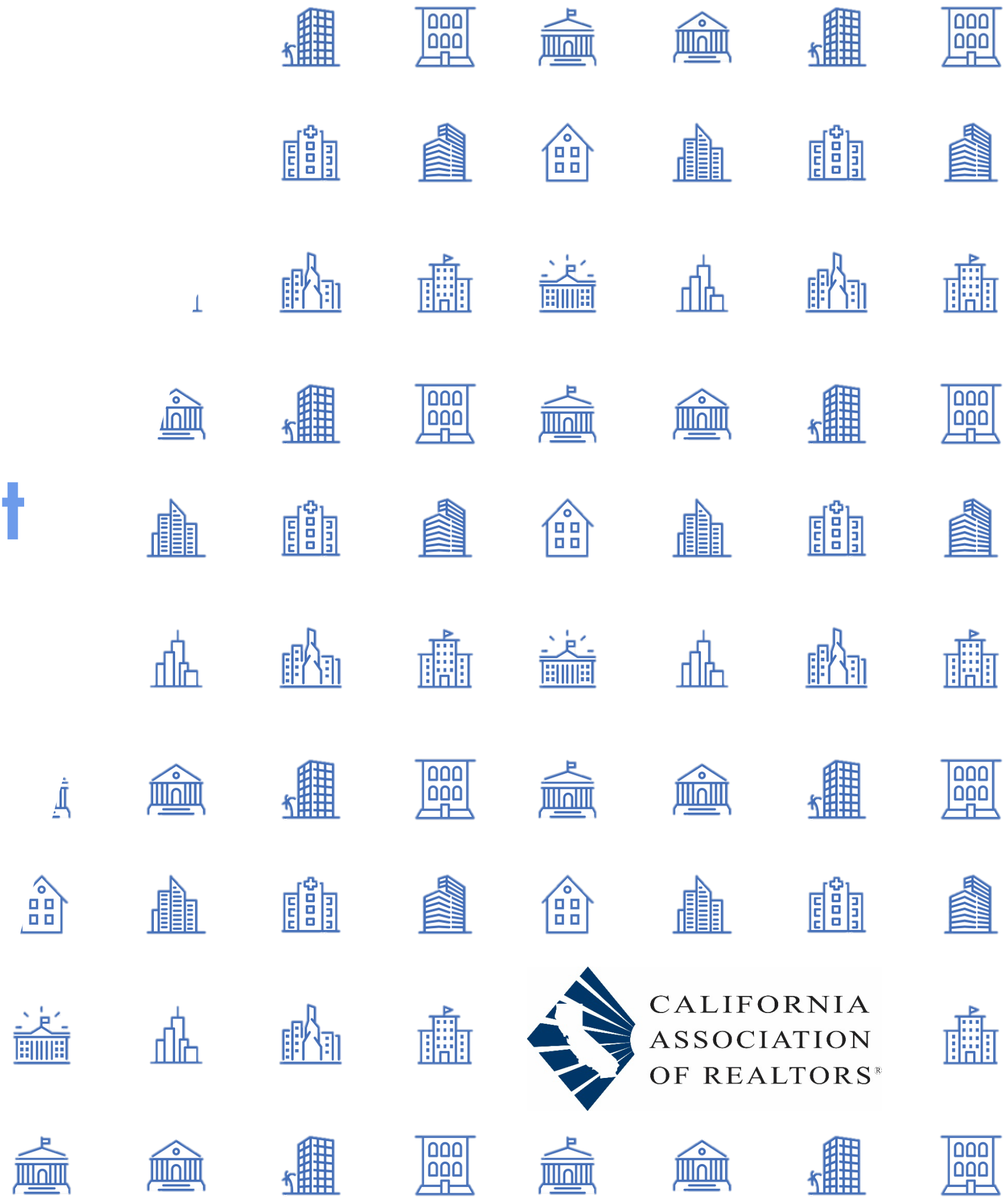


California Mid-Year Market Forecast

July 7, 2022

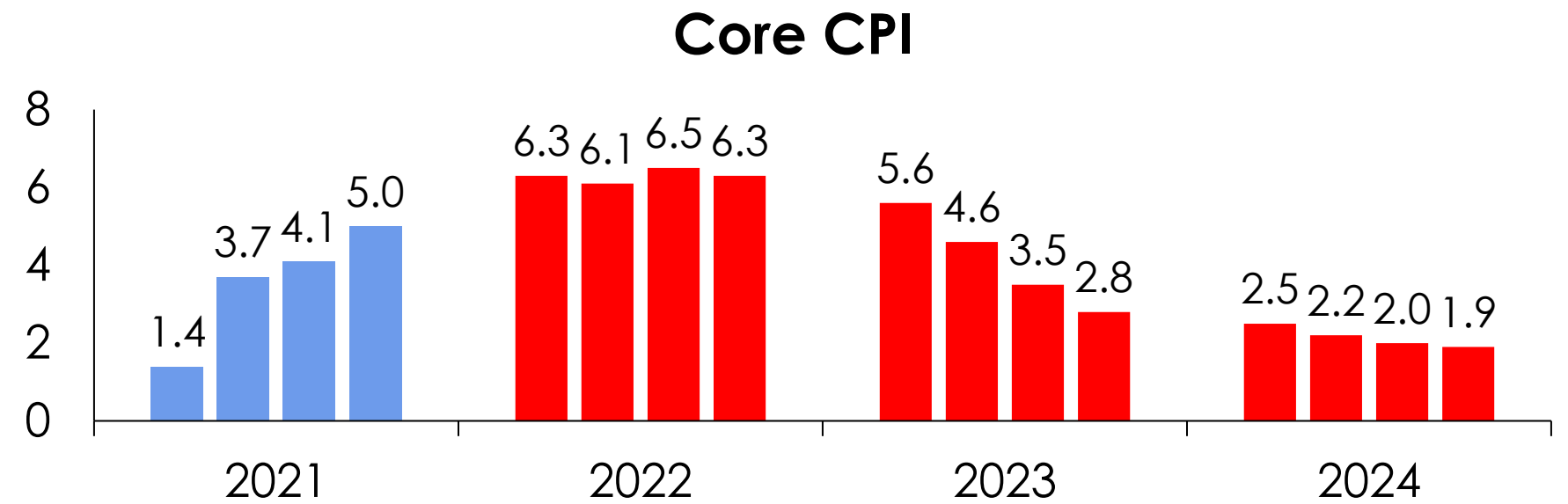
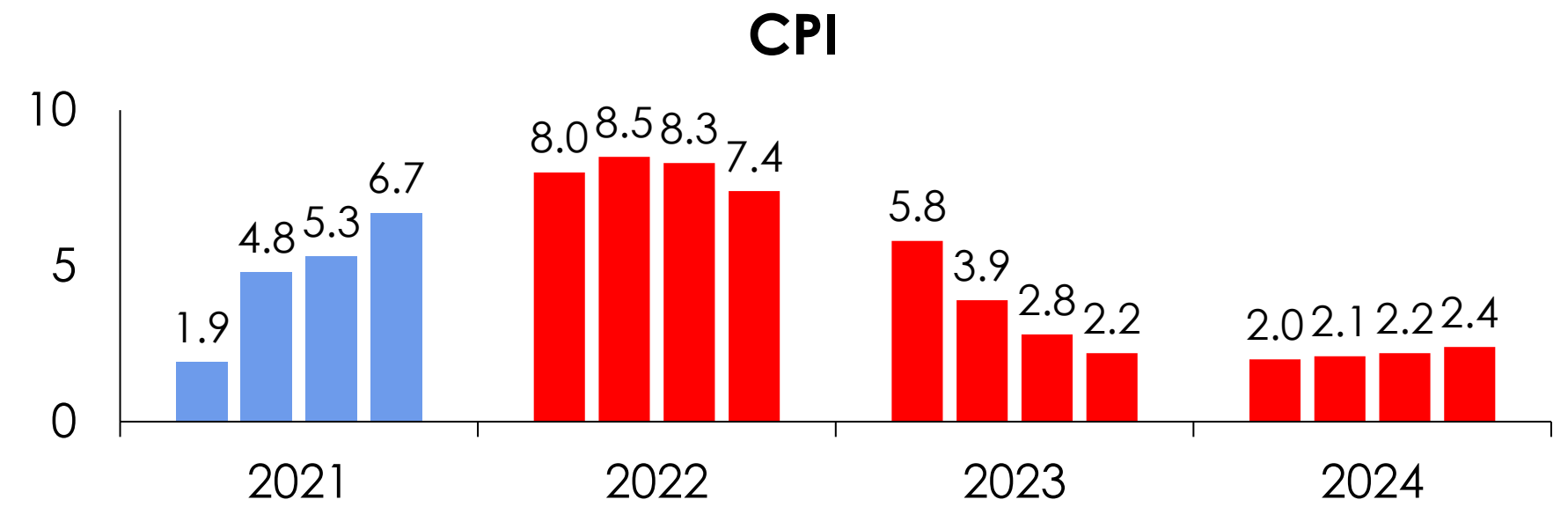
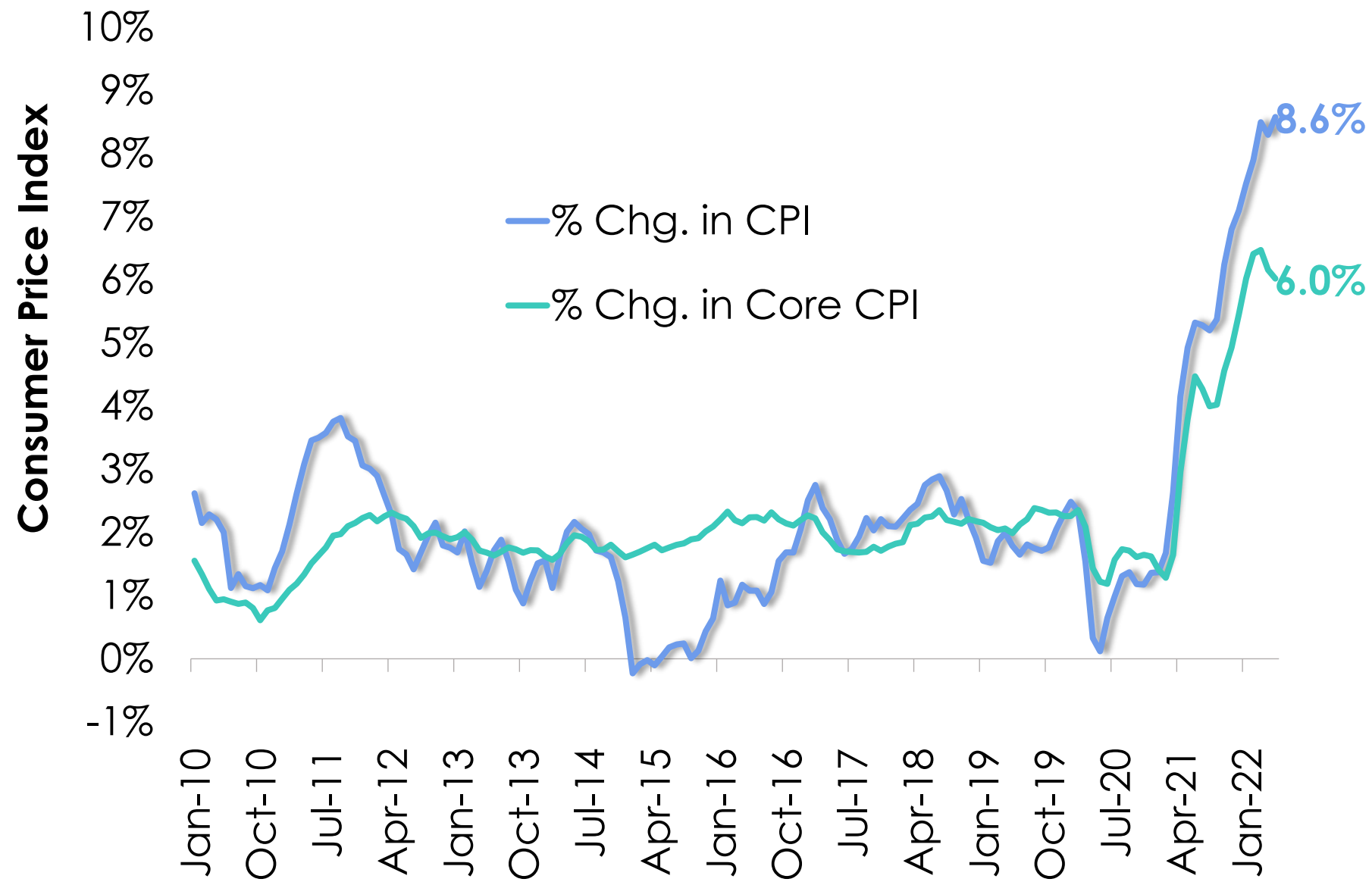
Jordan G. Levine & Oscar Wei
Research & Economics Team
California Association of REALTORS®





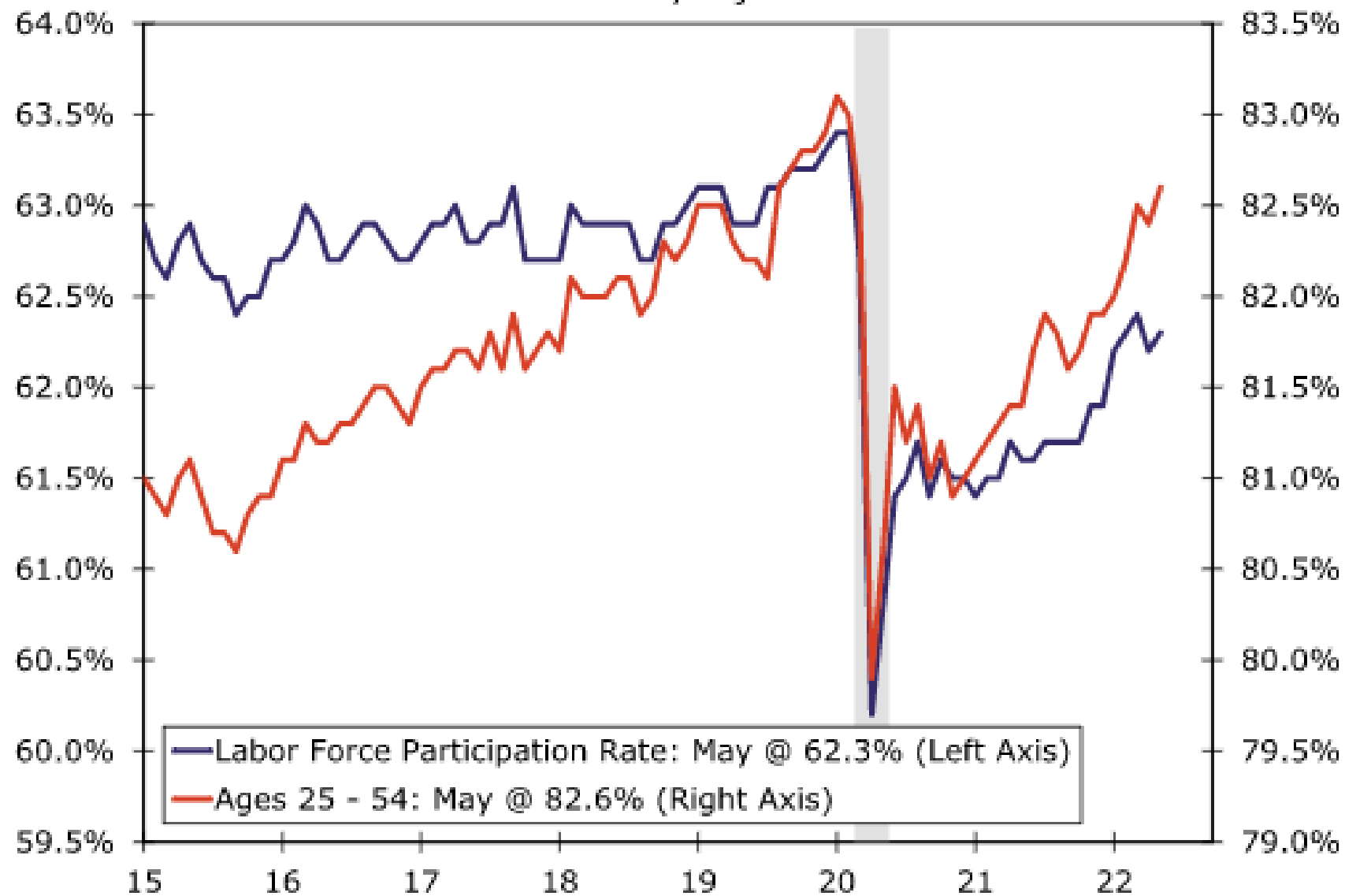
Economic Outlook

Inflation @ 40-year high and expected to stay elevated



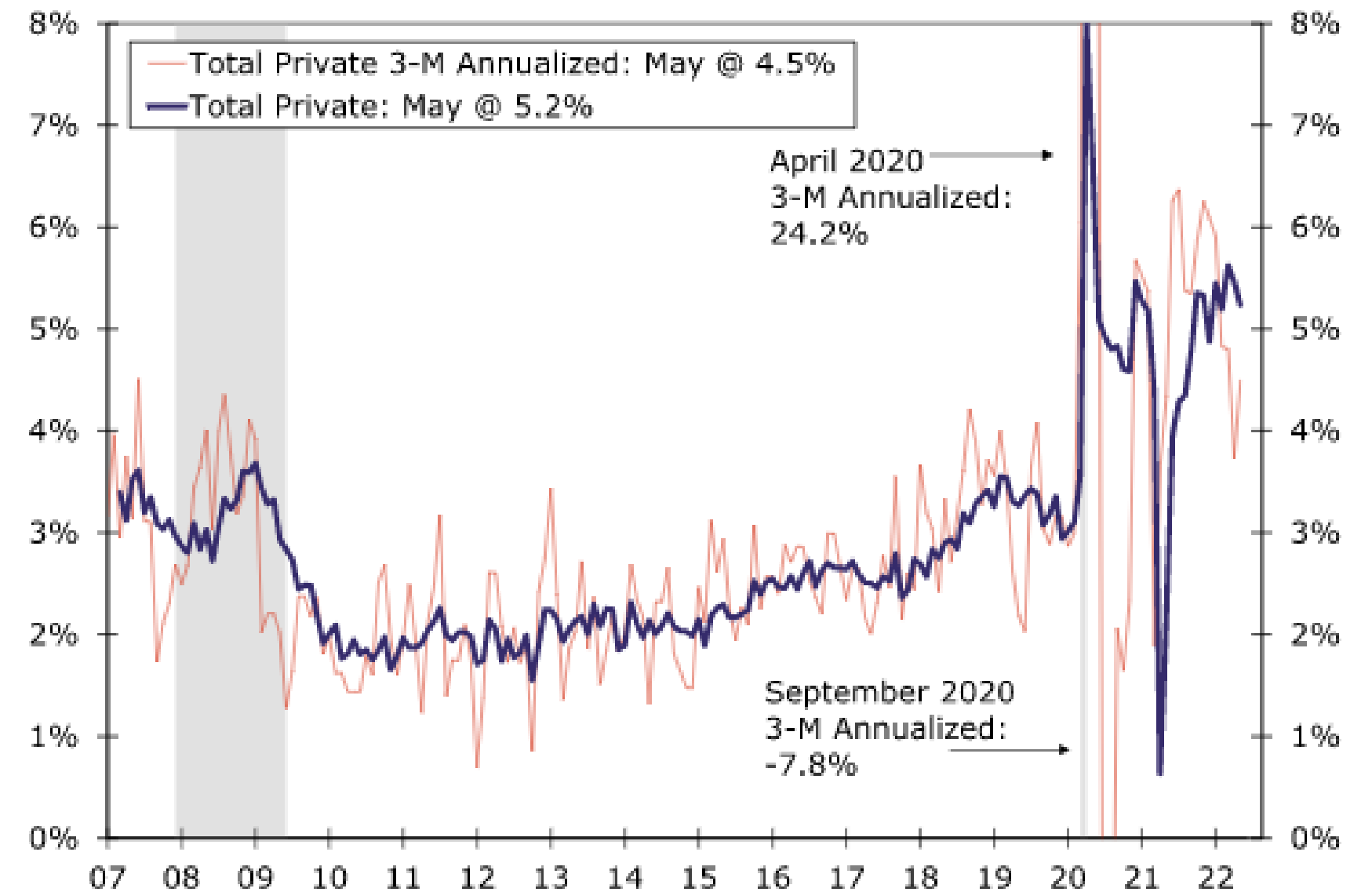
May employment suggest some easing in wage growth

Labor Force Participation
Seasonally Adjusted



Source: U.S. Department of Labor and Wells Fargo Economics

U.S. Average Hourly Earnings
Total Private



Source: U.S. Department of Labor and Wells Fargo Economics

Inflation taking a toll on retail sales

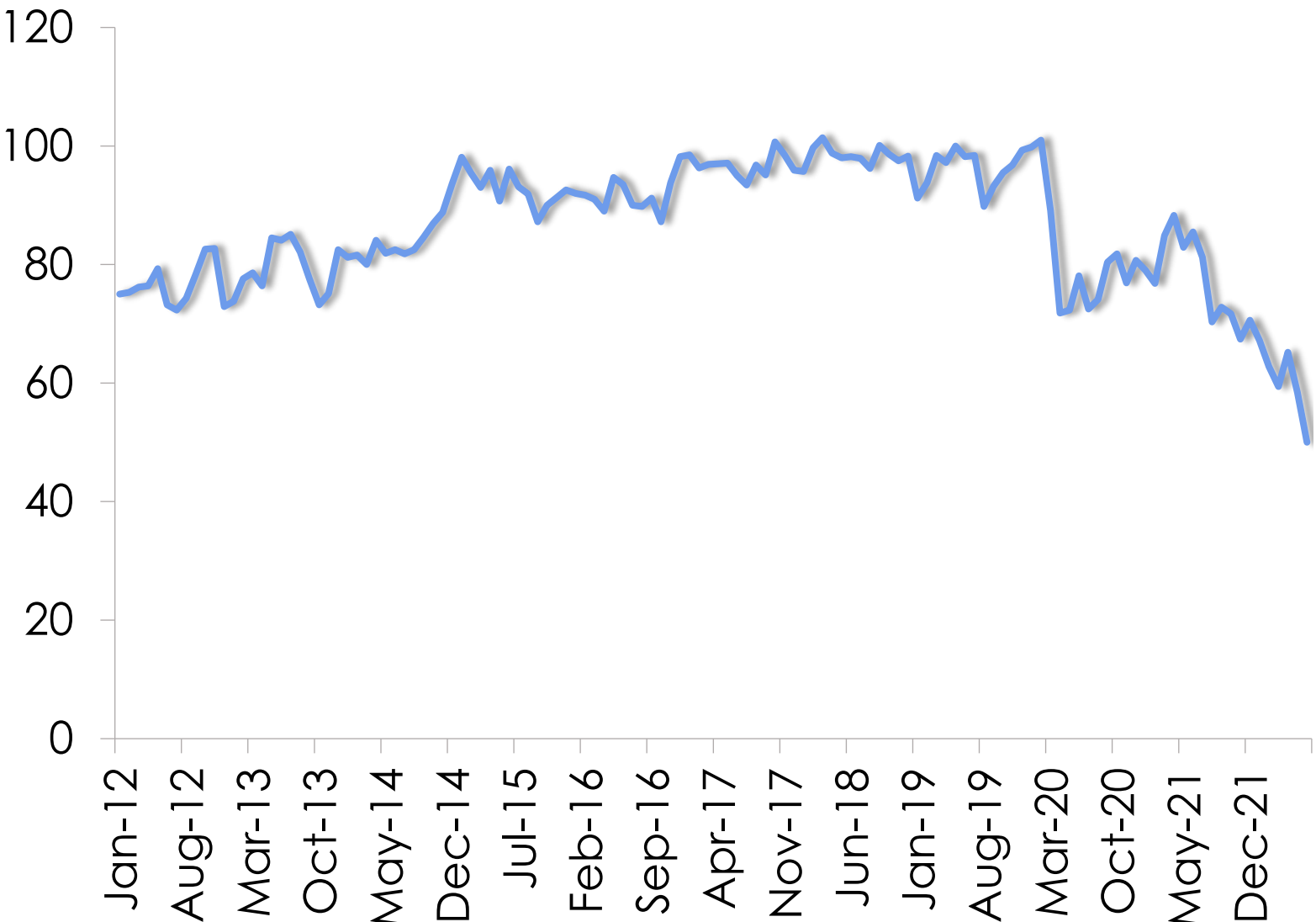
U.S. Retail Sales: May 2022

	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22
Retail Sales (MoM)	0.7	-1.0	0.7	1.0	1.6	0.6	-1.6	2.7	1.7	1.2	0.7	-0.3
Retail Sales (YoY)	19.4	15.8	15.7	14.3	16.5	18.6	16.8	13.7	17.7	7.1	7.8	8.1
Retail Sales (% Change from Jan-20)	19.6	18.4	19.2	20.4	22.3	23.0	21.1	24.3	26.4	27.8	28.7	28.4
Retail Sales, Ex. Autos (MoM)	1.8	-0.1	1.2	1.0	1.5	0.5	-1.4	1.6	1.7	2.0	0.4	0.5
Retail Sales, Ex. Autos (YoY)	19.6	16.2	16.8	15.8	17.9	19.8	18.9	14.0	17.7	9.5	10.5	11.2
Control Group Sales (MoM)	1.4	-0.7	1.1	0.7	1.2	0.1	-2.0	3.1	0.1	0.6	0.5	-0.1
Control Group Sales (YoY)	19.6	16.2	16.8	15.8	17.9	19.8	18.9	14.0	17.7	9.5	10.5	11.2
Real Retail Sales (MoM)	-1.0	-1.7	0.1	0.4	0.2	-0.6	-2.5	1.9	0.4	-0.9	1.0	-1.6
Real Retail Sales (YoY)	9.6	6.1	6.2	4.8	5.4	5.9	4.1	1.2	4.1	-6.3	-4.5	-4.4
Real Retail Sales (% Change from Jan-20)	11.1	9.2	9.3	9.7	9.9	9.3	6.5	8.5	8.9	7.9	9.0	7.3

Notes: MoM = Month-over-Month Percent Change
YoY = Year-over-Year Percent Change

Consumer sentiment dipped to record low while CEO confidence dropped sharply

Consumer Sentiment



CEO Confidence Turns Negative in Q2



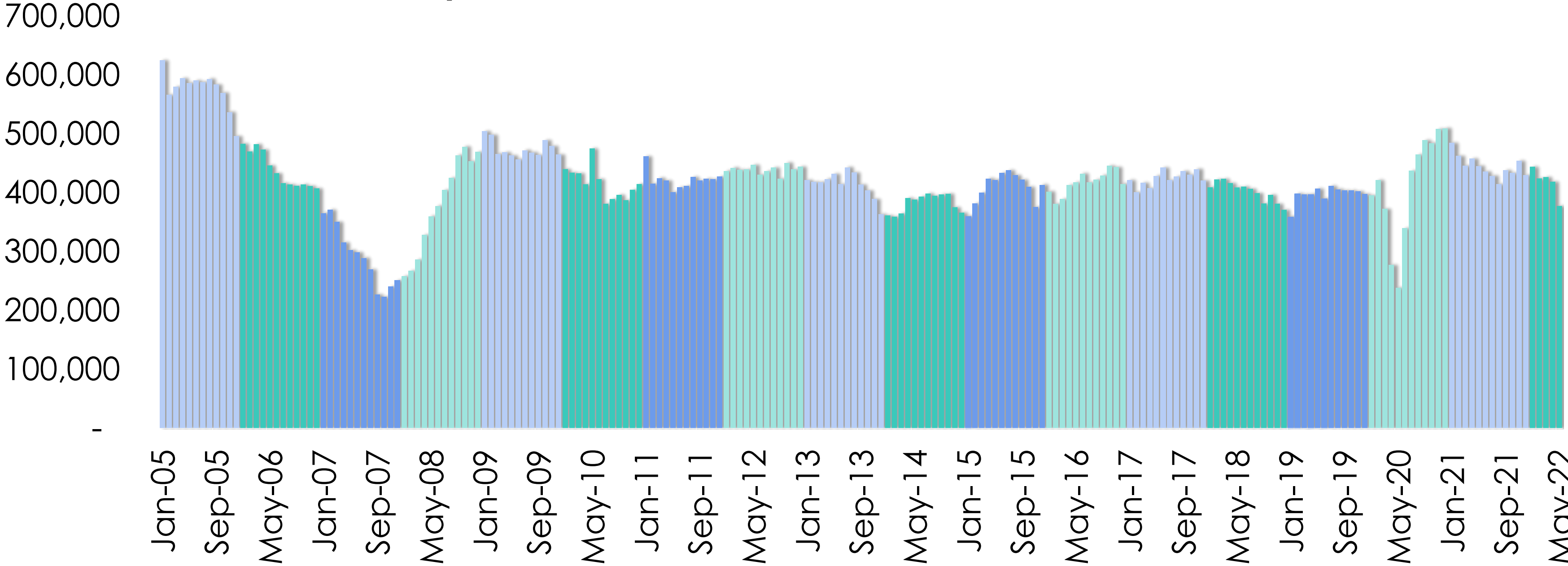
SOURCE: The Conference Board, University of Michigan the Business Council, NBER



Market Outlook

Sales dipped to lowest in nearly two years

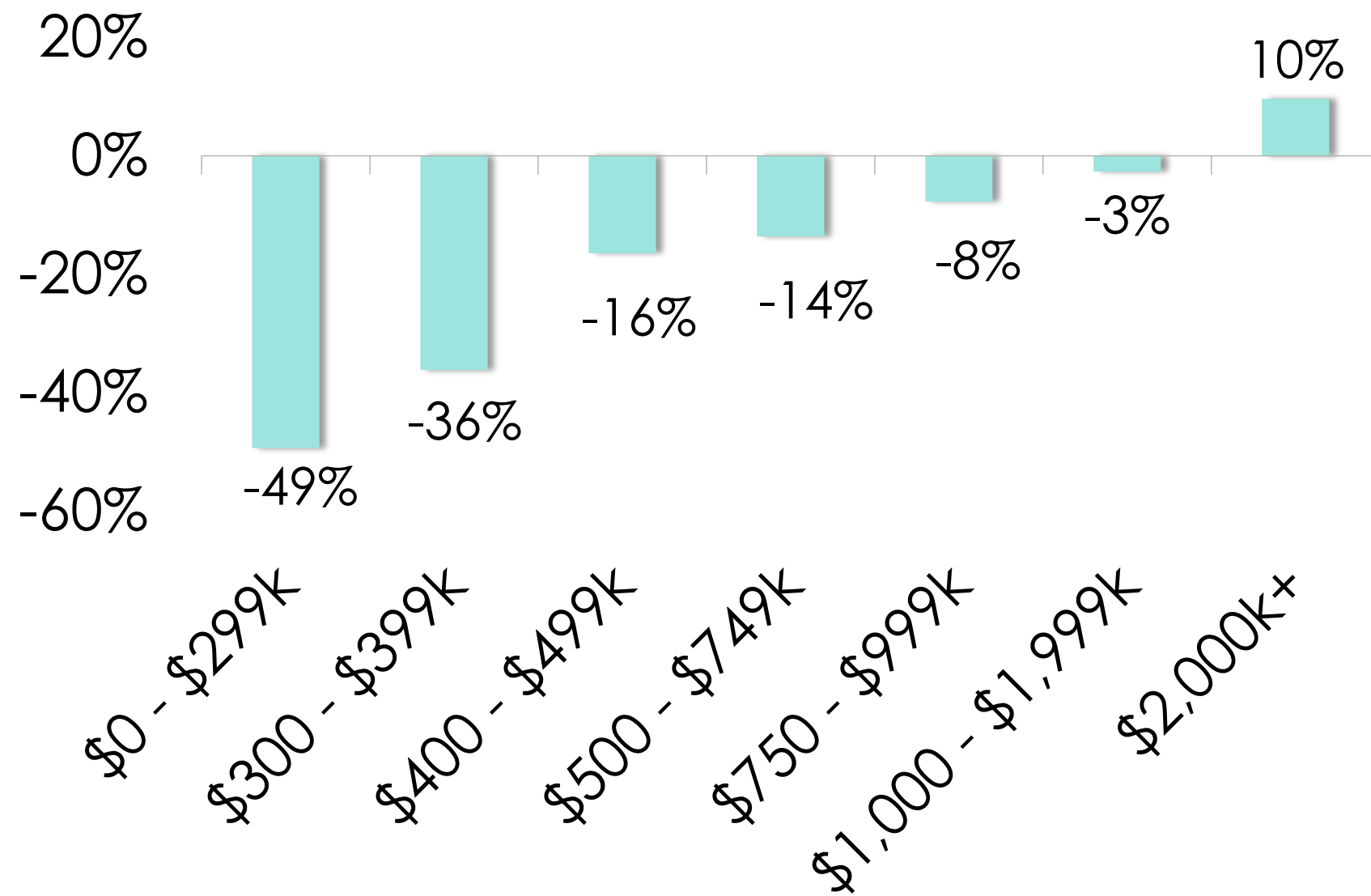
California, May 2022 Sales: **377,790 Units**, -8.9% YTD, -15.2% YTY, -9.8% MTM



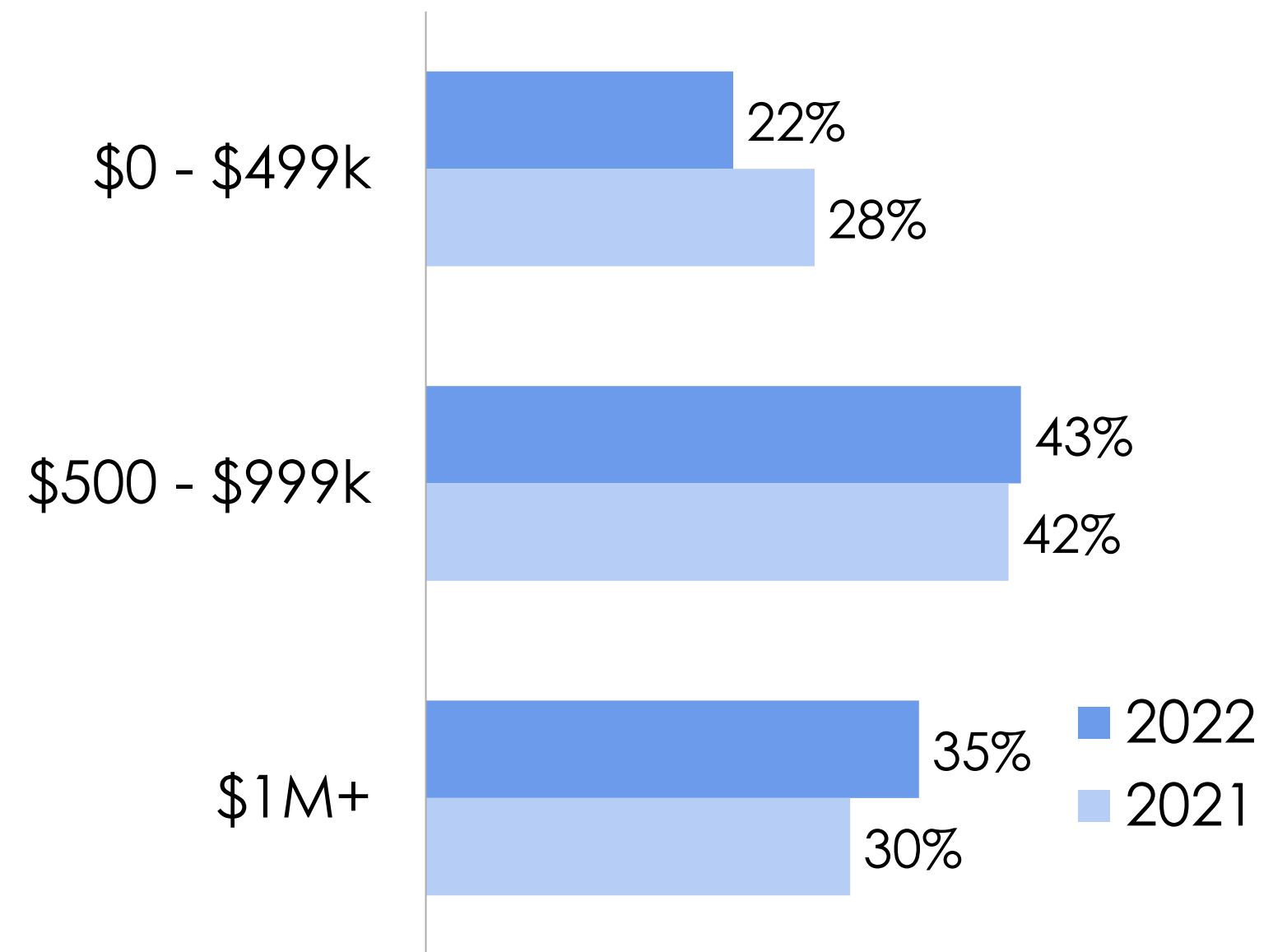
SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Upper priced segments moderated in recent months

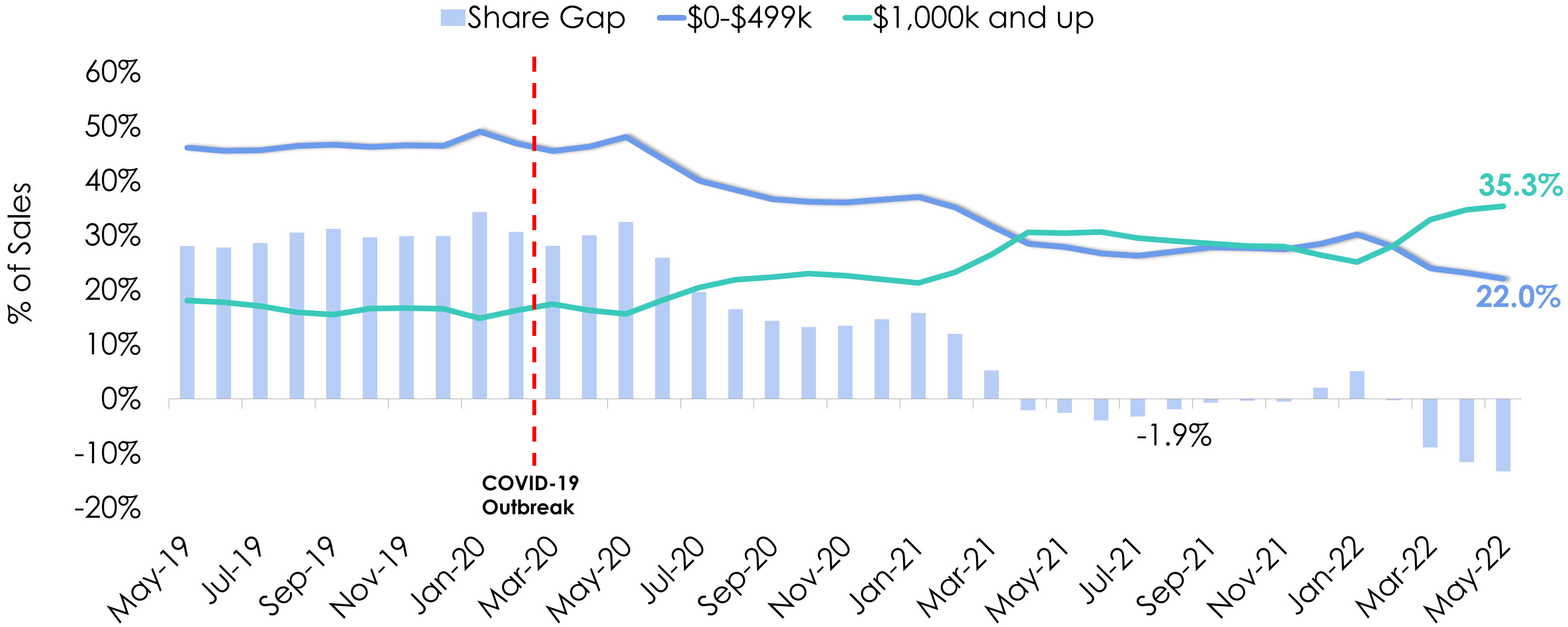
**May 2022
(YTY% Chg.)**



Share by Price Segment

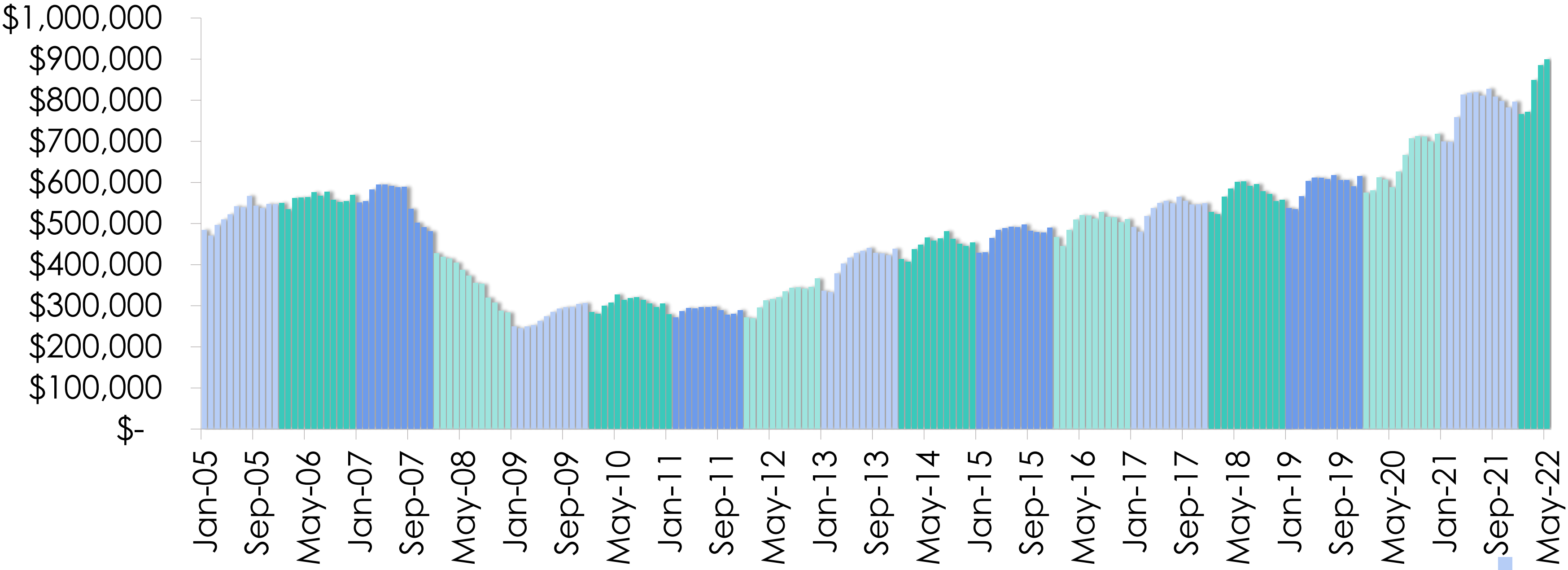


Share of million-dollar home sales reached the highest level of all time



California median home price set a new record for the third month in a row

California, May 2022: **\$898,980**, +1.6% MTM, +9.9% YTY



SERIES: Median Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

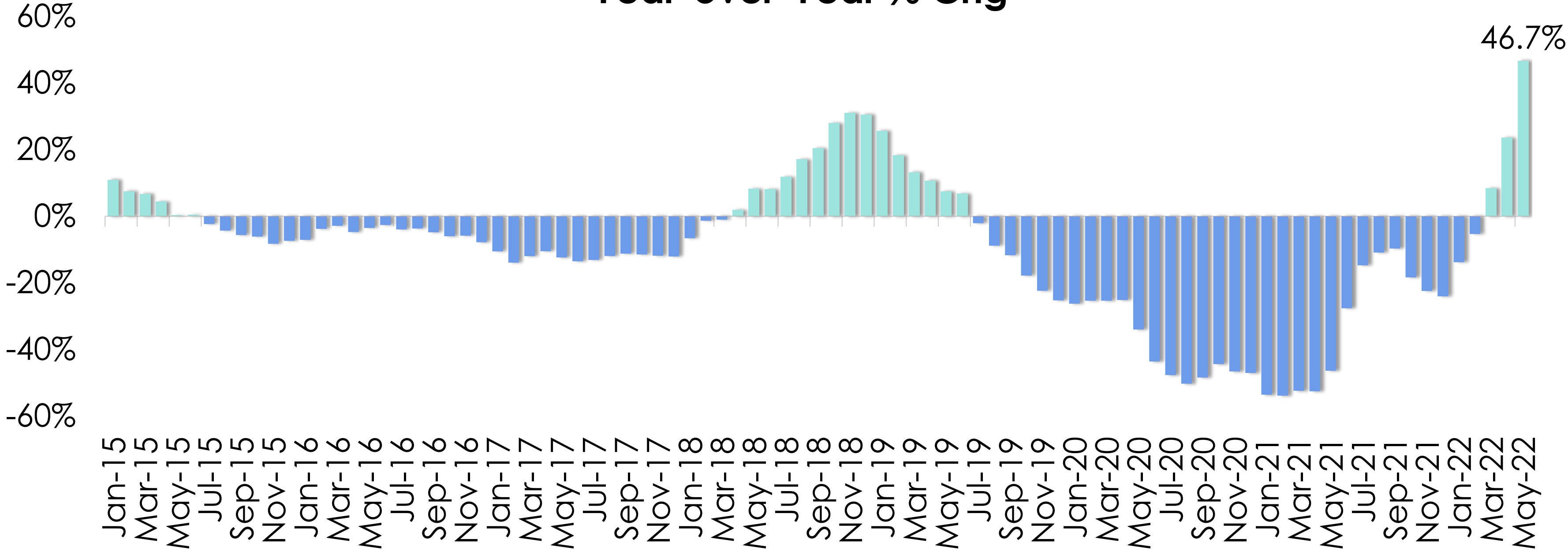
Minimum Annual Income Required – Current vs. Last Year

Region	2021 Q1	2022 Q1	CHG. in \$
CA SFH	\$131,200	\$158,000	\$26,800
CA Condo/Townhomes	\$97,600	\$126,800	\$29,200
Los Angeles Metropolitan Area	\$118,400	\$146,000	\$27,600
Inland Empire	\$86,400	\$111,200	\$24,800
S.F. Bay Area	\$210,800	\$267,600	\$56,800
US	\$58,000	\$73,200	\$15,200

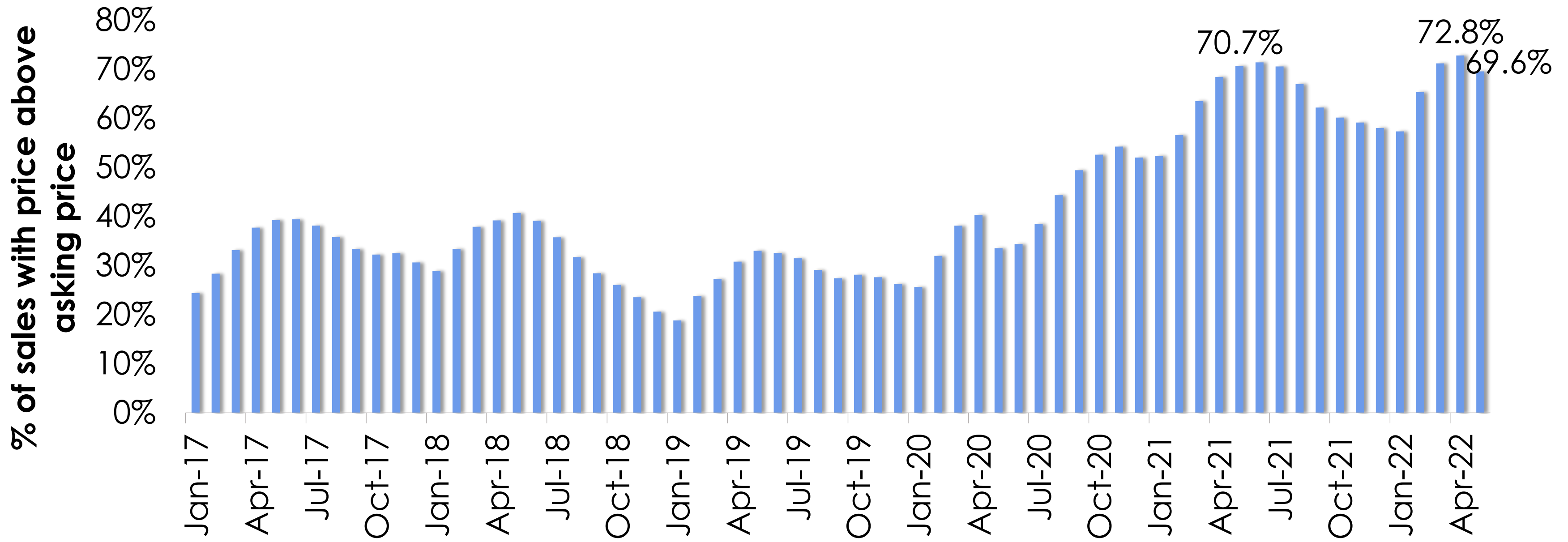
SERIES: Housing Affordability Index of Existing Detached Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Active listings had back-to-back double-digit increase

Year-over-Year % Chg



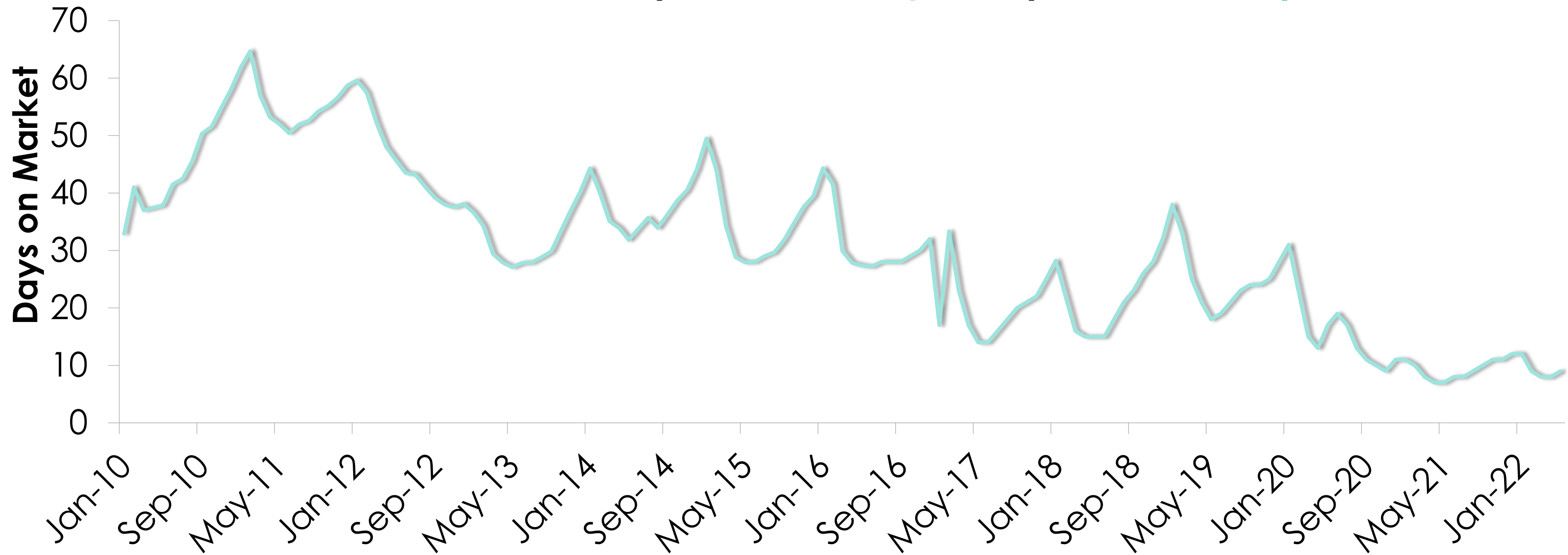
Share of homes sold above asking price dipped from last month and same month of last year



SERIES: Sales with sold price above asking price (Existing SFH)
 SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Properties stay on the market slightly longer

California, May 2021: 7.0 Days; May 2022: 9.0 Days



SERIES: Median Time of Market of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

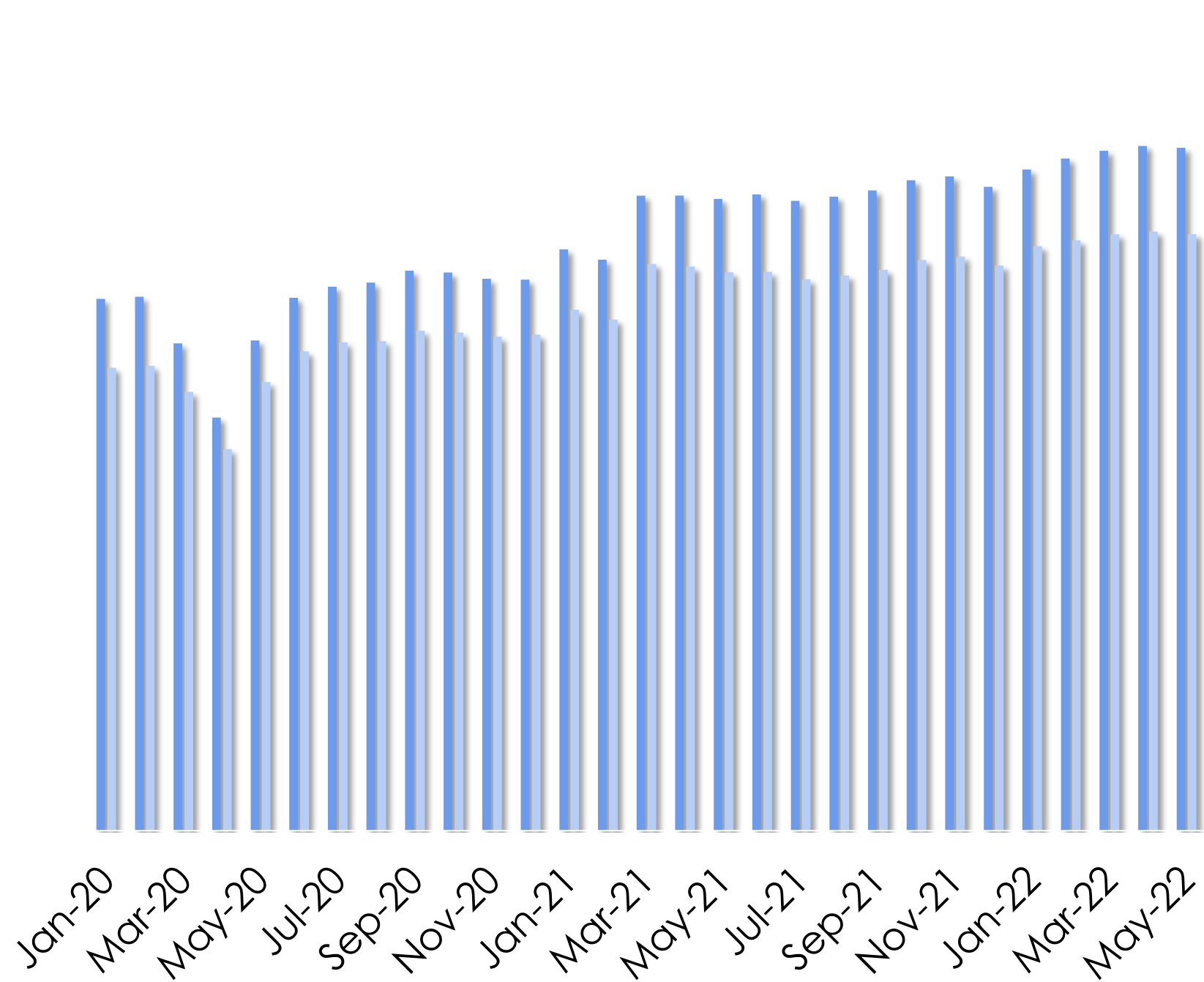


Looking Forward

Consumers are feeling the effects of rising prices

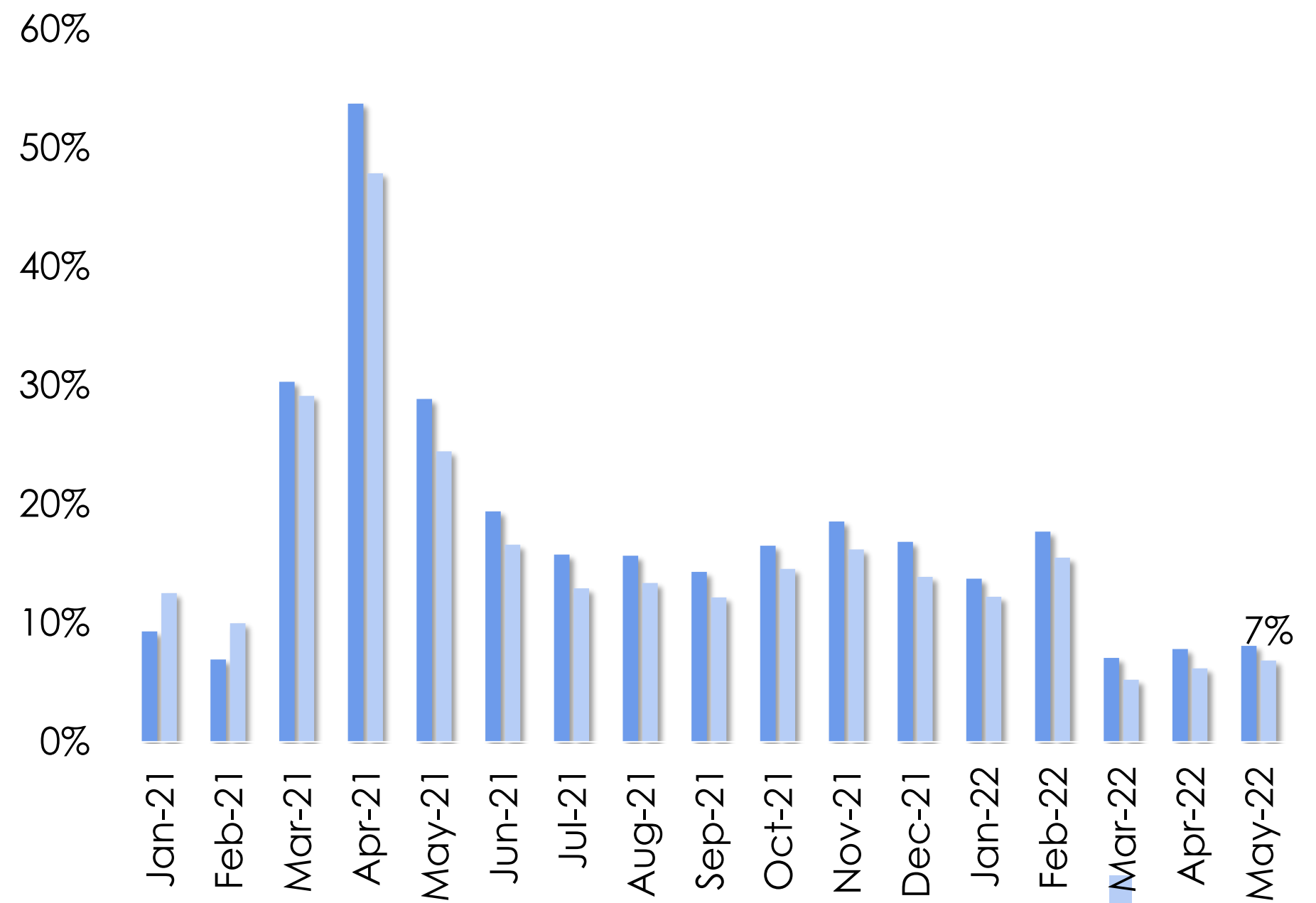
U.S. Retail Sales

■ Retail Sales ■ Retail (x Food/Autos)

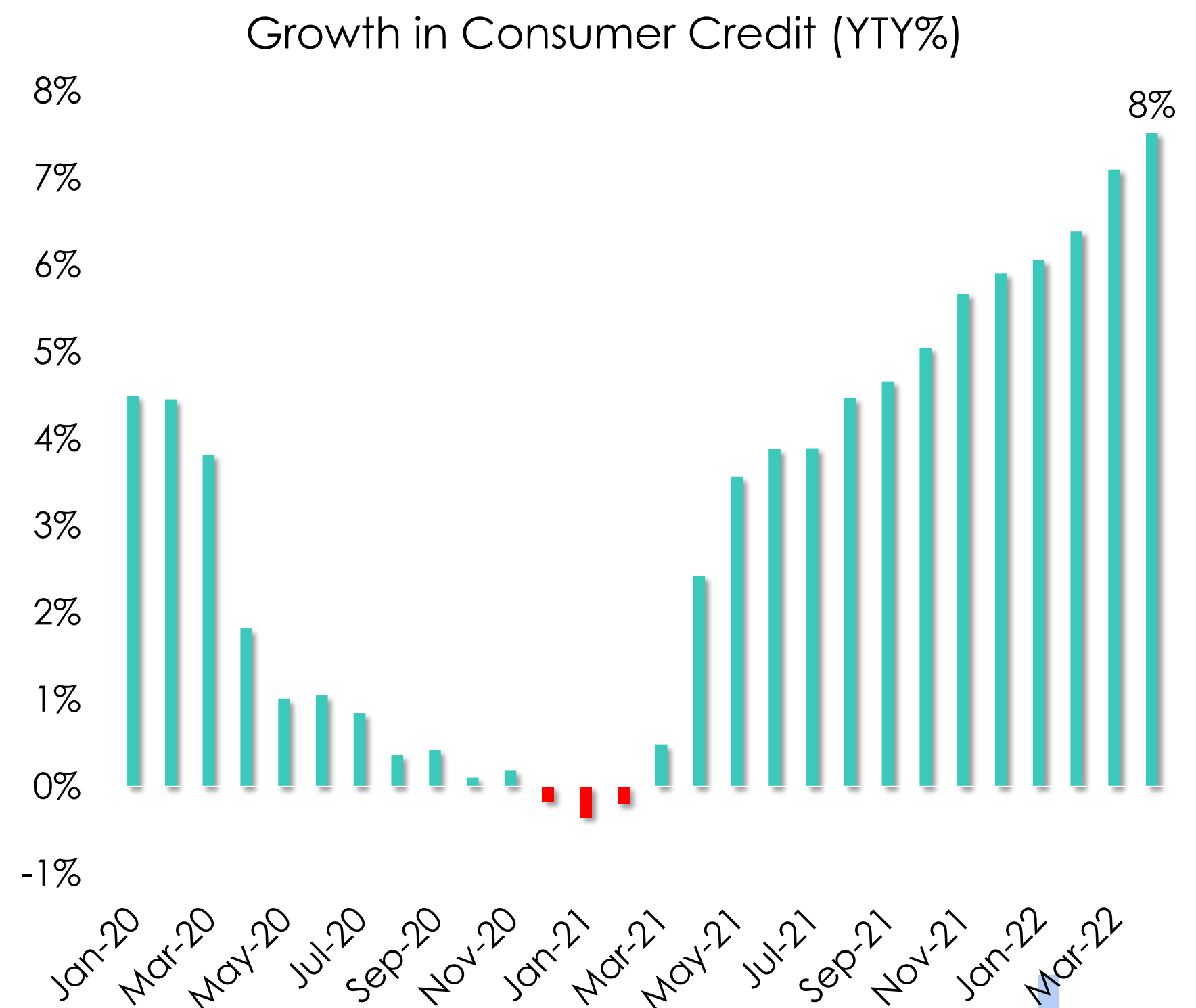
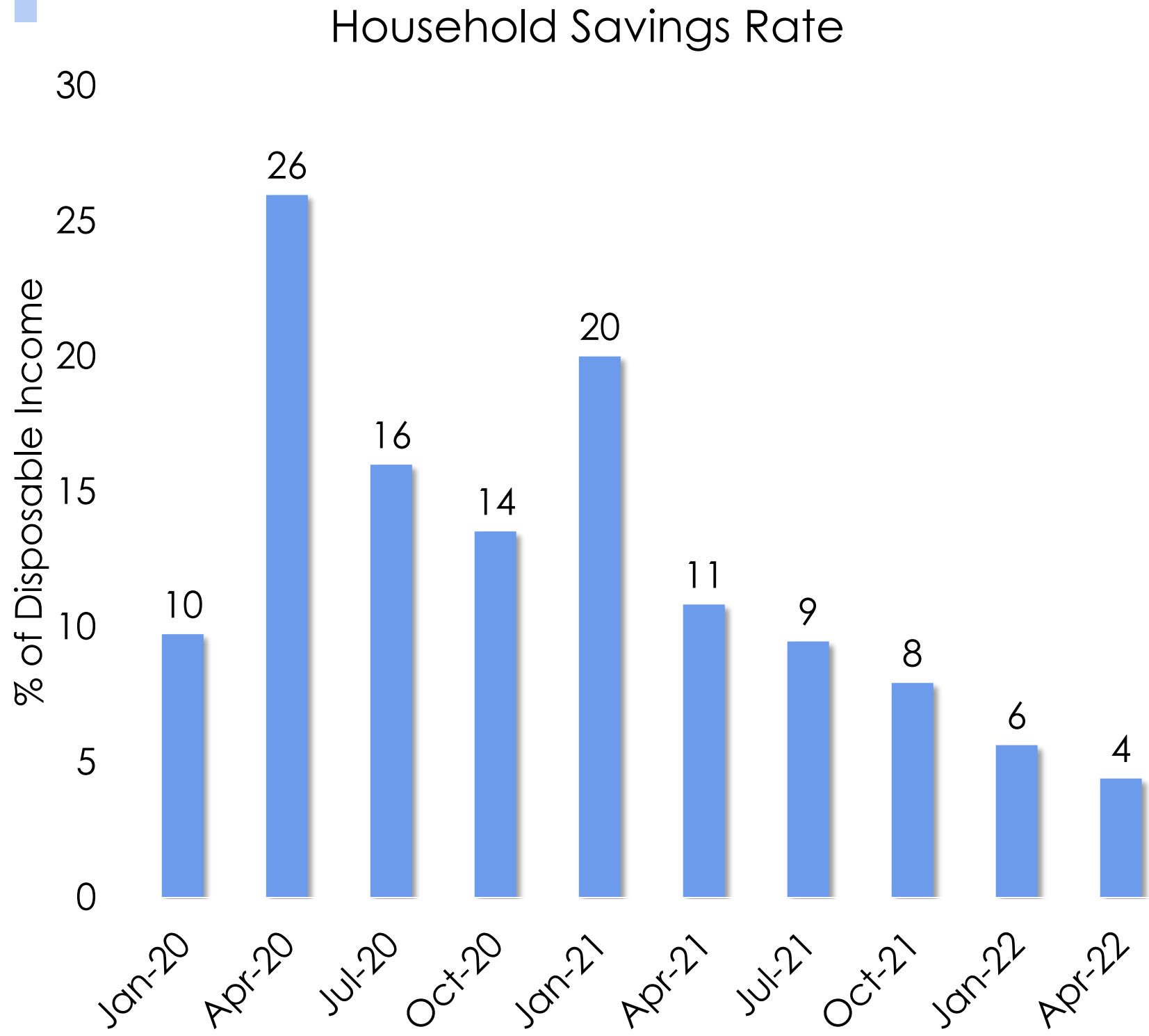


Growth in Retail Sales

■ Retail Growth ■ Retail Growth (x Food/Autos)

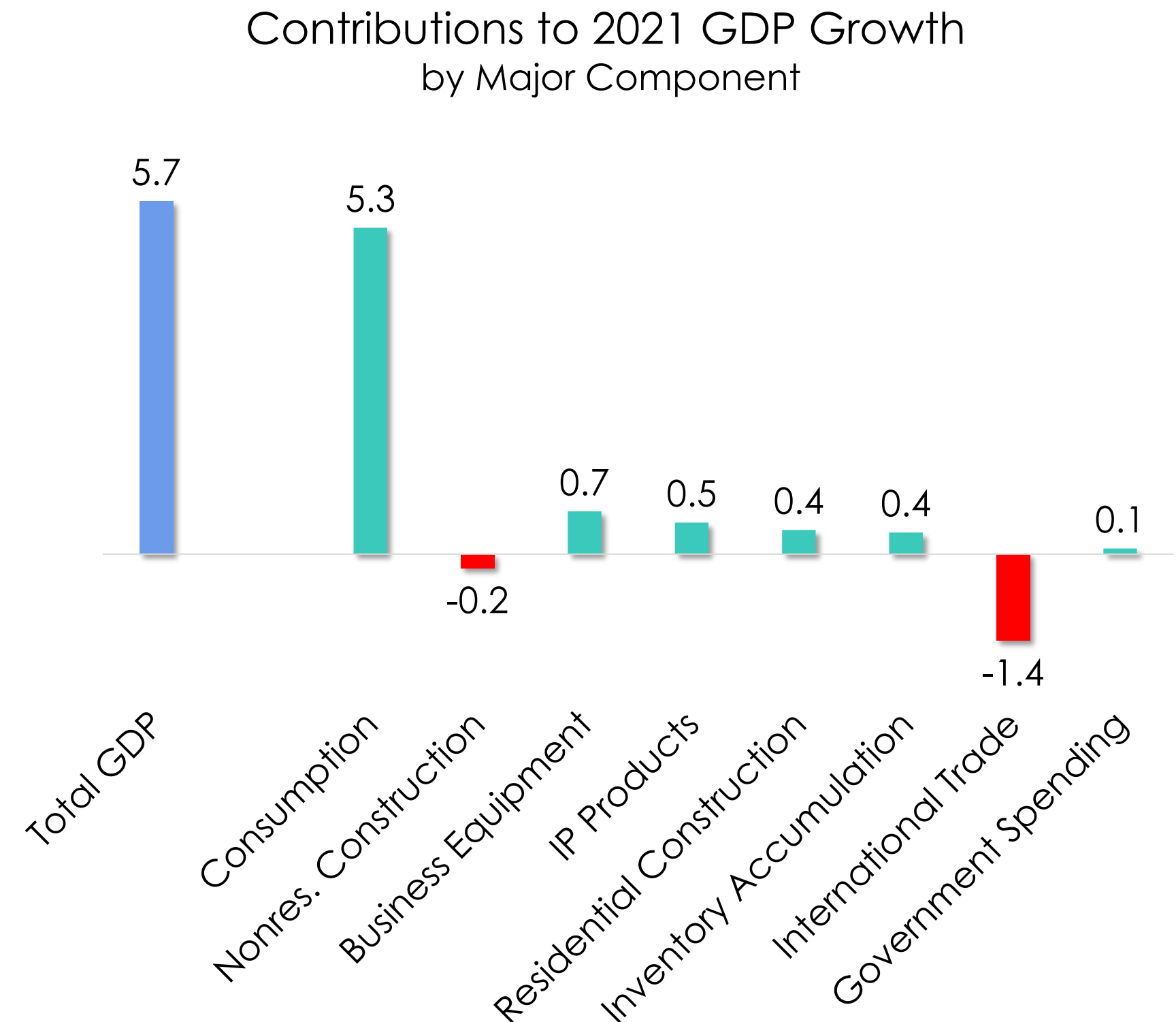


Increasingly relying on unsustainable sources for spending



Why a consumer pullback is problematic for economy

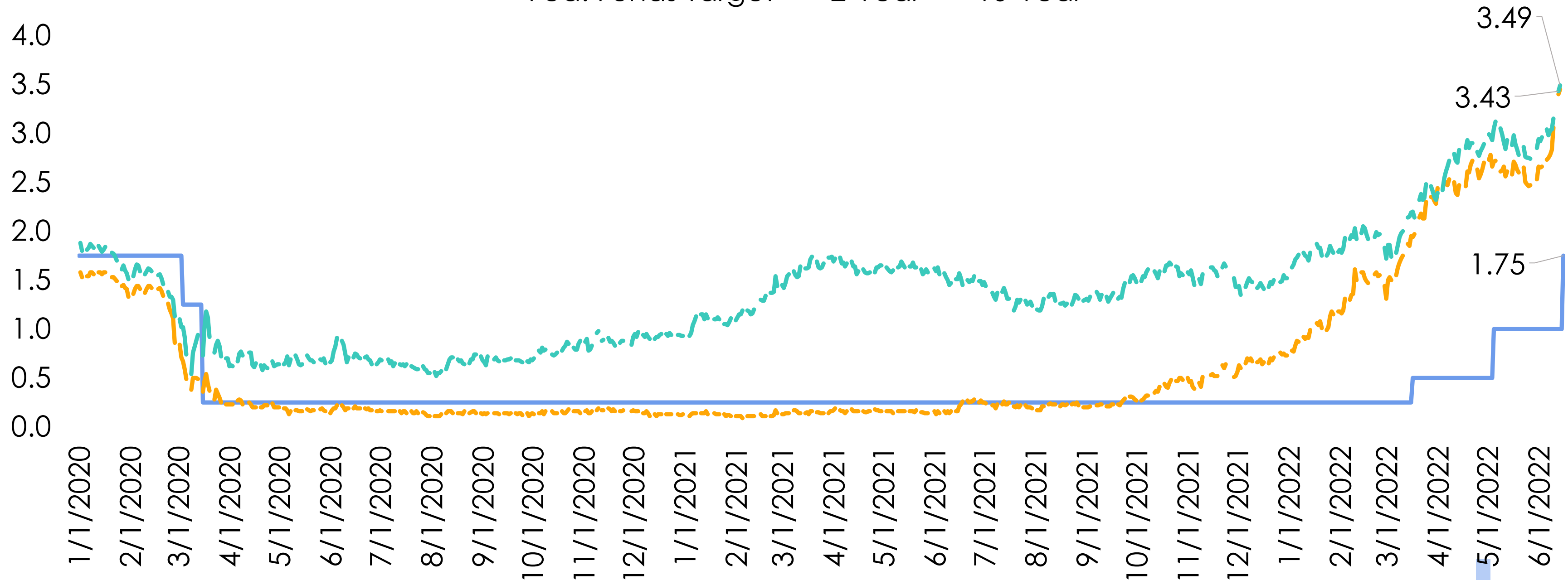
2021 Real GDP		
	\$ Billions	% of Total
Consumption	\$13,625	71%
Nonres. Construction	\$455	2%
Business Equipment	\$1,305	7%
IP Products	\$1,135	6%
Residential Construction	\$708	4%
Inventory Accumulation	(\$33)	0%
International Trade	(\$1,284)	-7%
Government Spending	\$3,376	18%



Raising risk of recession in attempt to combat inflation

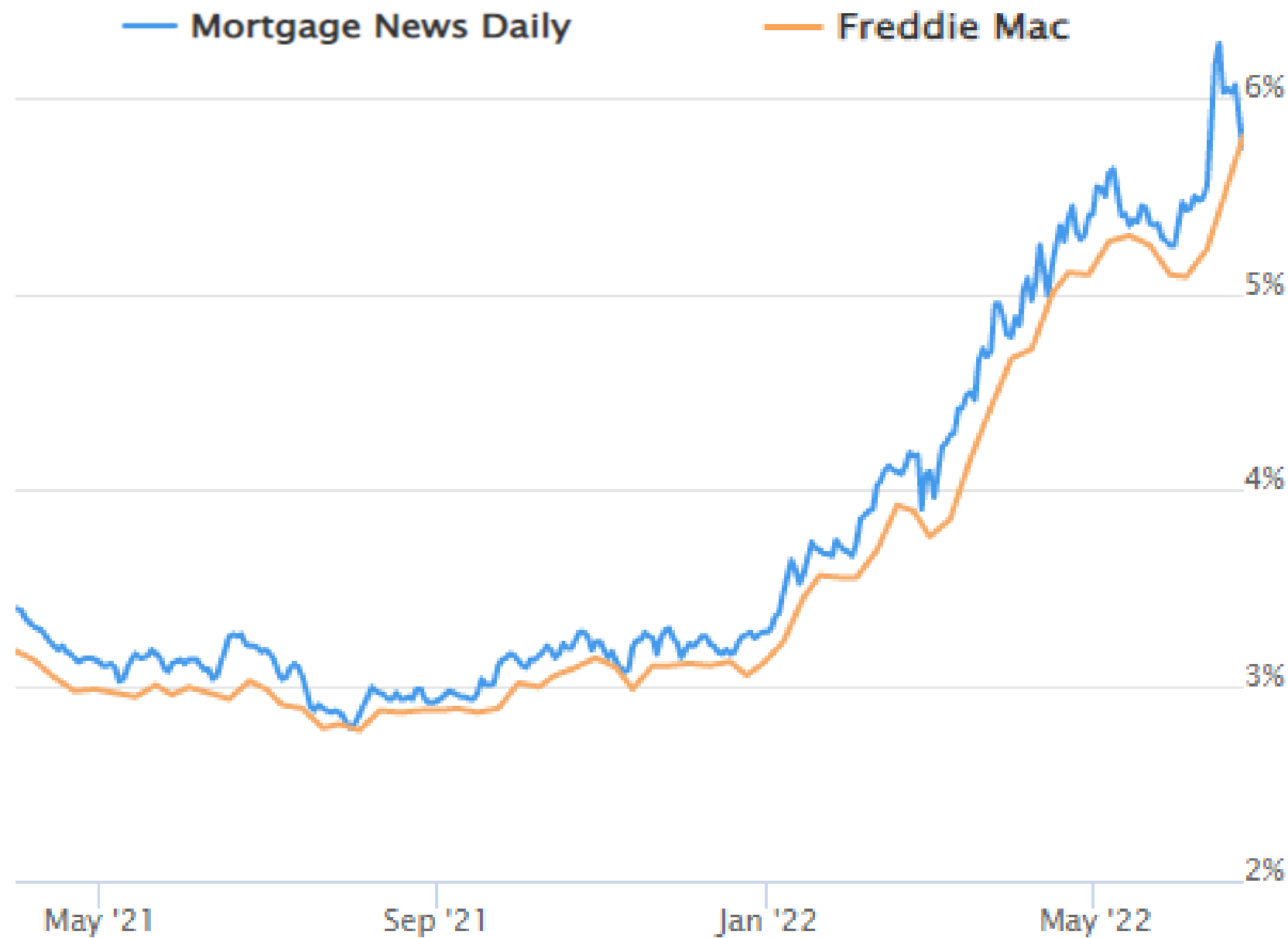
Selected Interest Rates in the U.S.

— Fed. Funds Target — 2-Year — 10-Year



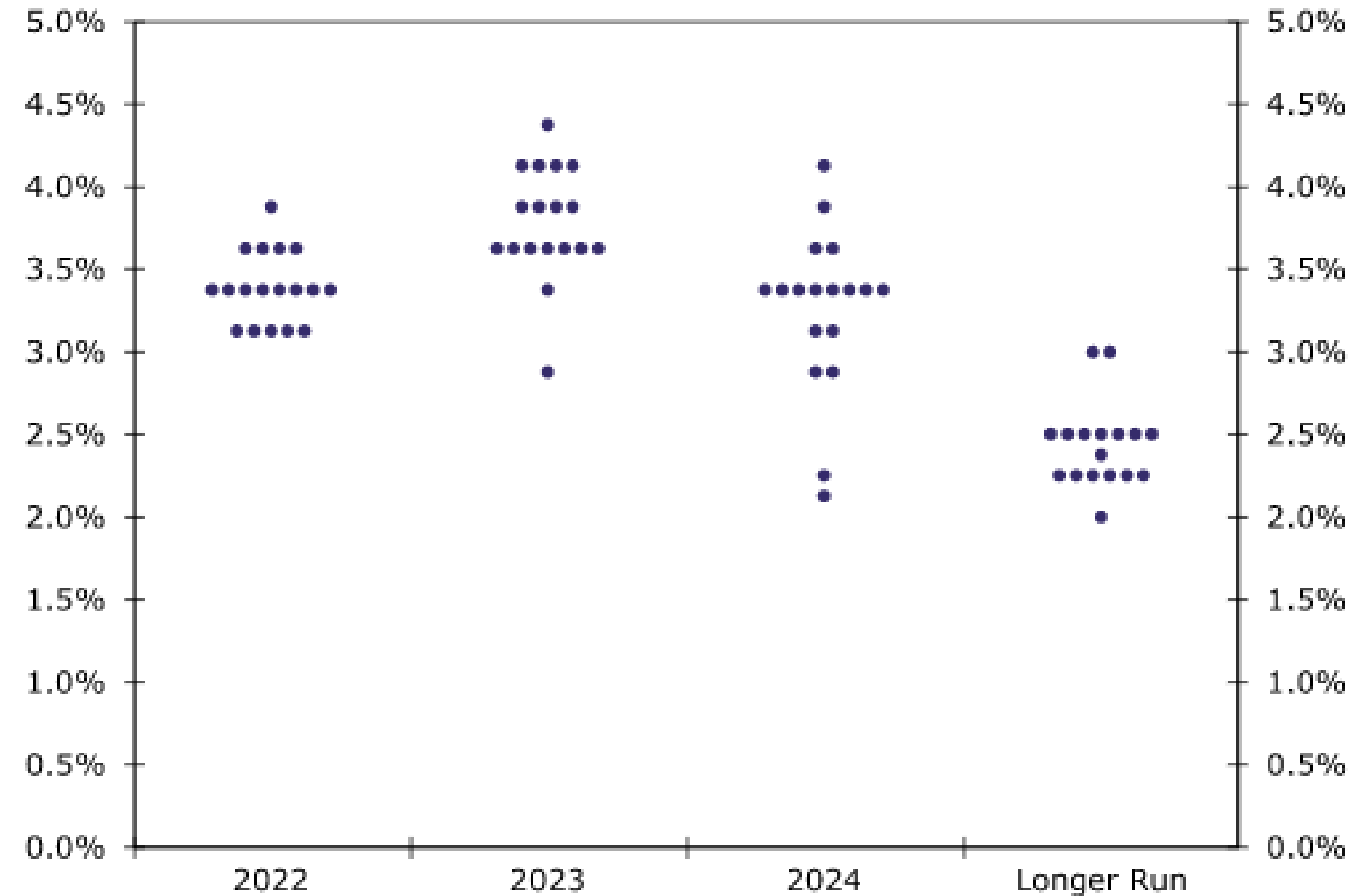
Mortgage rates came down in the past few days, but will likely climb back up again

Average 30-Yr. FRM



June 2022 FOMC Dot Plot

Expected Midpoint of Target Range for the Federal Funds Rate at Year-End

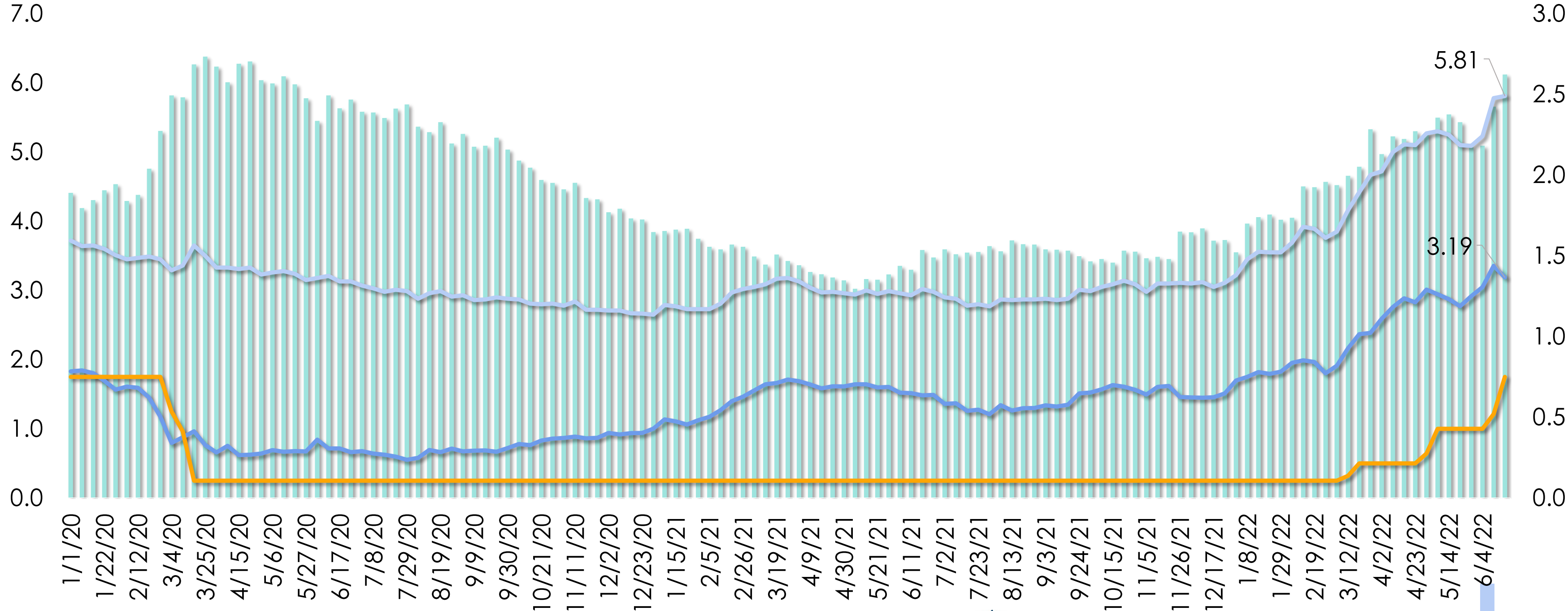


SOURCE: Freddie Mac, Federal Reserve, Mortgage News Daily, Wells Fargo

Mostly priced-in to mortgage rates, but not all the way

Key Interest Rates

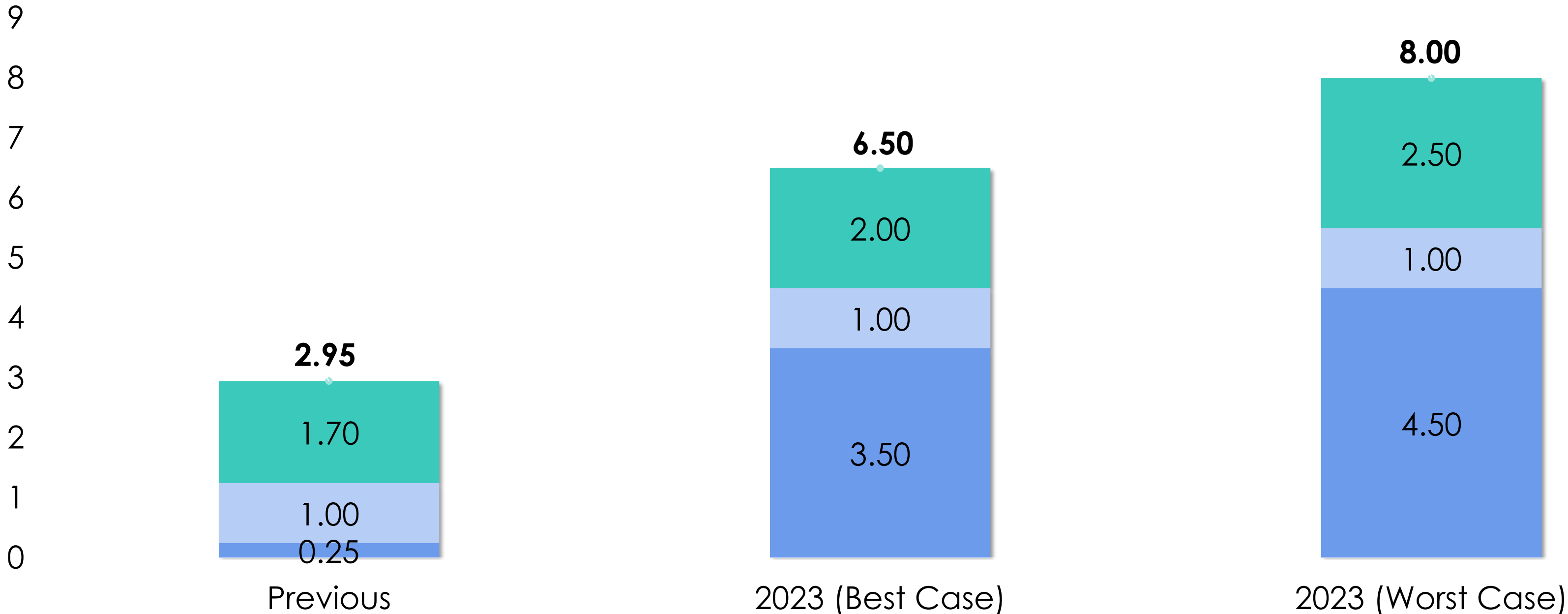
Spread 10-Yr Treasury 30-Yr FRM Fed. Funds Target



Where will rates end up when the dust settles?

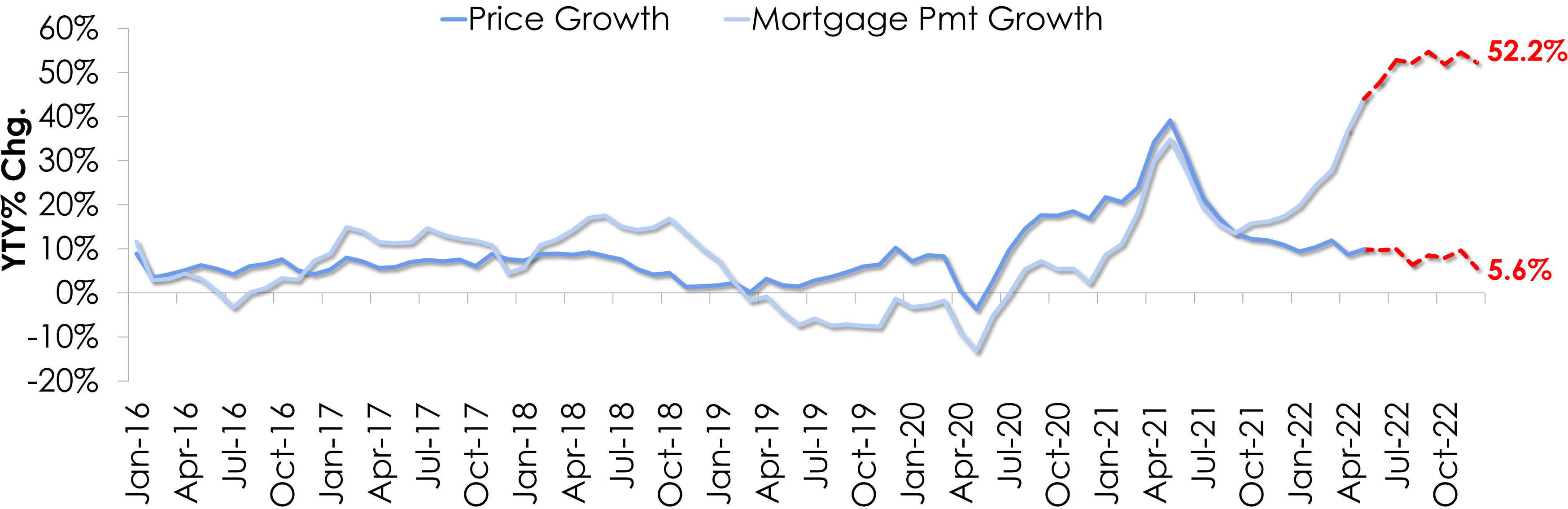
Breakdown of Mortgage Rate Components

Fed Funds Yield Curve Mortgage Spread



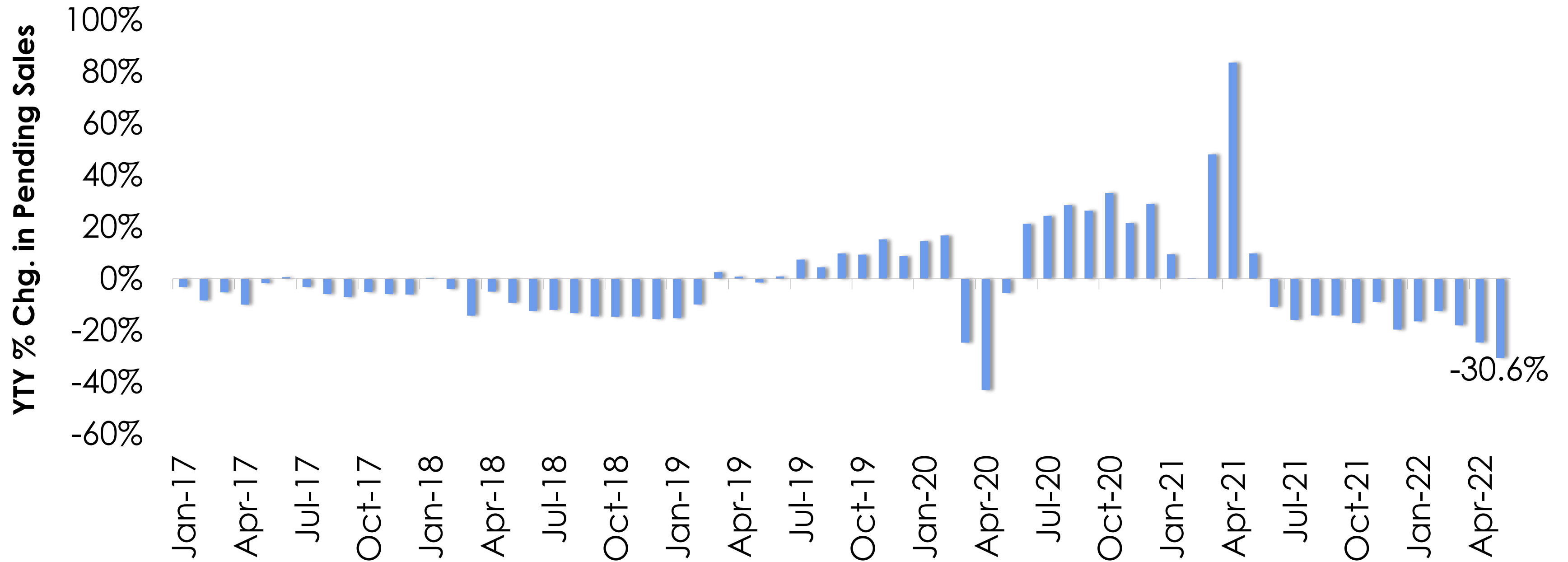
Mortgage payment up more than 50% by year-end

California Median Price vs. Mortgage Payment



SERIES: Price Growth vs. Mortgage Payment Growth
 SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Pending sales had worst decline since began

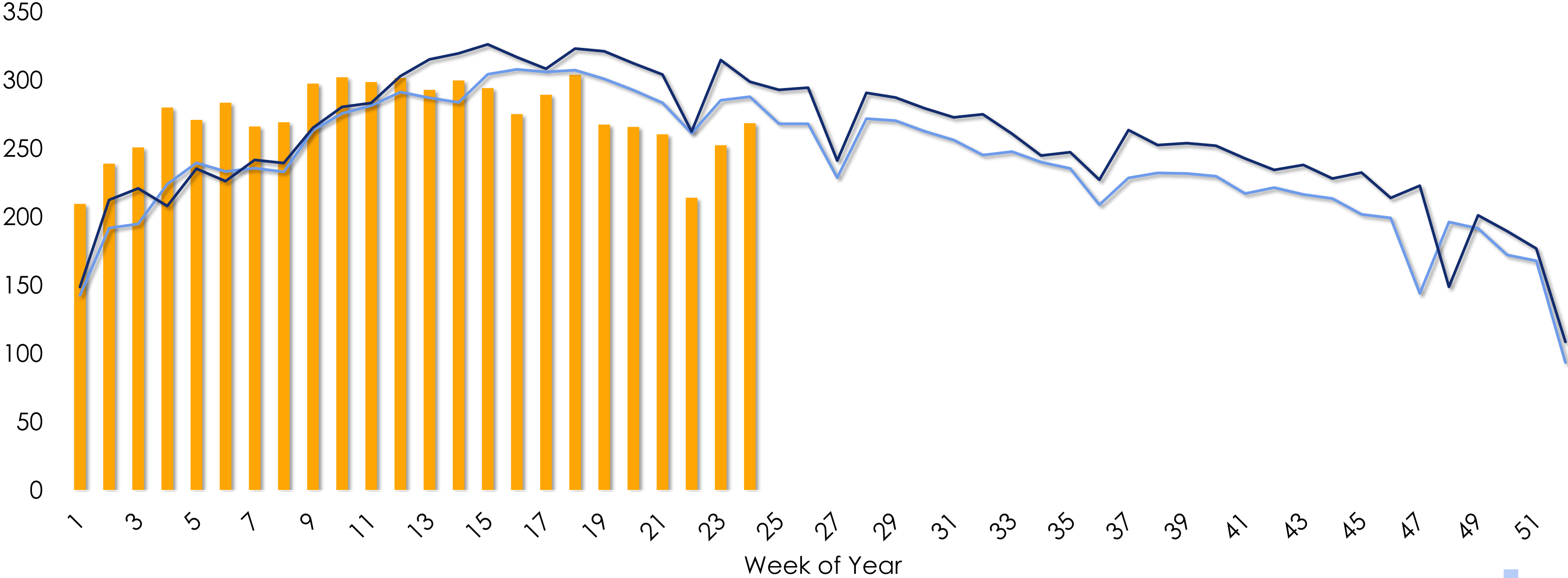


SERIES: Percent Change in Pending Sales
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

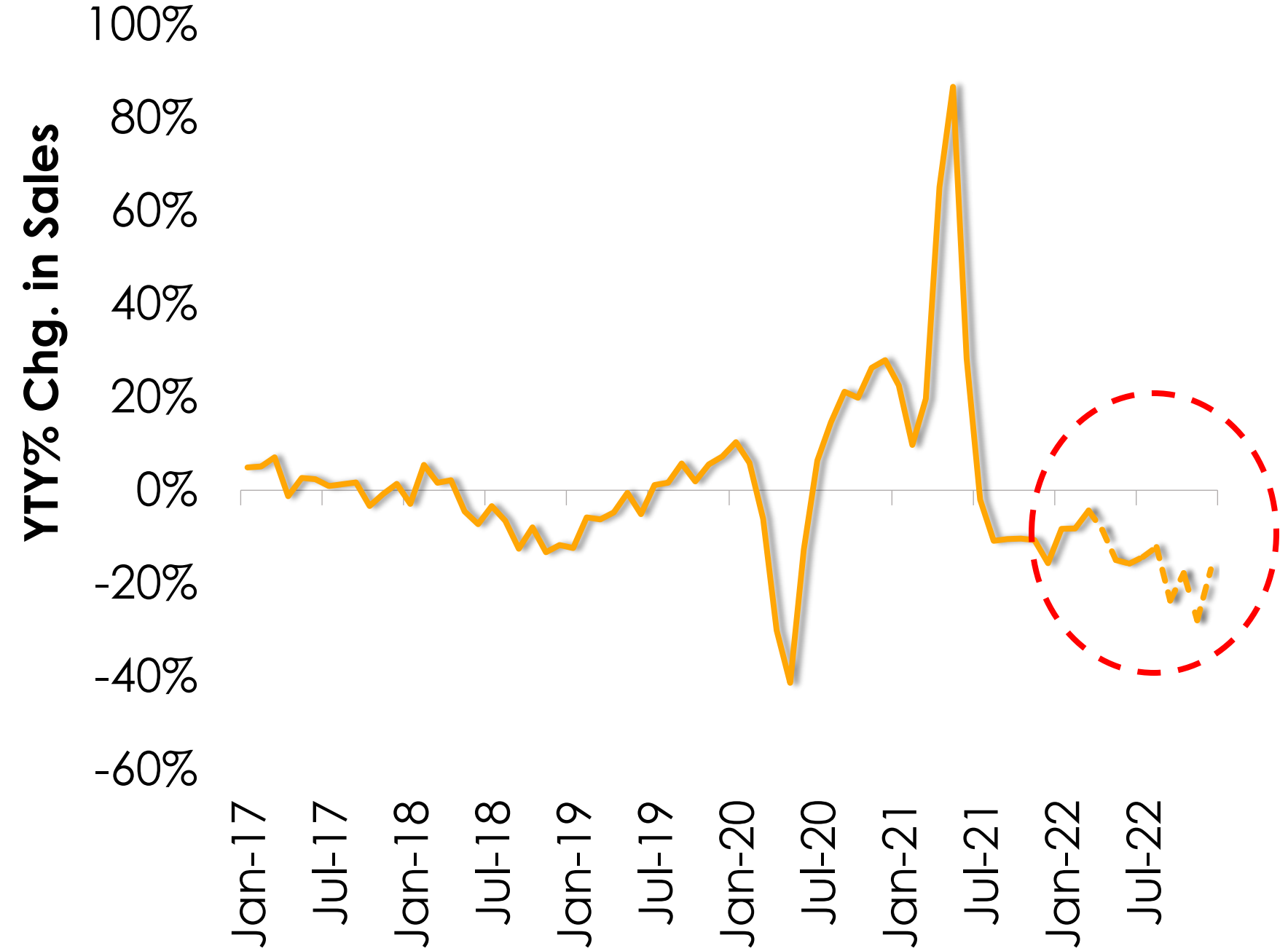
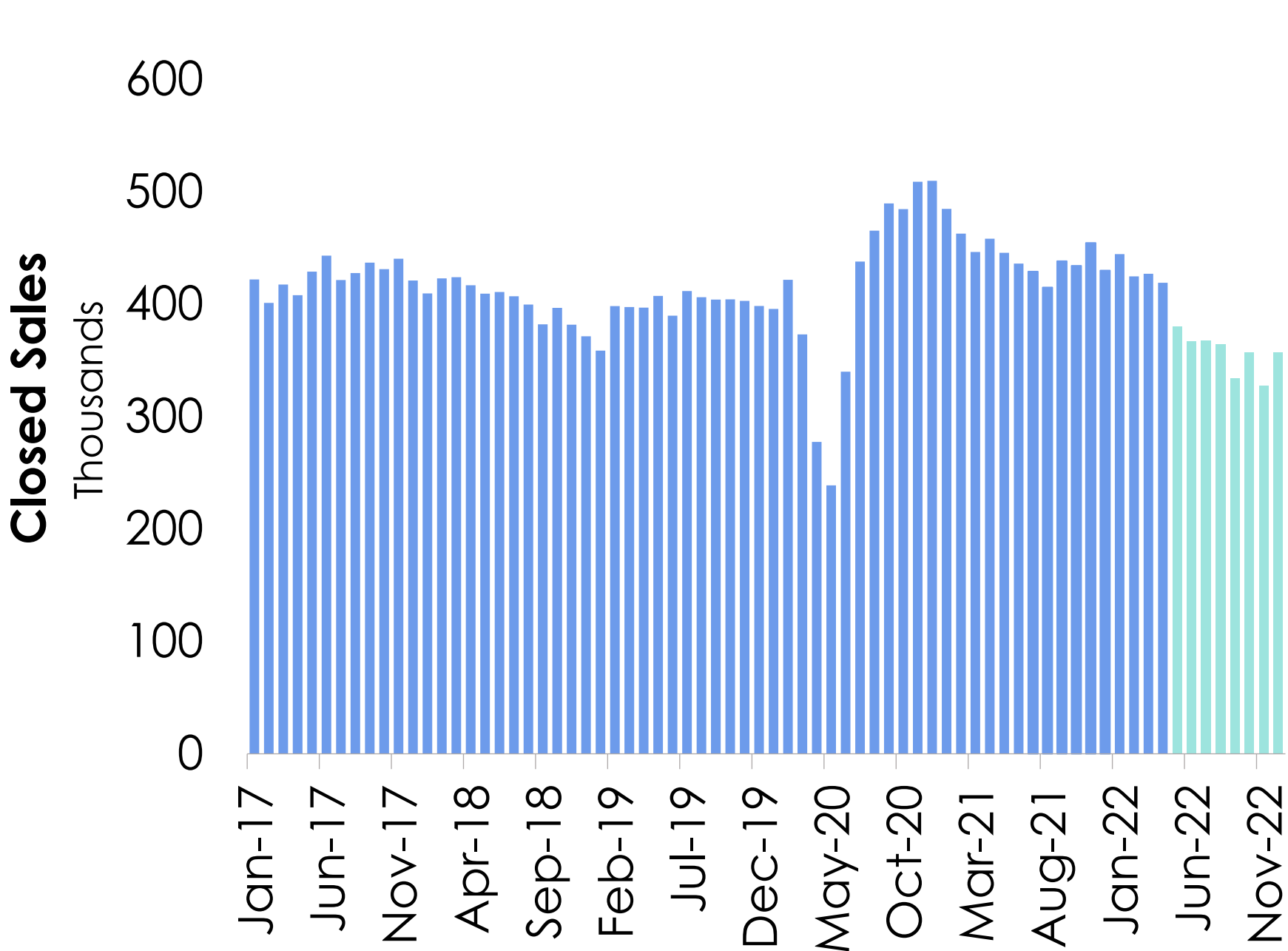
Mortgage applications dipping below pre-pandemic level

Mortgage Purchase Applications Index

2022 2018 2019

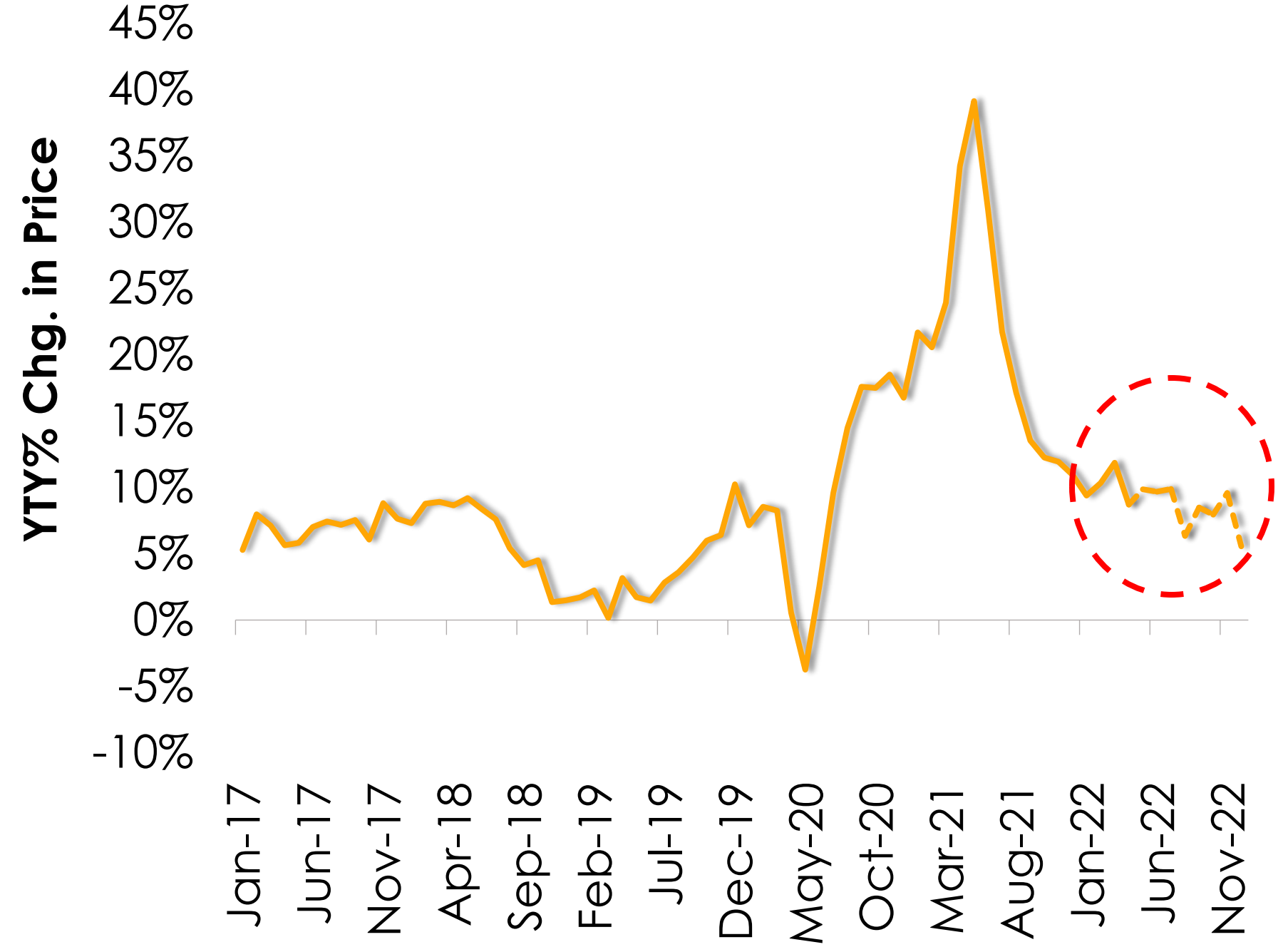
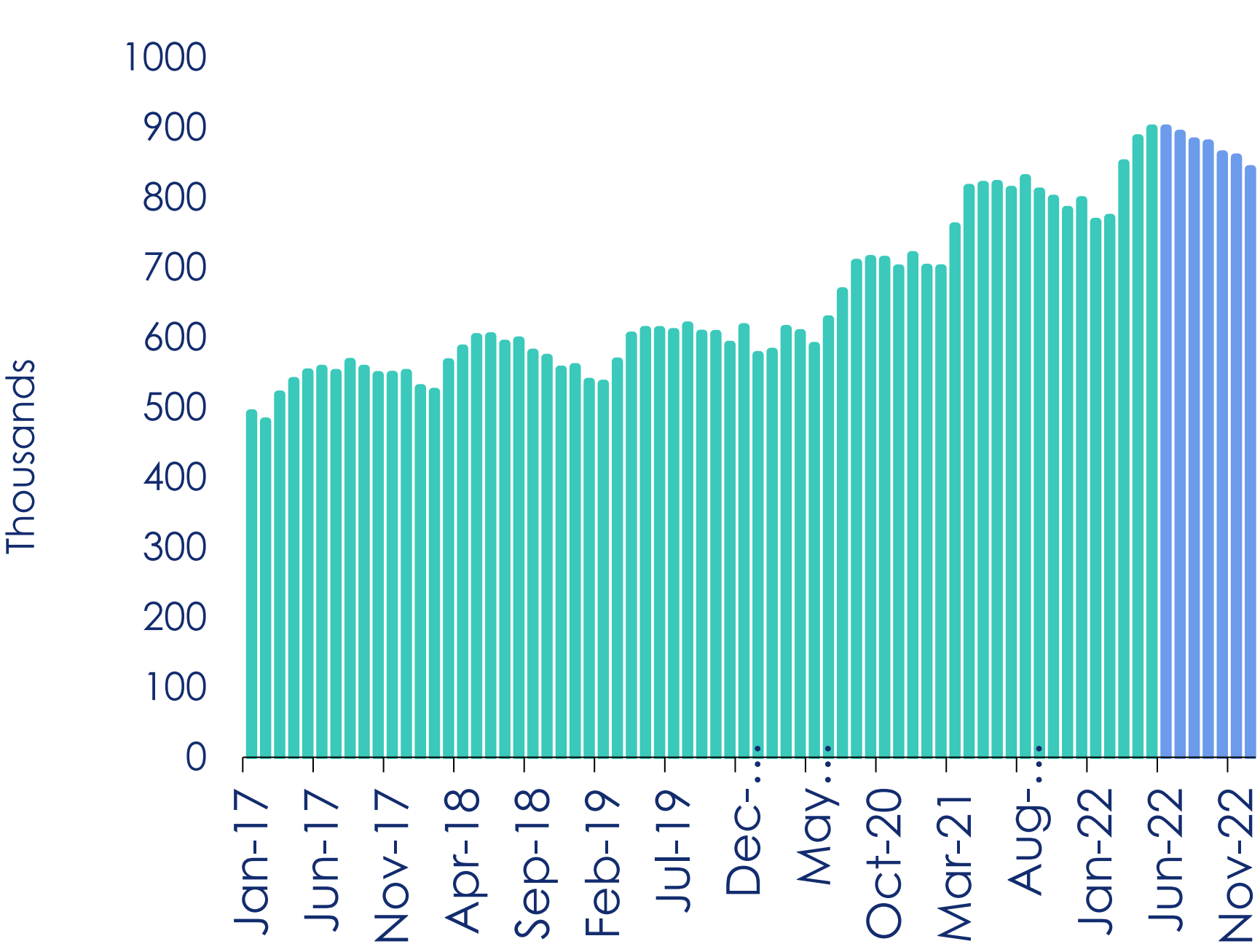


California: Sales expected to slow in H222



SERIES: Sales of Existing Single-Family Homes
 SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

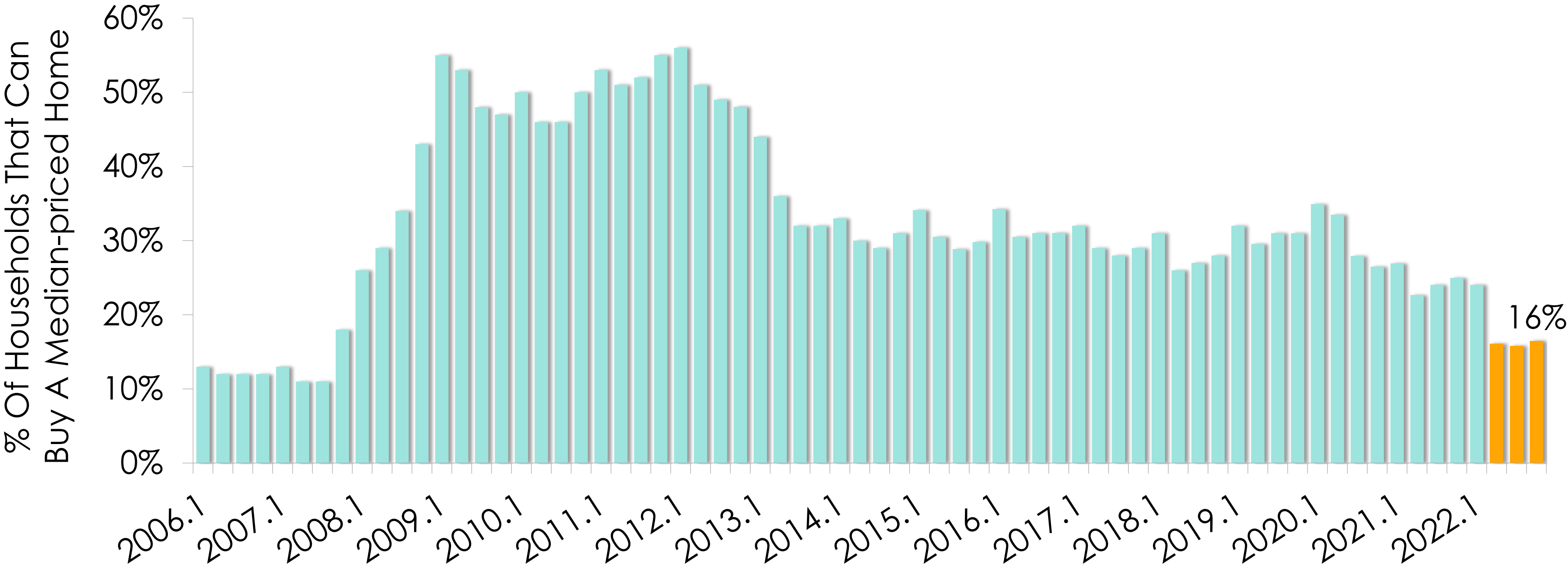
California: Median price will stay elevated with more moderate gain in H222



SERIES: Median Price of Existing Single-Family Homes
 SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

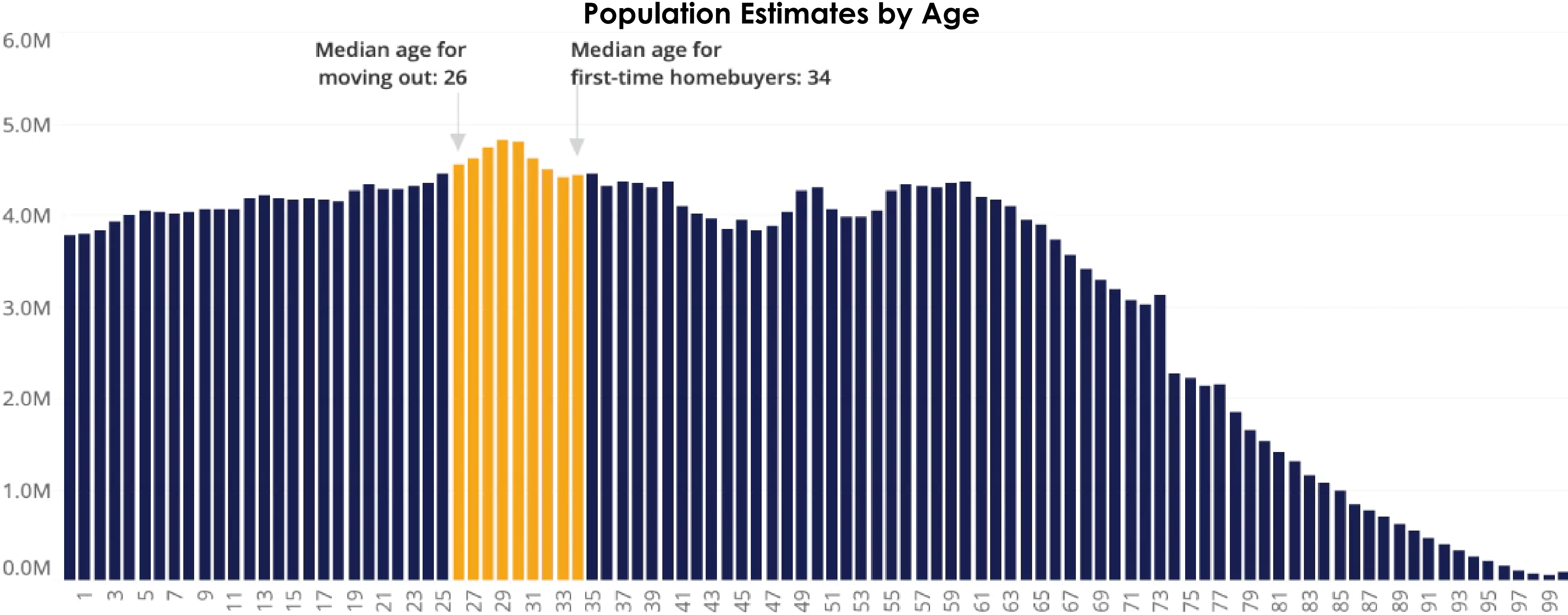
Affordability to decline to the lowest level since 2007

California: 2006-2022



SERIES: Housing Affordability Index of Traditional Buyers
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Many potential homebuyers enter prime home buying age



SOURCE: National Population Estimates, U.S. Census Bureau, Population Division, June 2020

U.S. economic outlook

	2016	2017	2018	2019	2020	2021	2022p	2023f
US GDP	1.6%	2.3%	3.0%	2.2%	-3.5%	5.7%	2.1%	1.0%
Nonfarm Job Growth	1.8%	1.6%	1.6%	1.3%	-5.7%	2.8%	3.3%	1.1%
Unemployment	4.9%	4.4%	3.9%	3.7%	8.1%	5.4%	3.6%	3.7%
CPI	1.4%	2.1%	2.4%	1.8%	1.2%	4.7%	7.6%	3.4%
Real Disposable Income, % Change	2.7%	2.9%	4.0%	2.9%	5.8%	2.2%	-4.1%	2.2%



California economic outlook

	2016	2017	2018	2019	2020	2021	2022p	2023f
Nonfarm Job Growth	2.3%	2.1%	2.1%	1.5%	-6.9%	3.2%	4.4%	1.8%
Unemployment	5.5%	4.8%	4.3%	4.1%	10.3%	7.4%	4.7%	4.3%
CA Population (Million)	39.4	39.5	39.6	39.6	39.5	39.5	39.5	39.5
Population Growth	0.6%	0.4%	0.2%	0.1%	-0.5%	-0.1%	0.1%	0.0%



California housing market outlook

	2015	2016	2017	2018	2019	2020	2021	2022p	2023f
SFH Resales (000s)	409.4	417.7	424.9	402.6	398.0	411.9	444.5	380.6	360.3
% Change	7.0%	2.0%	1.7%	-5.2%	-1.2%	3.5%	7.9%	-14.4%	-5.3%
Median Price (\$000s)	\$476.3	\$502.3	\$537.9	\$569.5	\$592.4	\$659.4	\$786.7	\$863.4	\$801.9
% Change	6.6%	5.4%	7.1%	5.9%	4.0%	11.3%	19.3%	9.7%	-7.1%
Housing Affordability Index	31%	31%	29%	28%	31%	32%	26%	18%	18%
30-Yr FRM	3.9%	3.6%	4.0%	4.5%	3.9%	3.1%	3.0%	5.2%	6.2%





Thank You

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