As the phase 2 reopening entered its second month in California, the recovery is proceeding at a cautious pace. While the rebound in the economy is uneven, the housing market continues to exhibit strength and remains one of the most promising sectors, poised to lead the economy forward. Despite home sales declining more than 30 percent in both April and May, the surge in recent market activity fueled by record low mortgage rates suggest that the market will recover some ground in the coming months.

The recovery will take time – Latest update from UCLA Anderson Forecast painted a slightly less optimistic picture for the economic recovery. In their model U.S. GDP will drop 42 percent in the current quarter, follow by a growth of 11 percent in Q320, and another increase of 7.6 percent in Q420. The year 2020 is expected to decline 8.6 percent from the prior year, but the economy will bounce back in both 2021 and 2022. It will take time to return to the pre-COVID level of activity. The recovery will begin in the summer, but the pace will be tentative as economic and pandemic uncertainties remain in play for the rest of the year.

Fewer new claims for unemployment assistance – As states reopened and the economy started its phased re-opening, many Americans remained unemployed. While the number of continuing claims for the week ended June 13 has stabilized, the initial claims for unemployment insurance still totaled more than 1.5 million and remained at historically high levels. Continuing claims – those who have been receiving unemployment benefits for at least two weeks – fell by 62,000 to 20.5 million. The smaller than expected decline reflects some moderation in the pace of re-opening.

Foreclosure and eviction moratorium extended – With some borrowers at risk of losing their home due to the pandemic-induced economic disruption, the Federal Housing Finance Agency (FHFA) and the Federal Housing Administration (FHA) are extending their foreclosure and eviction moratorium for two months. This moves the new expiration date from June 30, 2020 to August 31, 2020. The moratorium applies to single-family mortgages backed by Fannie, Freddie, and FHA.

Lower home sales for May, but strong bounce back expected – The shutdown, along with the economic uncertainty and the deterioration of the labor market, dragged the U.S. housing market down further in May. Sales of existing home in the U.S. dropped 9.7 percent from April to 3.91 million. On a year-over-year basis, sales were down 26.6 percent from 5.33 million in May 2019. May sales are expected to be the cyclical bottom with NAR predicting that sales will rebound strongly in the coming months.

Demand for new homes remains solid - After falling 25 percent during the prior three months, new home sales jumped 16.6 percent in May. New home sales have held up better than existing home sales as there are fewer restrictions on showings. Over the past month, buying conditions rebounded sharply as interest rates remain low and the job market continues to improve. The South & West account for the bulk of new home sales' gains, reflecting the migration to more affordable markets. With year-to-date sales through May running 1.9 percent ahead of last year, inventories remain tight. There were just 312,000 new homes for sale at the end of May, which was down 6.6 percent from one year ago.

Mortgage rates hitting all time low – Mortgage rates continue to drop and reached another all time low. 30 year fixed-rate mortgage averaged 3.13 percent in the week ending June 18, 2020, the lowest rate in Freddie Mac survey history which dates back to 1971. The record-low rate is 0.8 point down from the prior week and is much lower than the average 3.84 percent the same time a year ago. With the Federal Reserve committed to buying huge amounts of Treasuries and mortgage-backed bonds, rates could stay near the record low for the immediate future.

Increase in mortgage applications suggests better months ahead – Despite high unemployment and economic uncertainty, the purchase market remains strong as mortgage rates continued to set new record lows in recent weeks. Purchase Index decreased 4 percent compared with the previous week and was 18 percent higher than the same week one year ago. Activity has climbed above year-ago levels for five straight weeks and was 18 percent higher than a year ago as of last week.

Pent-up demand is slowing but remains solid - Pending sales surged ahead by 67 percent in May but also had also had their first weekly decline in June. The weekly decline was small (1.6 percent) but the moderation could be a signal of market downshifting as the market slowly transitions into the off-season. Meanwhile, the number of homes sold per day in California inched up last week but the pace of growth is also slowing.

Tight supply could slow the momentum - Whether the sales momentum is sustainable or not depends on inventory. While new active listings have improved significantly from early April, fewer properties have been added to the market in the past two weeks and tight supply conditions expected to continue. On the flip side, these same supply constraints have been keeping housing prices relatively flat overall. Median price per square foot for homes sold in the latest week improved again on a week-to-week basis, and it continued to increase more than three percent for third consecutive week.

Coronavirus weekly member survey - Uncertainty continues to play a role in buyers' decision to purchase since mid-March, as 11 percent of REALTORS® had a buyer withdraw an offer on a home last week, a slight increase from 9 percent the week before. On the other hand, sellers are feeling more positive about the market as it begins to heal. Eighteen percent of respondents had a seller remove their home from the market last week, which was a decline from 24 percent in late May. Consumers begin to feel more confident about the housing market and adjust to the new reality as the economy slowly returns to normal.

With the Federal Reserve committed to buying huge amounts of Treasuries and mortgage-backed bonds, and the economic outlook in the short term likely to remain cautious and less than upbeat, mortgage rates will stay near record lows in the immediate future. Low rates will motivate qualified buyers to enter the market and will hopefully continue the momentum of pent-up demand. While it is still a long way from "normal", the market is stronger than even a few weeks ago. The economy may take two to three years to return to pre-COVID levels of activity, but we fully expect the housing market to lead the way.