Signs of economic optimism continued to persist last week, particularly with respect to the housing market. REALTORS® are feeling more optimistic, buyers still want to buy, and rates remain very favorable. However, the recovery is running into headwinds that have increased uncertainty about the future with key, fundamental indicators like jobless claims and consumer confidence both moving in the wrong direction. We continue to remain optimistic about the recovery, but have grown more cautious in recent weeks.

Buyer demand remains robust: Although the economy has suffered a few setbacks in recent weeks, demand for housing remains strong as mortgage applications for new purchases increased by more than 20% on a year to year basis last week. This was a slight decline from the previous week as the homebuying season begins to fade towards the end of July, but it was an acceleration compared to the same point in 2019. Record-low interest rates are likely compounding the urgency for buyers that has already been created by interest in housing that better meets their needs in a lockdown environment.

Sellers more positive in weekly survey of REALTORS®: Sellers took a big step back during the onset of the crisis, with the percentage of consumers who respond to our monthly Housing Sentiment Index say that it was a good time to sell falling by more than half in March and April. However, those numbers have rebounded for 3 consecutive months. In addition, just 16% of REALTORS® surveyed over the weekend reported that they had a seller remove their home from the MLS last week—the lowest reading since we began asking the question in late-May.

REALTORS® feeling more optimistic about future: Not only were fewer sellers getting cold feet, but California REALTORS® were feeling more optimistic about their prospects moving forward. Recently-added questions about our members' outlook show an uptick last week. The percentage of REALTORS® who thought listings would increase this week improved to 28% of respondents over the weekend, from 26% the week before. Similarly, 37% of members thought sales and prices would increase this week—up from 35% and 31%, respectively, the previous week.

Record-low rates significantly boost affordability in California: Despite the fact that California set a new all-time high for the median price of an existing single-family home last month, record low rates mean that the monthly principal and interest payment on that home has come down significantly from just a few years ago. In 2018, when interest rates averaged 4.7%, the median priced home costs roughly $2,460 per month. Today, the payment on the (more expensive) median priced home is just $2,160. That represents more than $100,000 in saved interest payments over the life of the loan.

Labor markets deteriorate after consistent improvements: Nationally, jobless claims increased for the first time in 15 weeks as more states clamp down on businesses to combat rising coronavirus cases. Here in California, jobless claims have been on the leading edge of this national trend rising in 6 out of the last 10 weeks. We are still well below the levels of almost 1.1 million in late March, but nearly 300,000 per week have begun to lose their jobs again in the state with likely consequences for housing demand—particularly on the rental side of the market.

Closed sales begin to decline last week: After weeks of slower growth in closed transactions, the number of homes sold per day declined (-6.3%) last week for the first time 11 weeks. Part of this is due to slower growth as the homebuying season ramps back down towards the fall. However, this is also the result of a lack of inventory which has been stifling the uptick in pending sales since June.

Indeed, prices continue to rise, which further implicates a lack of supply as this price pressure is a prime symptom of a market with excess demand.

Pending sales resume downtrend: Pending sales themselves resumed their downward trend last week—declining -3.2%—after a brief increase the previous week. We know from statistics on mortgage applications and requests for private showings that buyer demand remains robust. This means that it is the lack of new listings coming onto the market, which have not risen since early May, that continues to prevent many buyers from taking advantage of record low rates.

Less business activity being reported by REALTORS® last week: REALTORS® were more optimistic about the future over the weekend, but they also reported less progress in their own business last week as well. 32% had a listing appointment last week, down from 33% the week before. 24% listed a property last week, which was up slightly from 23% the week before, but is down from nearly 30% back in June. 28% entered escrow on a transaction last week, which was also up from the week before (26%) but down from June. The percentage with a transaction that fell out of escrow increased from 6% of members to 7%, and only 21% had a transaction close last week—the lowest reading in over a month.

This week, there was a balance of both encouraging news and new obstacles for the recovery to surmount. REALTORS® are generally feeling more optimistic, even if they did not report an actual uptick in their business last week. Due to the nature of the job losses, buyer demand is expected to remain strong in California—especially with near record low interest rates. However, ripple effects associated with more job losses and declining consumer confidence will eventually reach the purchase market if they persist so we will continue to monitor the market and the broader economy closely in coming weeks.