



2019 Economic and Housing Outlook

Dallas Association for Business Economics

Frank Nothaft, CBE
CoreLogic Chief Economist
May 17, 2019



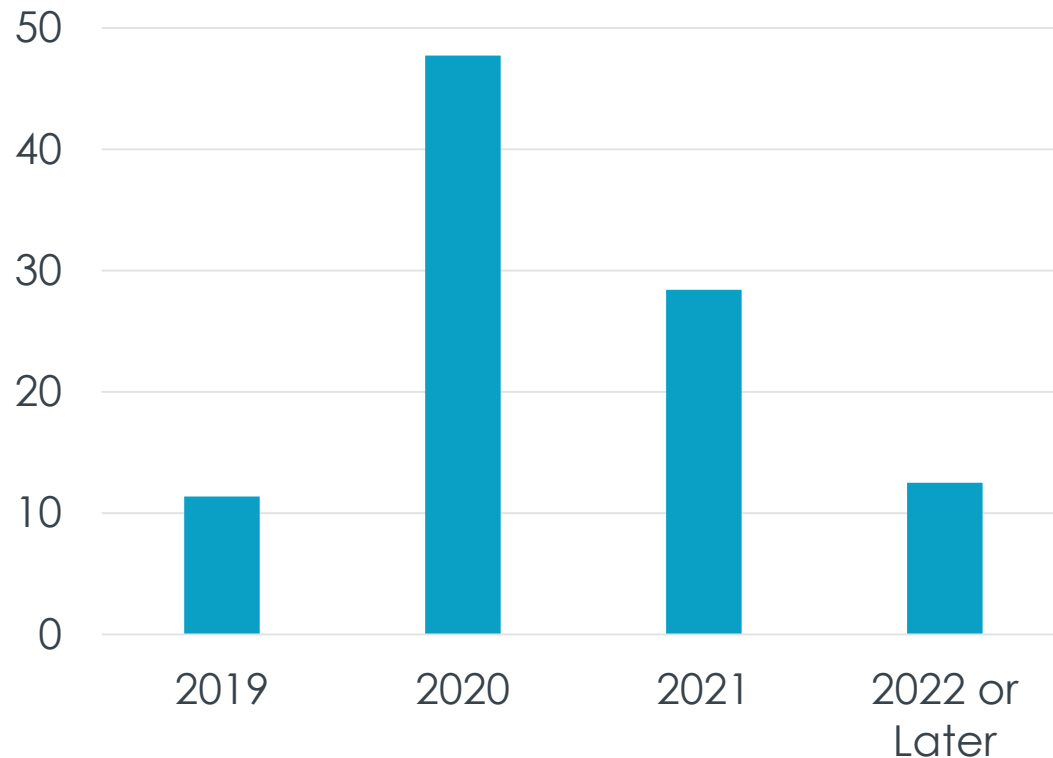
2019 Economic and Housing Outlook

- Economic growth continues, recession risk rises over time
- 2019 mortgage origination volume: similar to last year
- No national price bubble, but overvaluation risk in select areas
- Home equity gains, lower homeowner mobility add to remodeling spending
- Home mortgages perform well, consumer credit not so good

Economy Forecast to Grow 2.4% in 2019....When Will Recession Hit?

When will the U.S. enter recession?

Percent of respondents

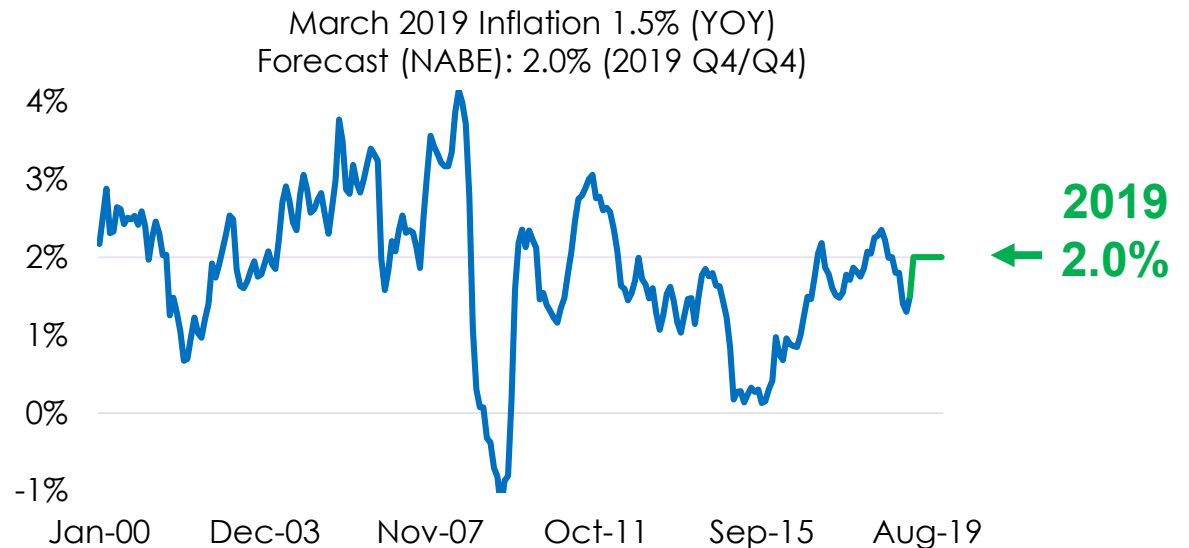
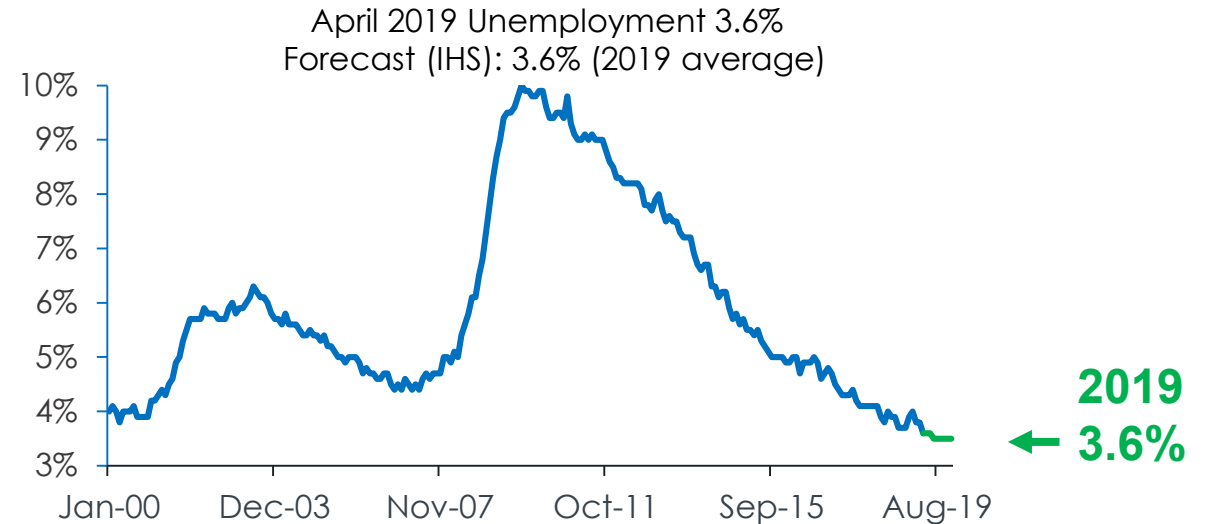


- 2.4% economic growth in 2019 (IHS)
- Expansion becomes longest in U.S. history in July 2019 (NBER)
- 23% 1-year recession probability (WSJ)
- Most economists expect recession starts 2020 or later (NABE)
 - TCJA stimulus dissipates
 - Higher interest rates
 - Trade war uncertainty

Source: IHS Markit (GDP growth 2018Q4 to 2019Q4), *Wall Street Journal* Economic Forecasting Survey (May 2019), National Association for Business Economics Economic Policy survey (February 25, 2019), National Bureau of Economic Research

Fed Increasingly Focused on Inflation Risk

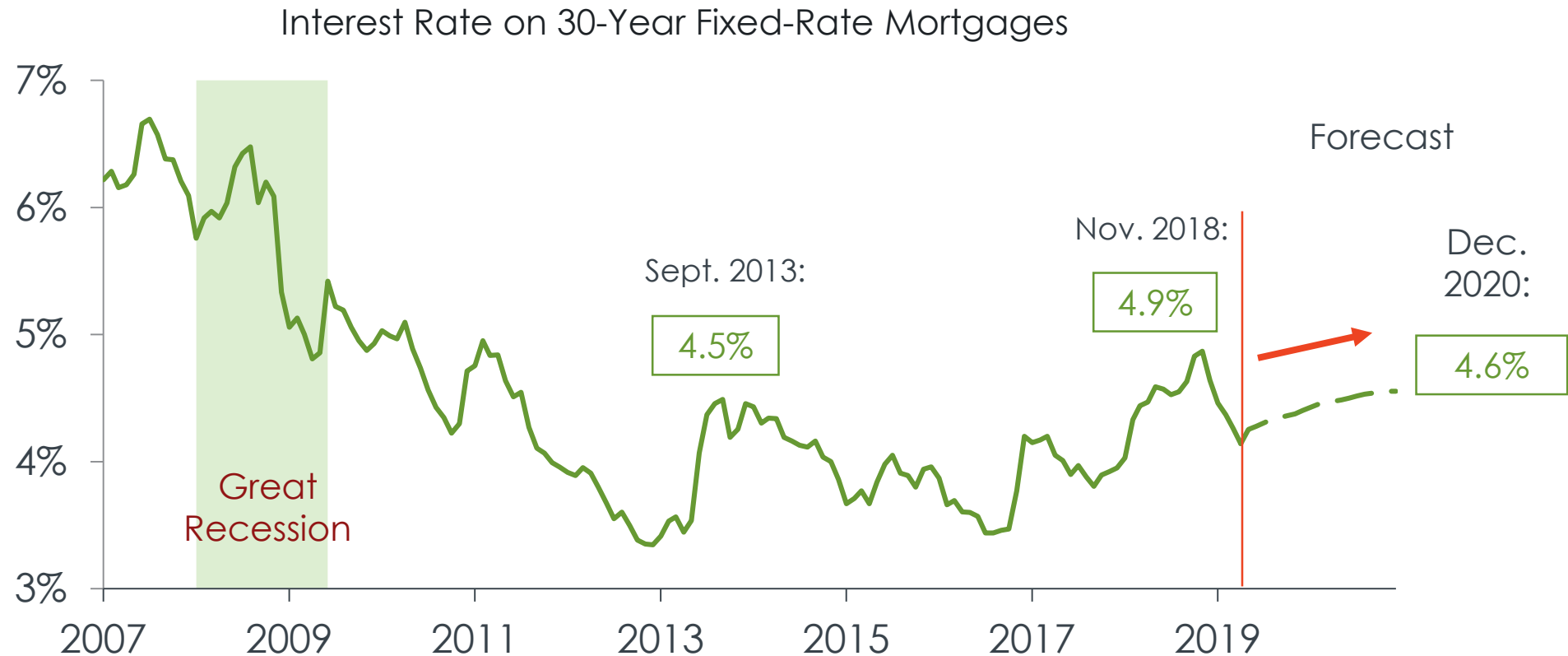
- Congressional dual mandate:
 - Maximum employment
 - Price stability
- U.S. Unemployment rate 3.6% (Apr.)
 - 50-year low
 - “Full employment”: 4.2-4.5%
 - TX 3.8%, Dallas 3.3% (Mar.)
- Fed’s “price stability” definition:
 - 2% annual (PCE)
 - Avg. inflation 1.9% since 2000
- Fed funds target now 2.25-2.50%
 - No more quarter-point hikes expected until 2020



Source: BLS (unemployment rate), BEA (PCE price index), IHS Markit (unemployment forecast), NABE Outlook (PCE forecast)

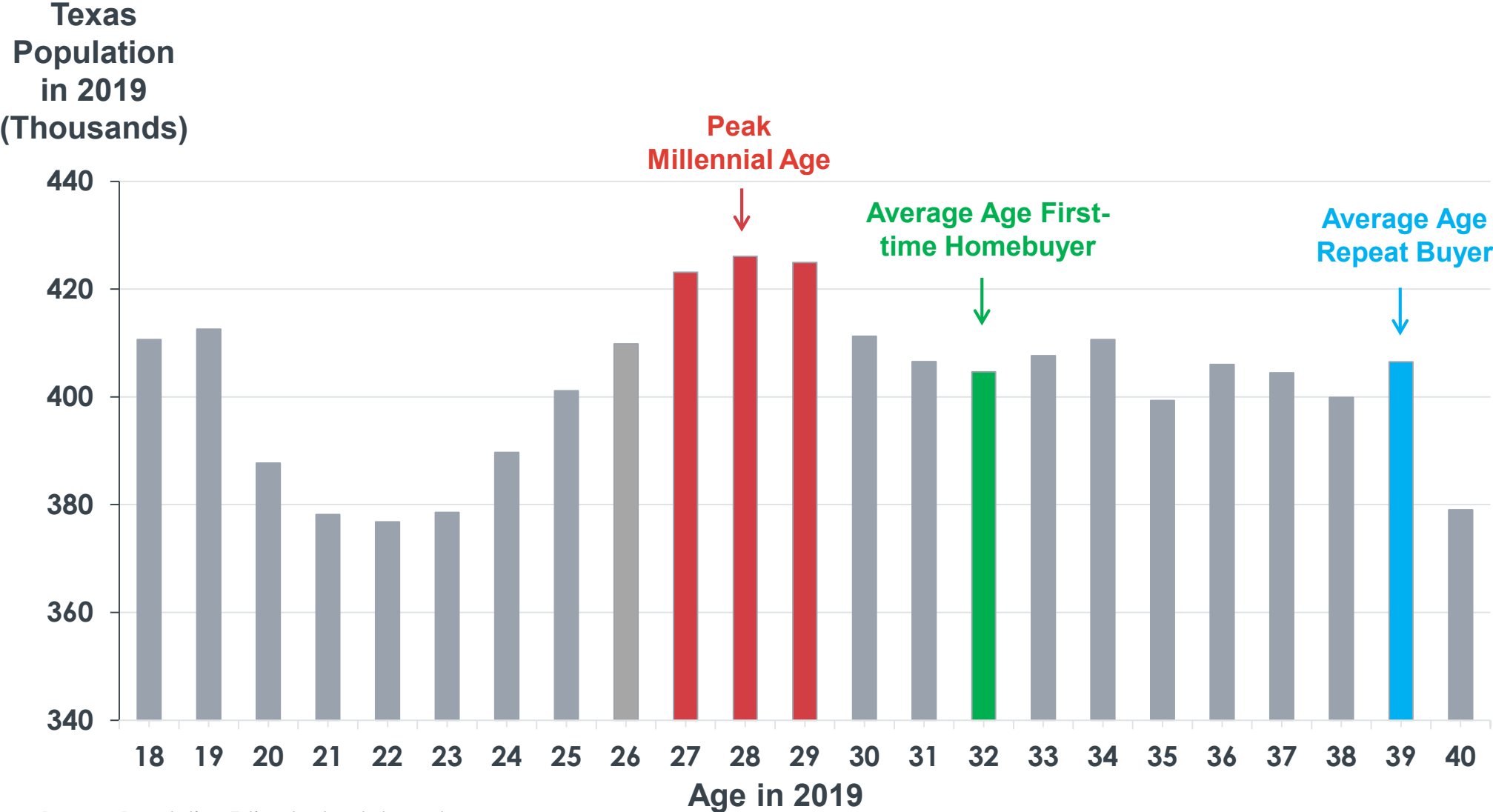
Mortgage Rates Lower than A Year Ago but Heading Up

Rates today at 4.1%; 2019 annual average forecast 4.3% (0.3% lower than 2018)



Source: Freddie Mac Primary Mortgage Market Survey®; forecast is an average of MBA, Fannie Mae, Freddie Mac, NAHB, NAR and IHS Market projections.

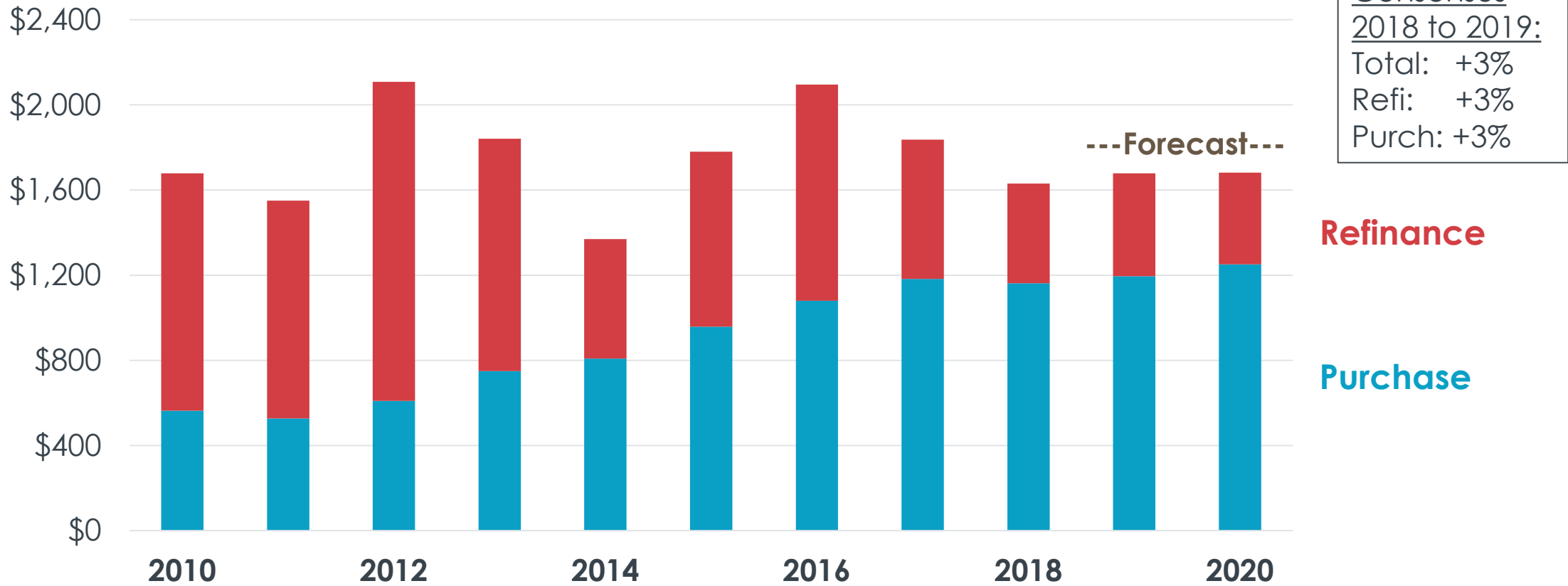
Demographic Tailwind Has Arrived



Source: U.S. Census Bureau, Population Estimates by state and age

Dollar Origination Forecast: 2019 Similar to 2018

Single-family Mortgage Originations (Billions of U.S. dollars)

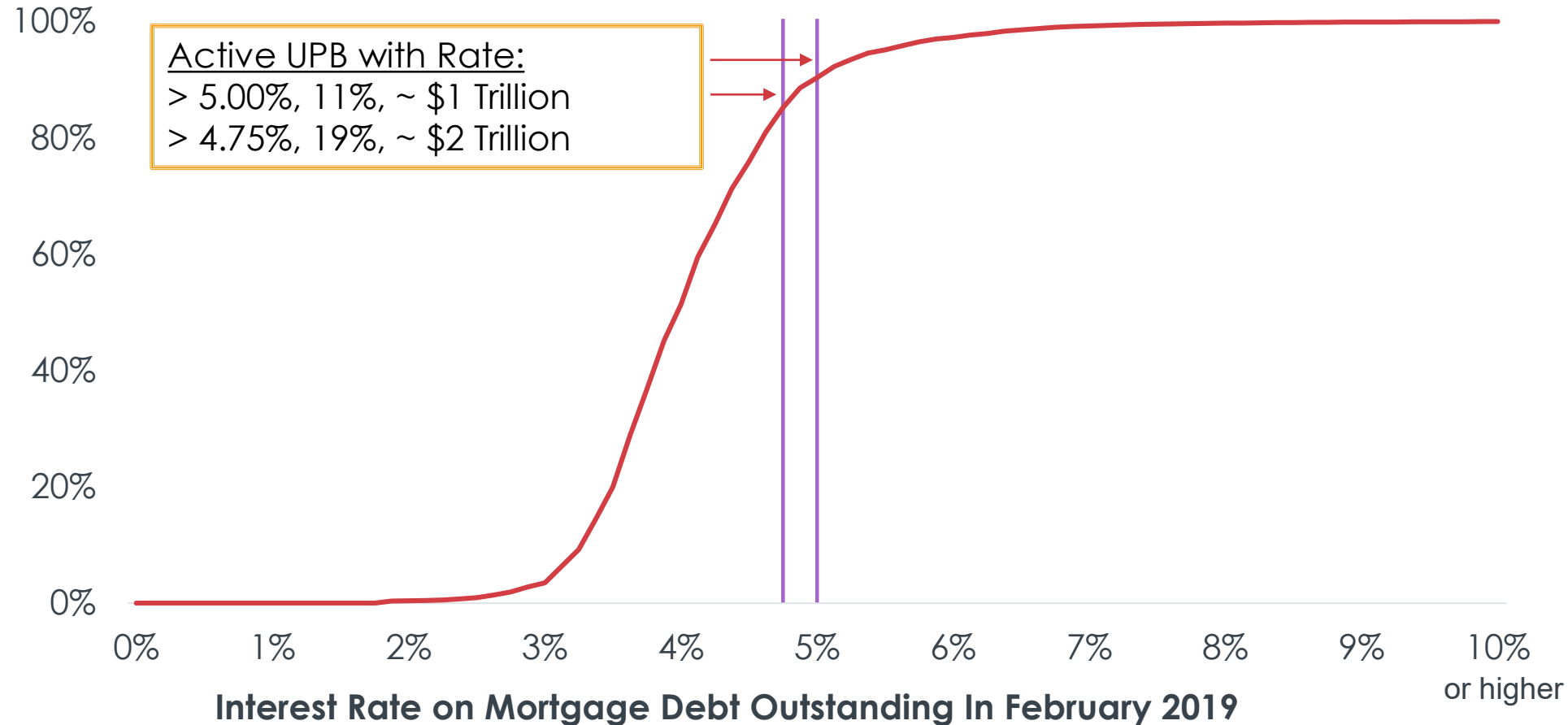


Source: Originations for 2010-2017 are from CoreLogic public records (benchmarked to HMDA through 2017); 2018 to 2020 are an average of the latest projections released by Mortgage Bankers Association, Fannie Mae and Freddie Mac. Originations exclude HELOCs.

“In the Money” To Refinance Grows with Lower Rates

\$1 trillion in debt outstanding with rates between 4.75% and 5.0%

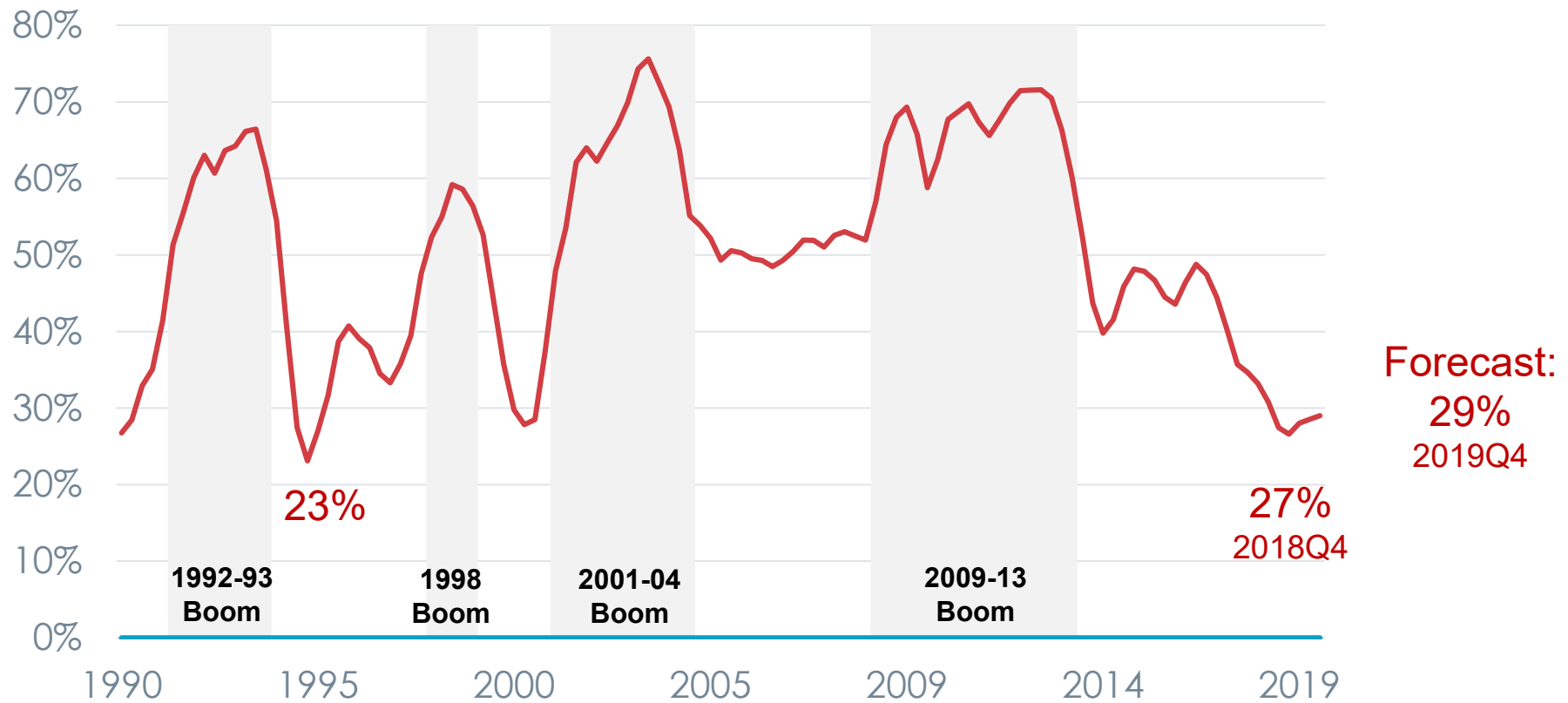
Cumulative Share of Active Balance by Interest Rate



Source: CoreLogic TrueStandings

Refi Share Hit A 25-Year Low At Year-end 2018

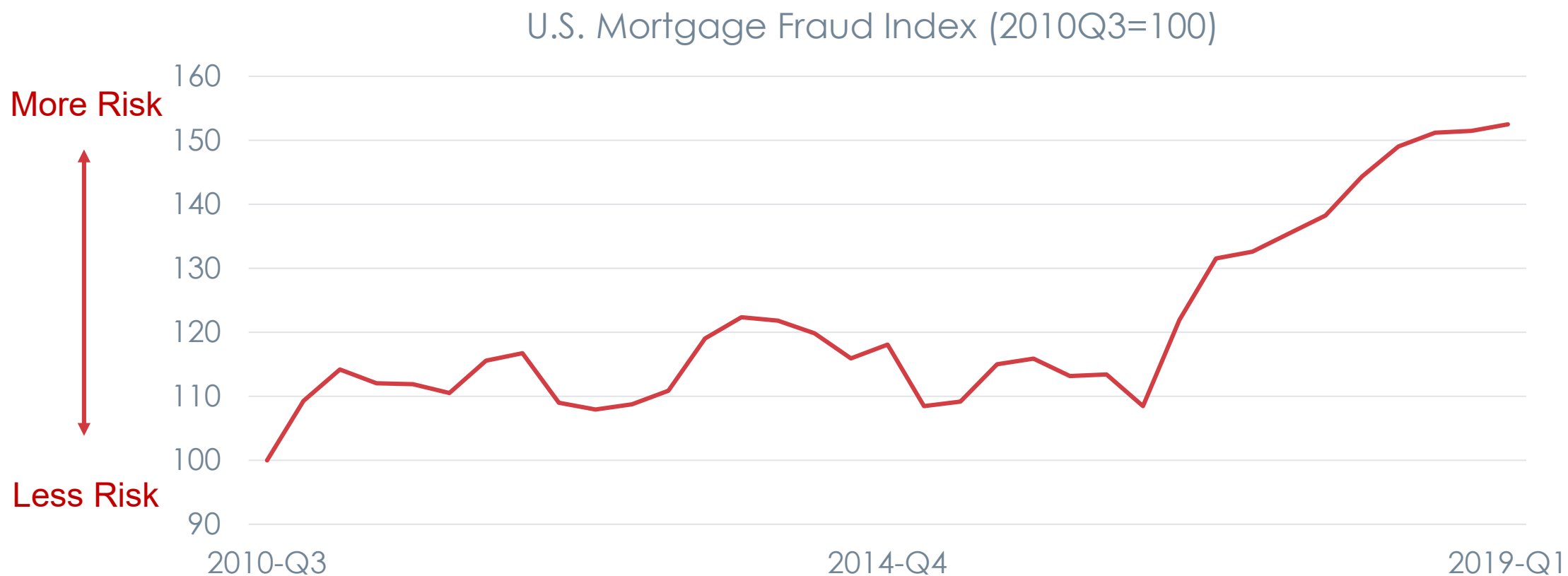
Refinance Share of Lending (percent, four-quarter moving average)



Source: Home Mortgage Disclosure Act (1990-2017); CoreLogic (2018); MBA, FNMA and FHLMC projections (2019)

Fraud Risk Higher Since 2016

Decline in refinance share has added to risk

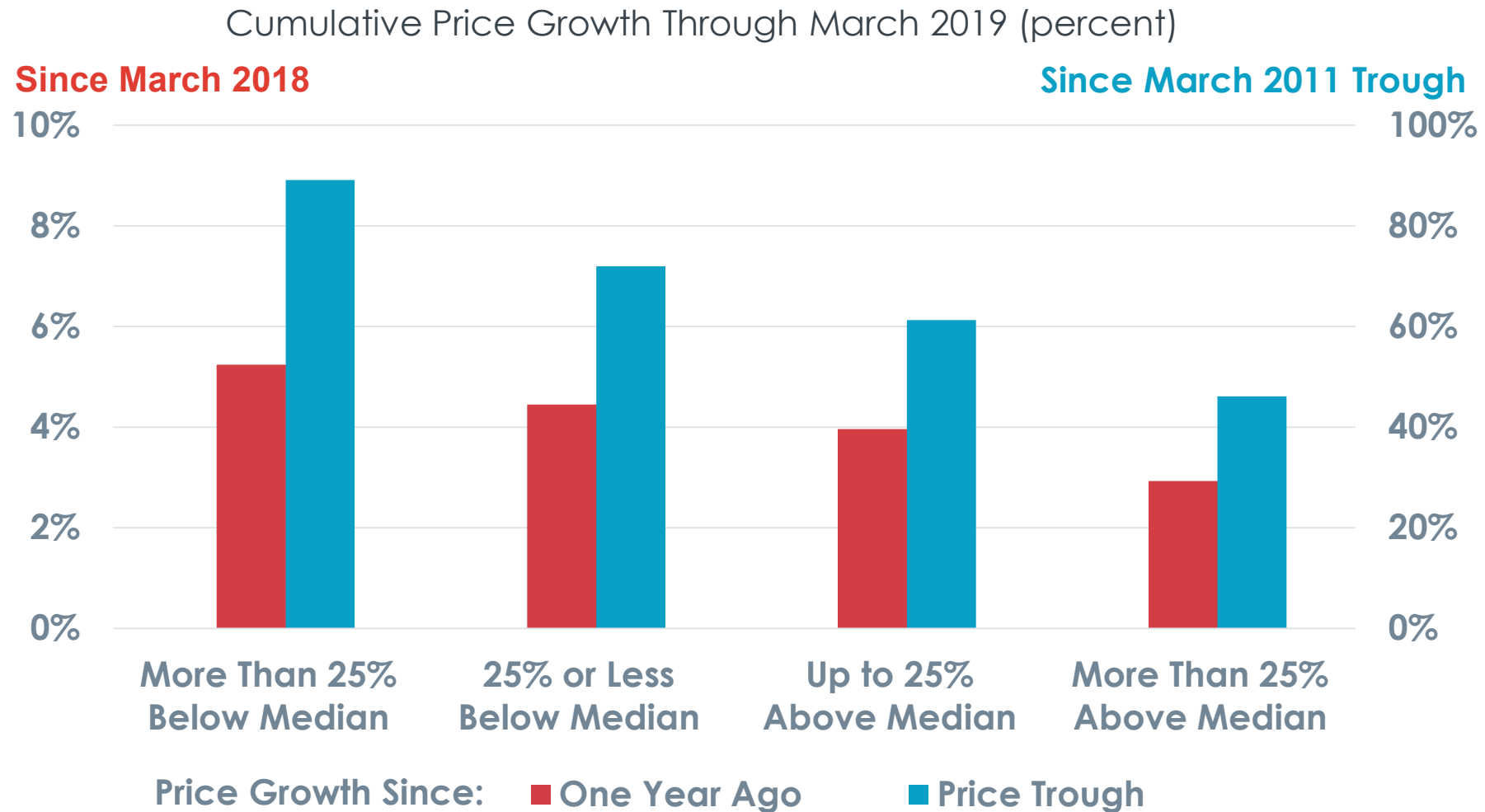


Source: CoreLogic Mortgage Fraud Index

Home Prices and Rents

- Dallas prices up 6% in 2018; home-price growth forecast slower in 2019: up 3%
- Lower-priced homes in strong demand and will appreciate more
- Dallas rents up 2.4% in 2018; rent growth expected to exceed inflation in 2019

Price Growth Strongest For Lowest-Priced Houses



Source: CoreLogic HPI, Single-family Detached (May 7, 2019 release); National HPI trough occurred March 2011.

Price Pressures Rapidly Increase As Supply Drops Below 3 Months



Source: CoreLogic (March 2019)

Dallas Home Price Growth

Price growth forecast to slow from 6% in 2018 to 3% in 2019 (annual average)

CoreLogic Home Price Index

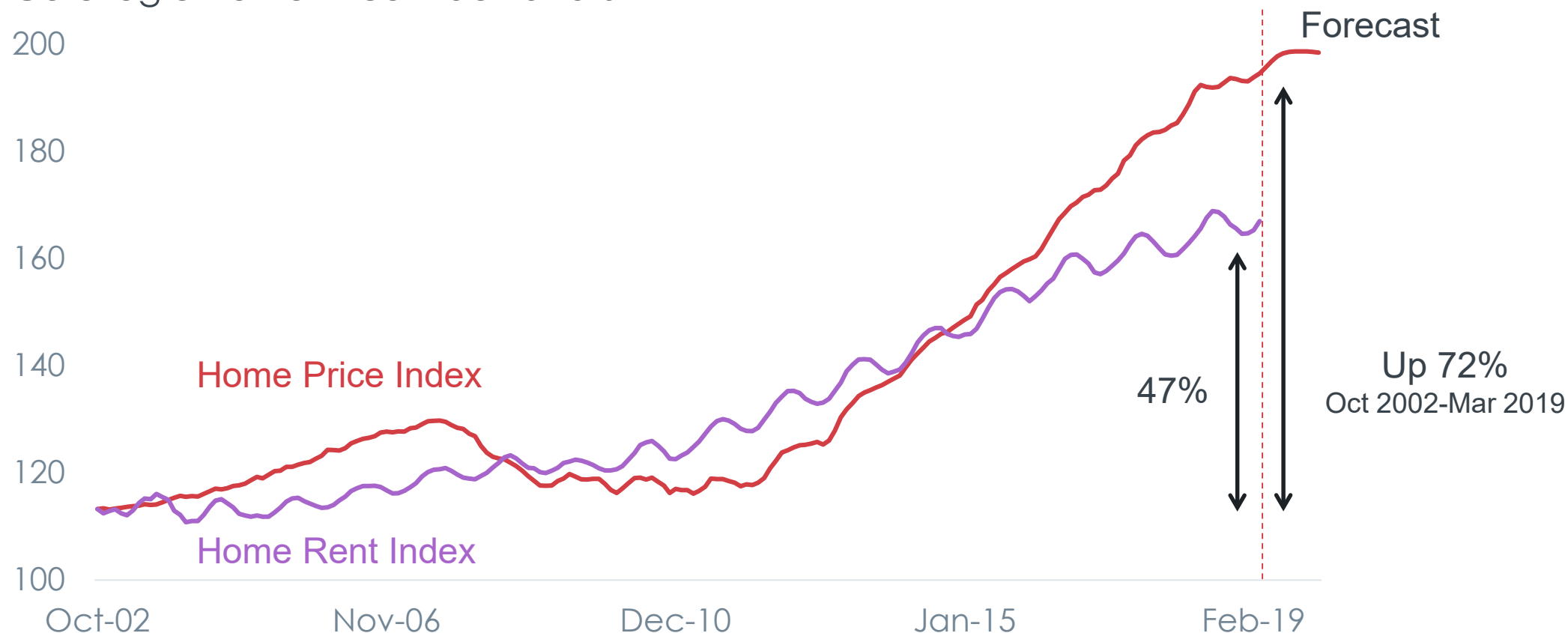


Source: CoreLogic HPI (January 2000 = 100), HPI Forecast and Single-Family Rent Index for Dallas CBSA, March 2019

Dallas Home Price and Rent Growth

Price growth forecast to slow from 6% in 2018 to 3% in 2019 (annual average)

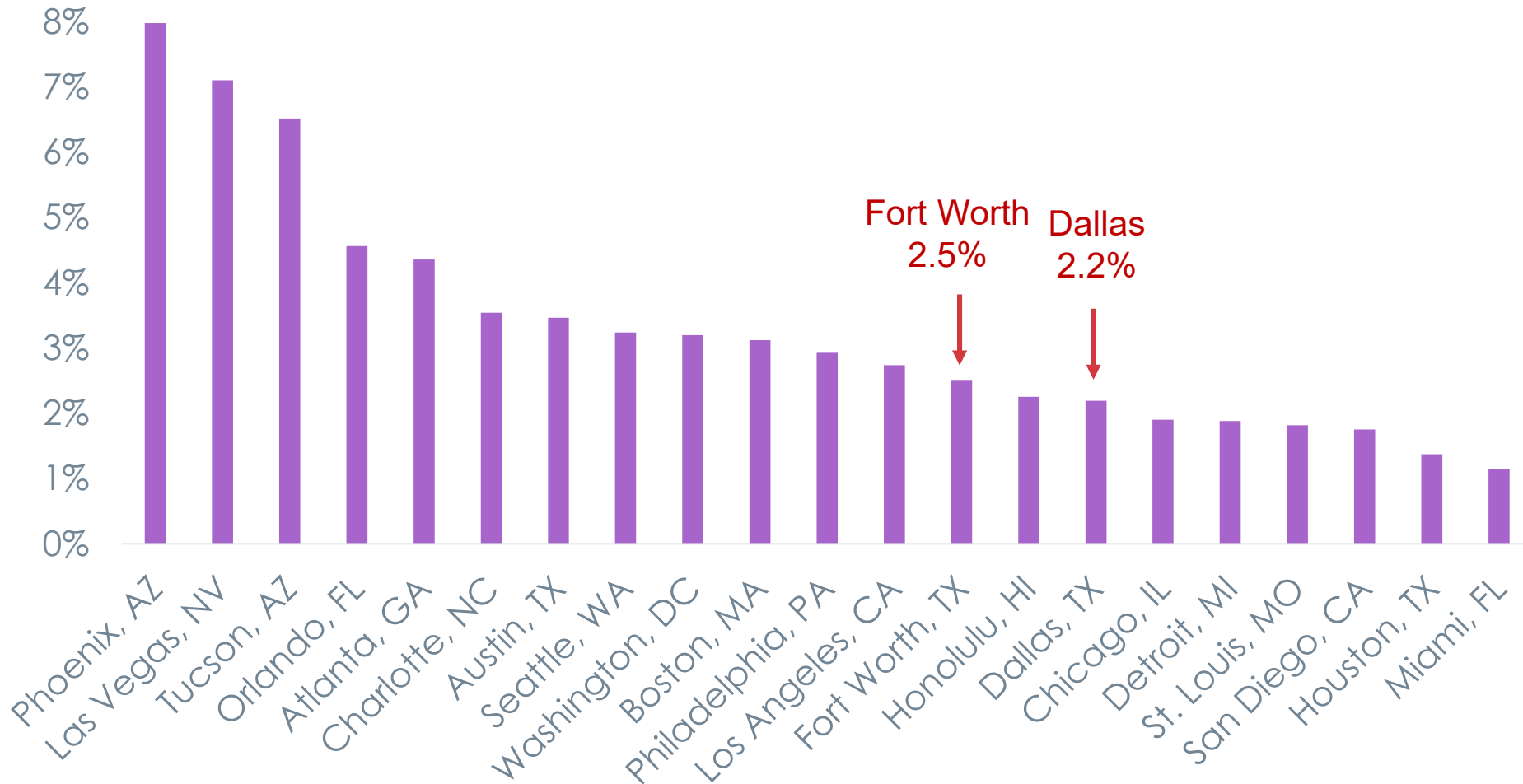
CoreLogic Home Price Index and SFRI



Source: CoreLogic HPI (January 2000 = 100), HPI Forecast and Single-Family Rent Index for Dallas CBSA, March 2019

Single-family Rents Are Rising Too

Single-Family Rent Growth (annual percent change, Feb 2019)

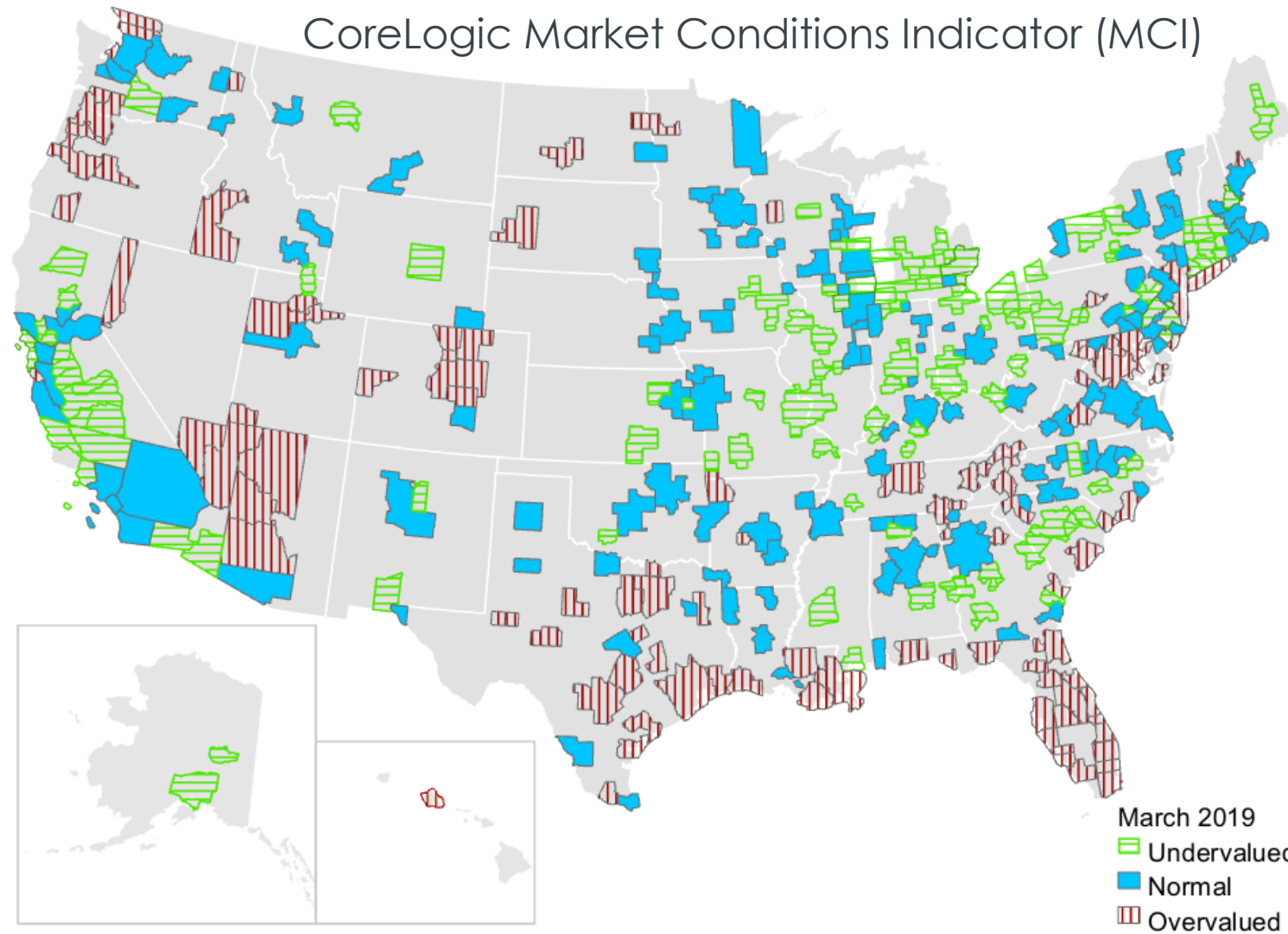


Source: CoreLogic Single-Family Rent Index release April 16, 2019

Price Bubble Metrics

- One metric may give a false positive; multiple metrics provide a better informed evaluation
- Price-to-Income Ratio: CoreLogic Market Conditions Indicator compares actual CoreLogic HPI with income-based 'fundamental' price index
- Price-to-Rent Ratio: Compare CoreLogic low-tier HPI with CoreLogic Single-Family Rent Index
- Monthly P&I-to-Rent Ratio: compare historical relationship for each CBSA

Most Overvalued Metros near Seacoasts or Rocky Mountains



Source: CoreLogic MCI for 392 metropolitan areas; area is Undervalued/Normal/Overvalued if HPI is below/within/above 10% of fundamental HPI

Bubbles? Market Conditions Indicator, Price-to-Rent, Payment-to-Rent, & Mortgage Fraud Index, by Metro

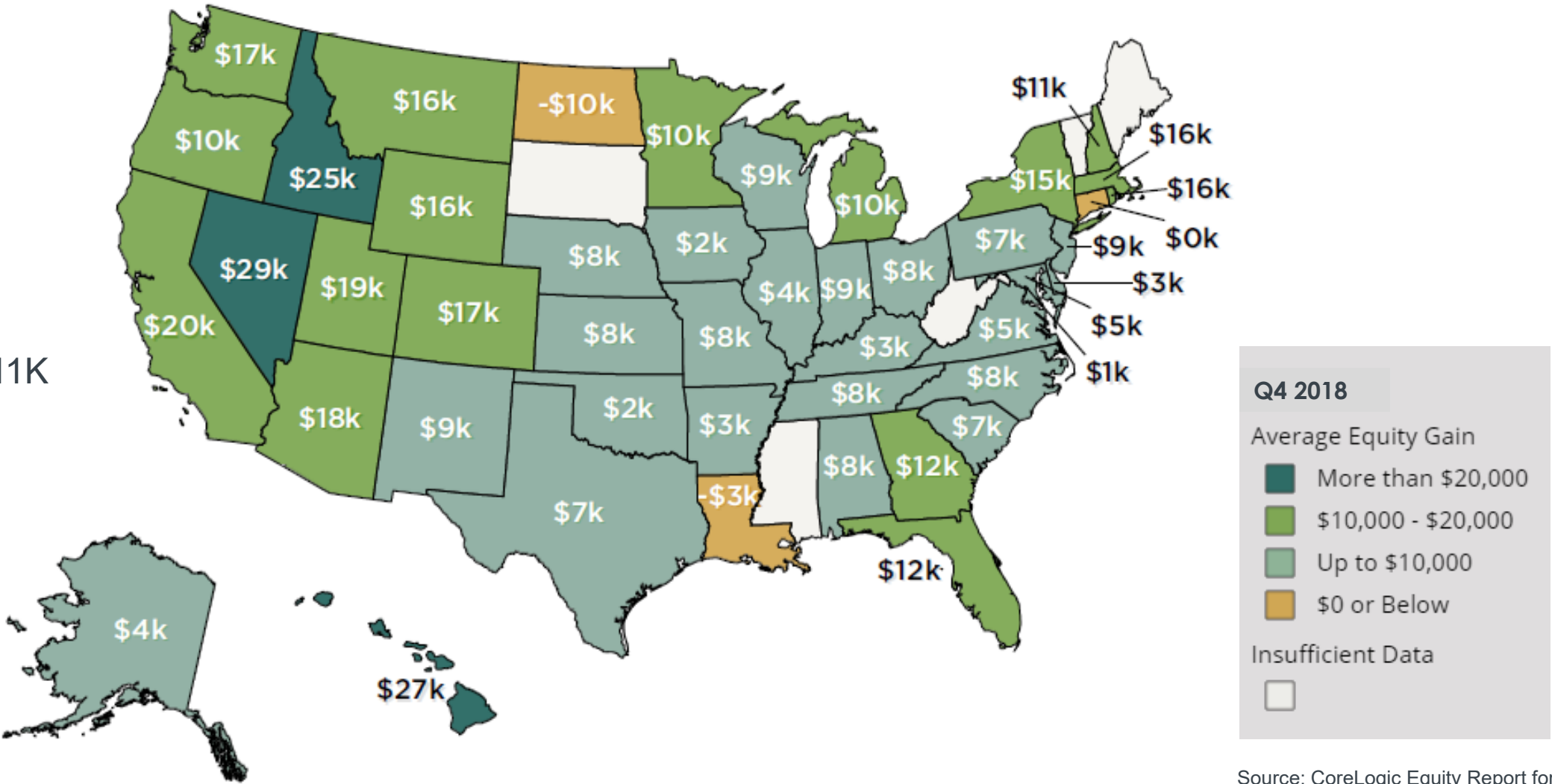
Metro Area	Market Conditions Indicator: 2018Q3	Price-to-Rent: Growth 2001Q1 to 2018Q1 Above or Below 65%	Payment-to-Rent: Growth 2001Q1 to 2018Q1	Mortgage Fraud Index: 2019Q1 Above or Below U.S.
Los Angeles, CA	Overvalued	Above	33%	Above
West Palm Beach, FL	Overvalued	Above	14%	Above
New York, NY	Overvalued	Below	14%	Above
Seattle, WA	Overvalued	Above	12%	Below
San Francisco, CA	Normal	Above	12%	Above
Washington, DC	Overvalued	Above	8%	Below
Dallas, TX*	Overvalued	Below	7%	Below
Fort Worth, TX*	Overvalued	Below	6%	Below
Austin, TX	Overvalued	Above	-3%	Below
Tucson, AZ	Normal	Below	-4%	Below
St. Louis, MO-IL	Undervalued	Below	-10%	Below
Houston, TX	Overvalued	Below	-13%	Above
U.S.*	Normal	Below	-15%	--

* Dallas and Fort Worth metro price-to-rent and payment-to-rent analysis begin 2003Q1; U.S. price-to-rent and payment-to-rent analysis begins 2004Q1
Source: CoreLogic MCI, HPI (low price tier), median sales price, Single-Family Rent Index, and Mortgage Fraud Index; Freddie Mac PMMS for 30-year FRM

Average Equity Gain per Homeowner

U.S.: \$9,700 per home (December 2017 to December 2018)

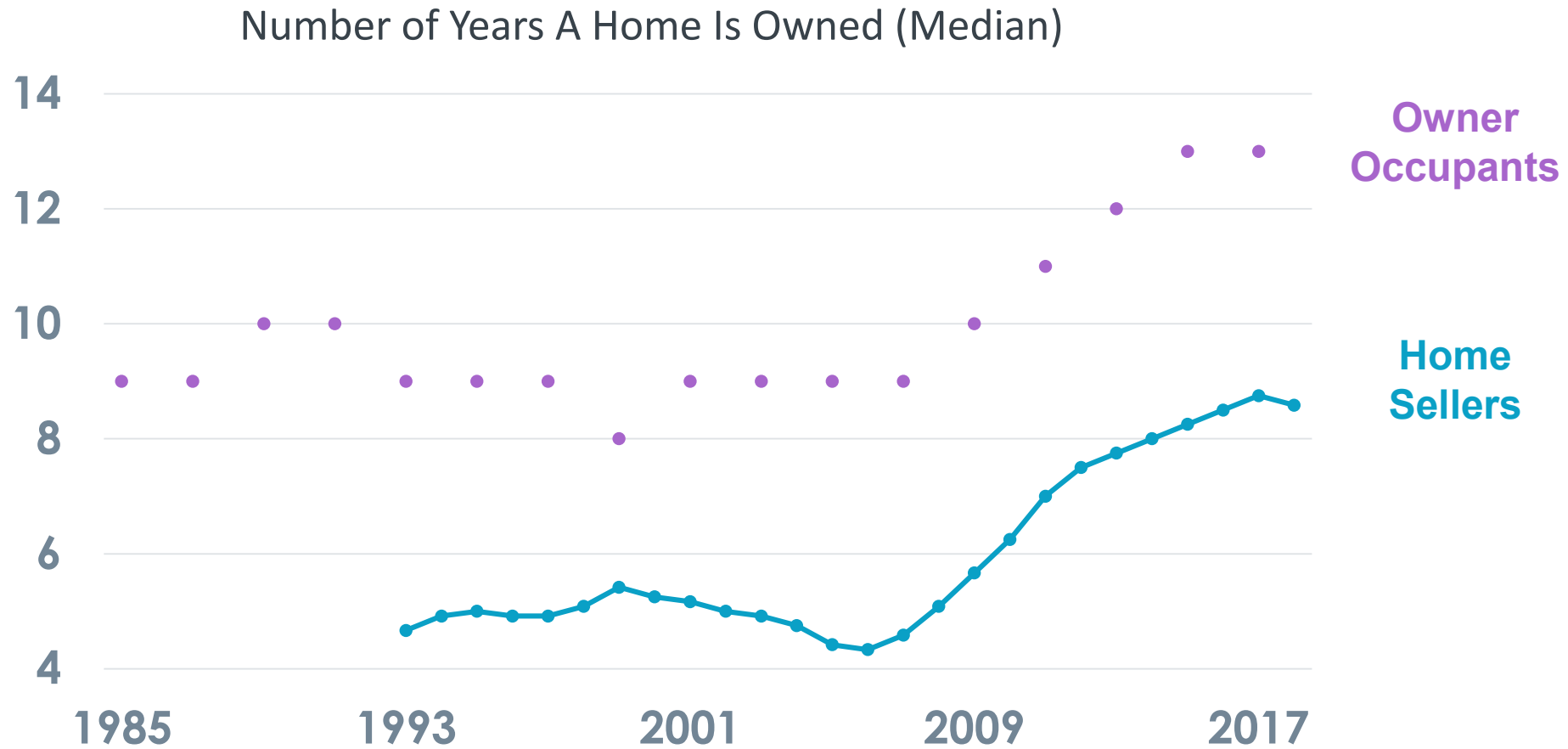
Dallas \$10K
Fort Worth \$11K
Houston \$7K



Source: CoreLogic Equity Report for 2018Q4

Americans Are Keeping Their Homes Longer

Median up 4 years since 2007

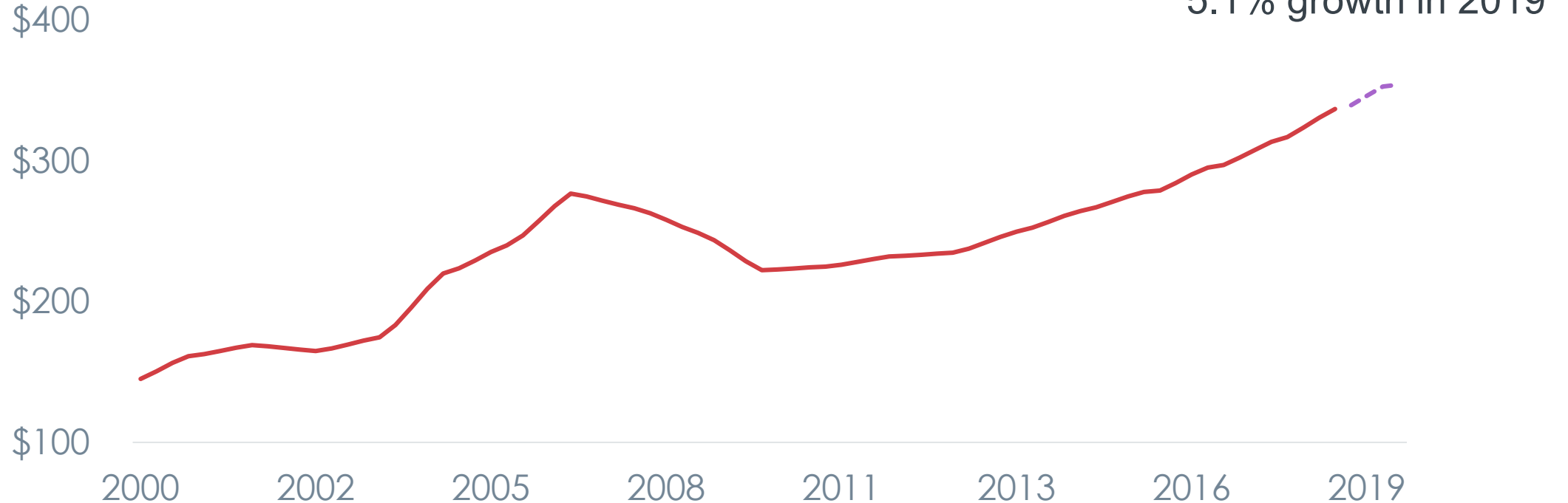


Source: American Housing Survey for the United States, various years (difference between survey year and median year owner-occupant moved into unit), CoreLogic public records for United States (length of time between recorded sales on same home).

Remodeling Expenditures Spurred by Existing-Home Sales and Long-Duration Owners with Home Equity

No growth in existing sales forecast for 2019, but material costs up

Homeowner Improvements and Repairs (Billions)

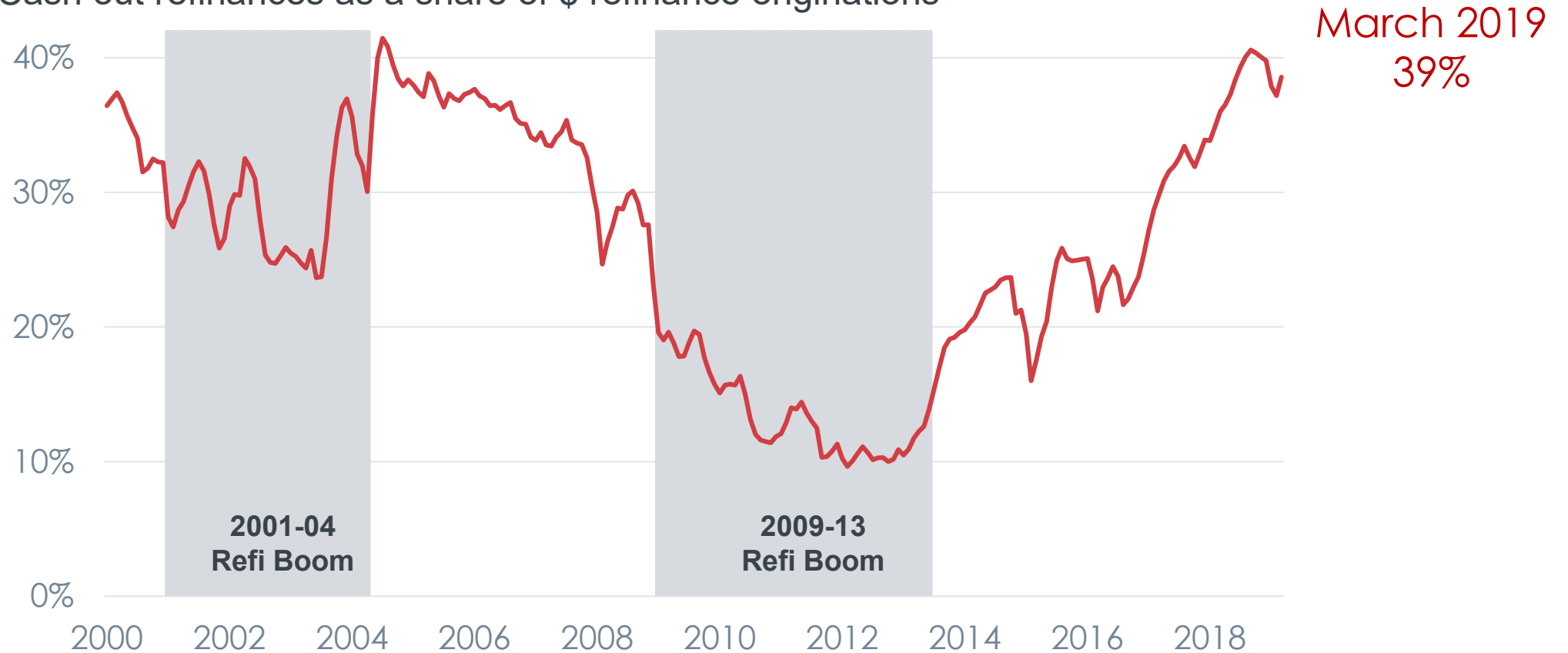


Source: Harvard University Joint Center for Housing Studies LIRA

Cash Out Refinancing Reemerging

In 2012, 10% of refinances were cashout; in March 2019 39% were cashout

Cash out refinances as a share of \$ refinance originations

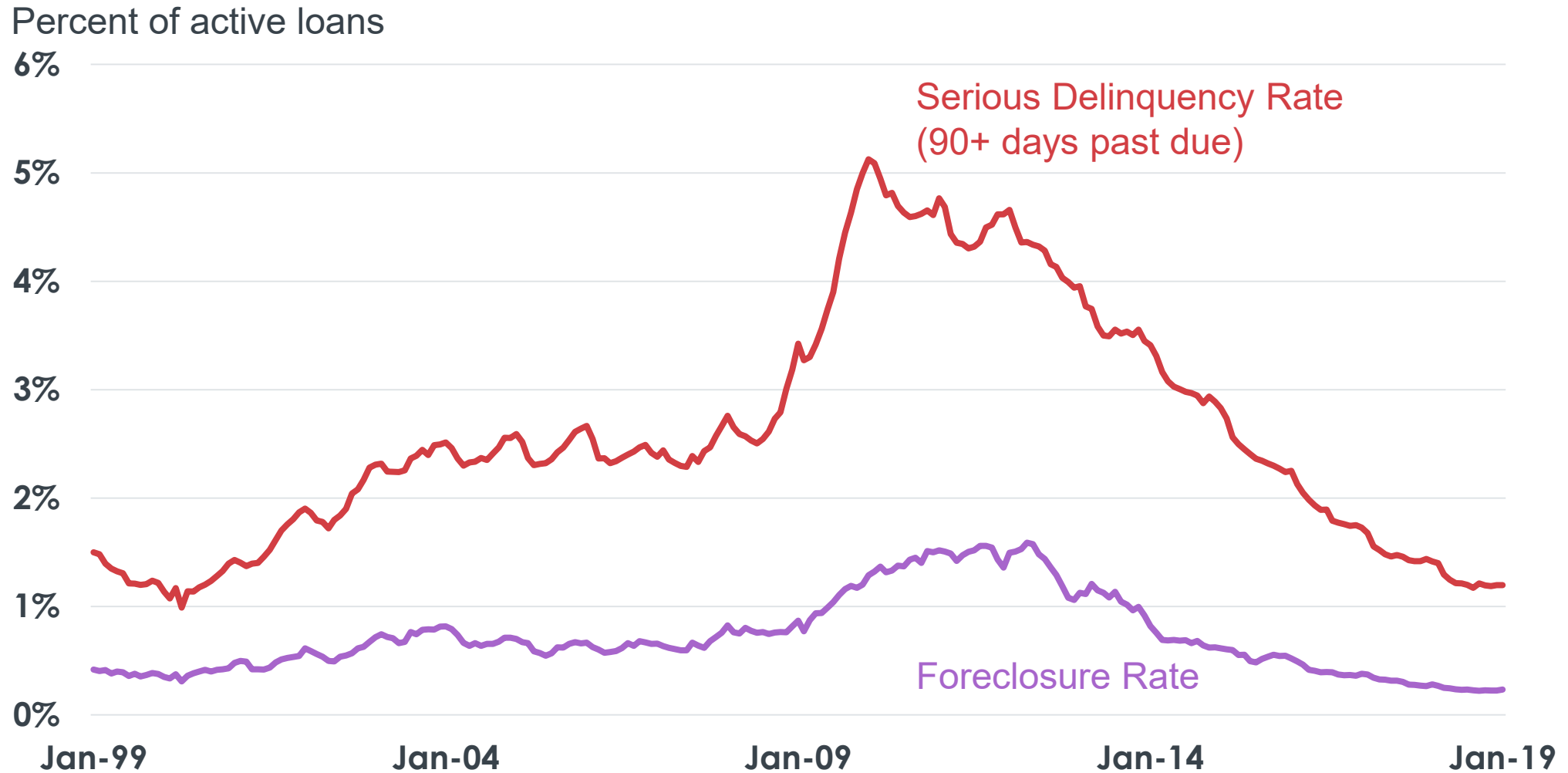


Source: CoreLogic Public Records (first liens)

Home Mortgages and Consumer Credit

- Subprime loans: largely absent from home mortgage lending but widely available in auto
- Home mortgage default has declined to pre-Great Recession level
- Auto and student loan default is rising and above pre-Great Recession level

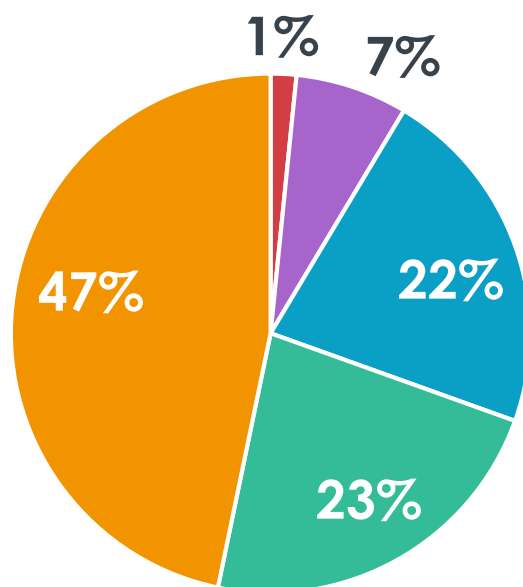
Dallas: Serious Delinquency & Foreclosure Near 20-Year Low



Source: CoreLogic TrueStandings Servicing (through February 2019). Foreclosure rate reflects all loans in some stage of the foreclosure process.

Auto Loans Have Lower Credit Scores

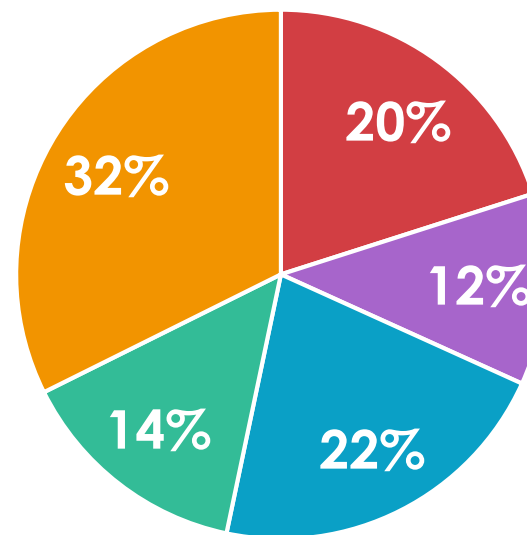
Home Mortgage
Borrowers



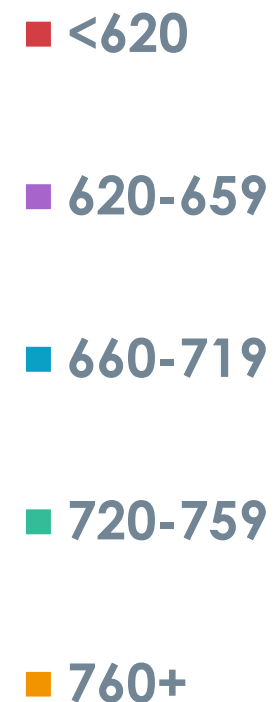
Originations:
(2018)

\$1.7 trillion

Auto Loan
Borrowers



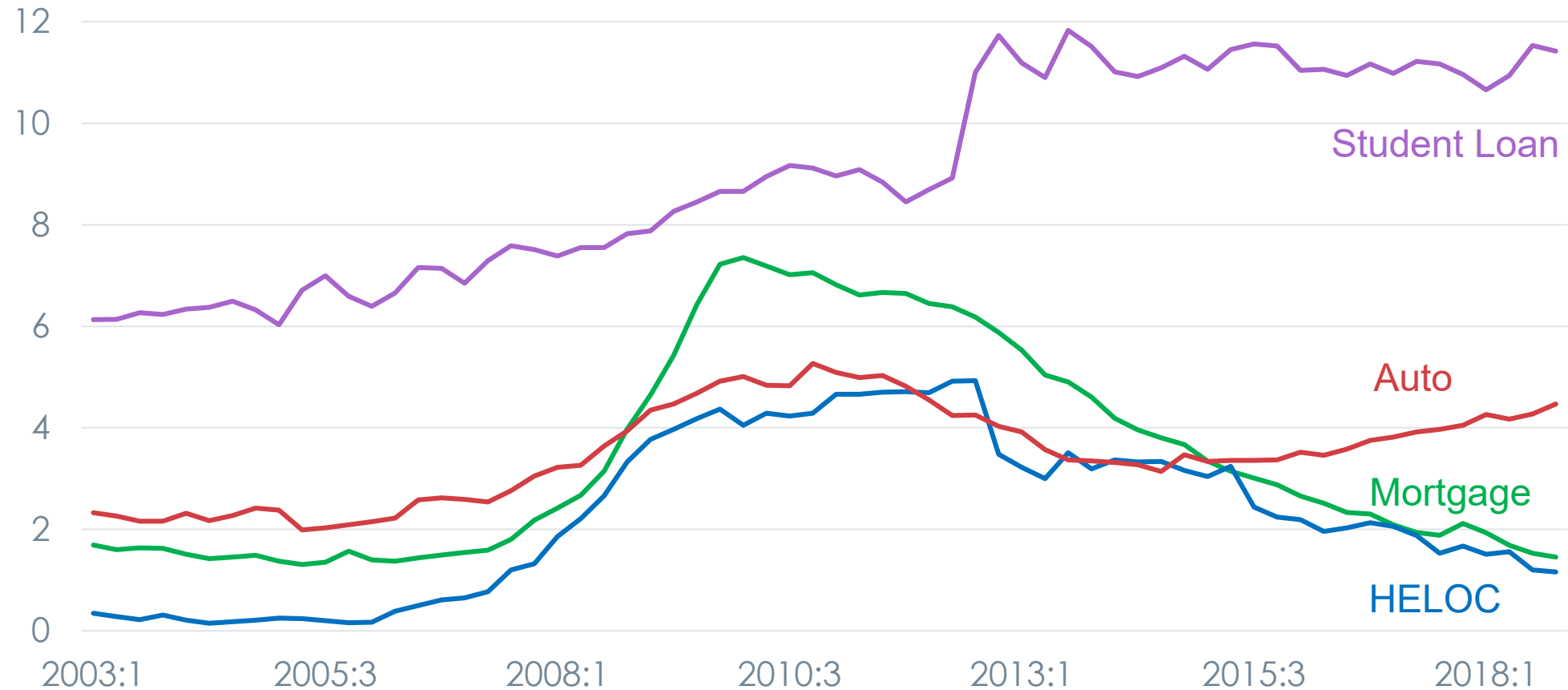
\$0.6 trillion



Source: CoreLogic TrueStandings and Federal Reserve Bank of New York Consumer Credit Panel, Equifax

Auto and Student Delinquencies High & Rising

90-or-more day delinquency rate by loan type
(percent of dollar balance)



Source: CoreLogic TrueStandings (Mortgage serious delinquency rate), Federal Reserve Bank of New York Consumer Credit Panel, Equifax

2019 Economic and Housing Outlook

- Economic growth continues, recession risk rises over time
- 2019 mortgage origination volume: similar to last year
- Overvaluation risk in select areas (N.Y. & L.A. metros, Florida, Puget Sound)
- Home equity gains, lower homeowner mobility add to remodeling spending
- Home mortgages perform well, consumer credit not so good

Where to find more information

Look for regular updates to our housing forecast, commentary and data at

<http://www.corelogic.com/blog>

@CoreLogicInc

@DrFrankNothaft

The views, opinions, forecasts and estimates herein are those of the CoreLogic Office of the Chief Economist, are subject to change without notice and do not necessarily reflect the position of CoreLogic or its management. The Office of the Chief Economist makes every effort to provide accurate and reliable information, however, it does not guarantee accuracy, completeness, timeliness or suitability for any particular purpose.

CORELOGIC and the CoreLogic logo are trademarks of CoreLogic, Inc. and/or its subsidiaries.