PALM SPRINGS LIFE

market WATCH

FALL WEBINAR

Market Watch LLC in association with Housing Demographics, Inc. ***PRESENT***

A Year in Transition
WHERE WE CAME FROM & WHERE WE ARE GOING?

2022 MARKET WATCH FORECAST

For the Nine Cities that form the Coachella Valley

Sponsored by

Franklin Loan Center

CDAR CALIFORNIA DESERT ASSOCIATION OF REALTORS

GPSR GREATER PALM SPRINGS REALTORS

TODAY'S WEBINAR
November 16, 2022

A Year in Transition

Where we came from & Where we are going?

— Michael J. McDonald, Market Watch LLC

Initial Summary

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- **There are 15% to 20% fewer new listings, meaning homeowners are staying put.**
- **They don't want to sell, then re-buy at higher rates.**

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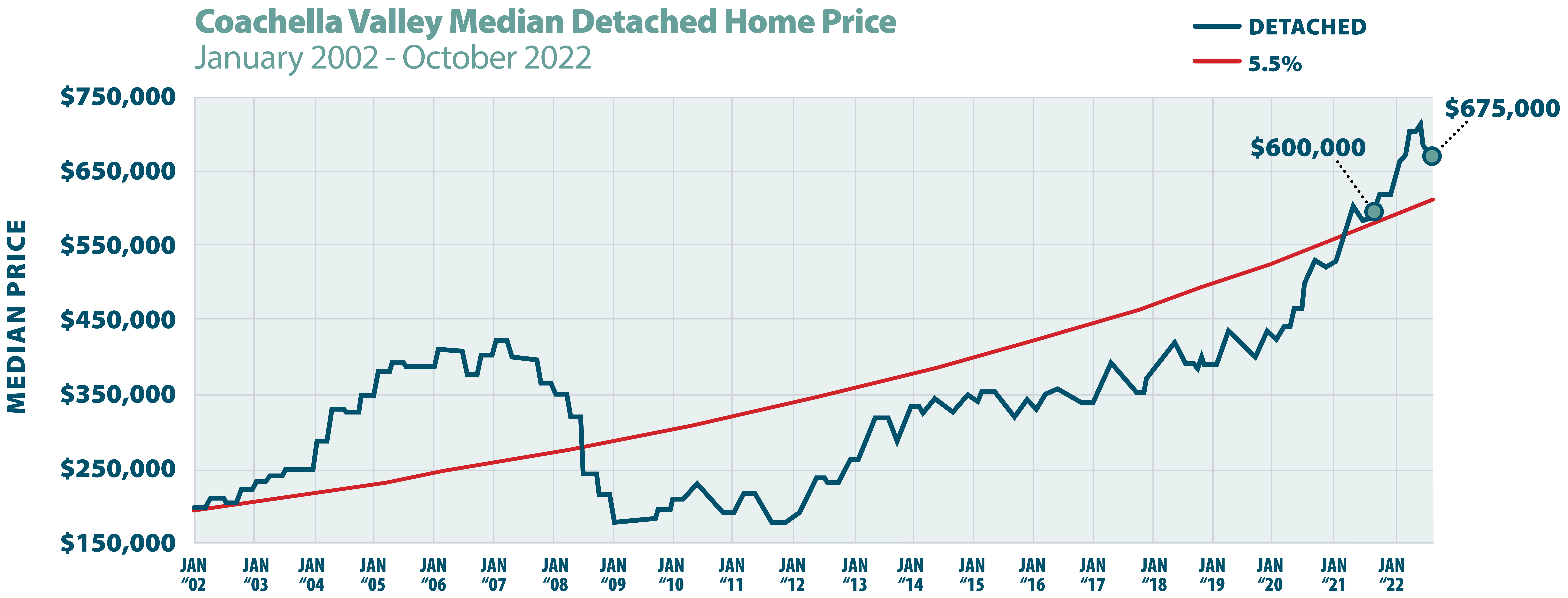
Good News: We believe the sudden rise in the CPI is over and that inflation and interest rates will slowly return to lower levels by next summer (see the evidence).

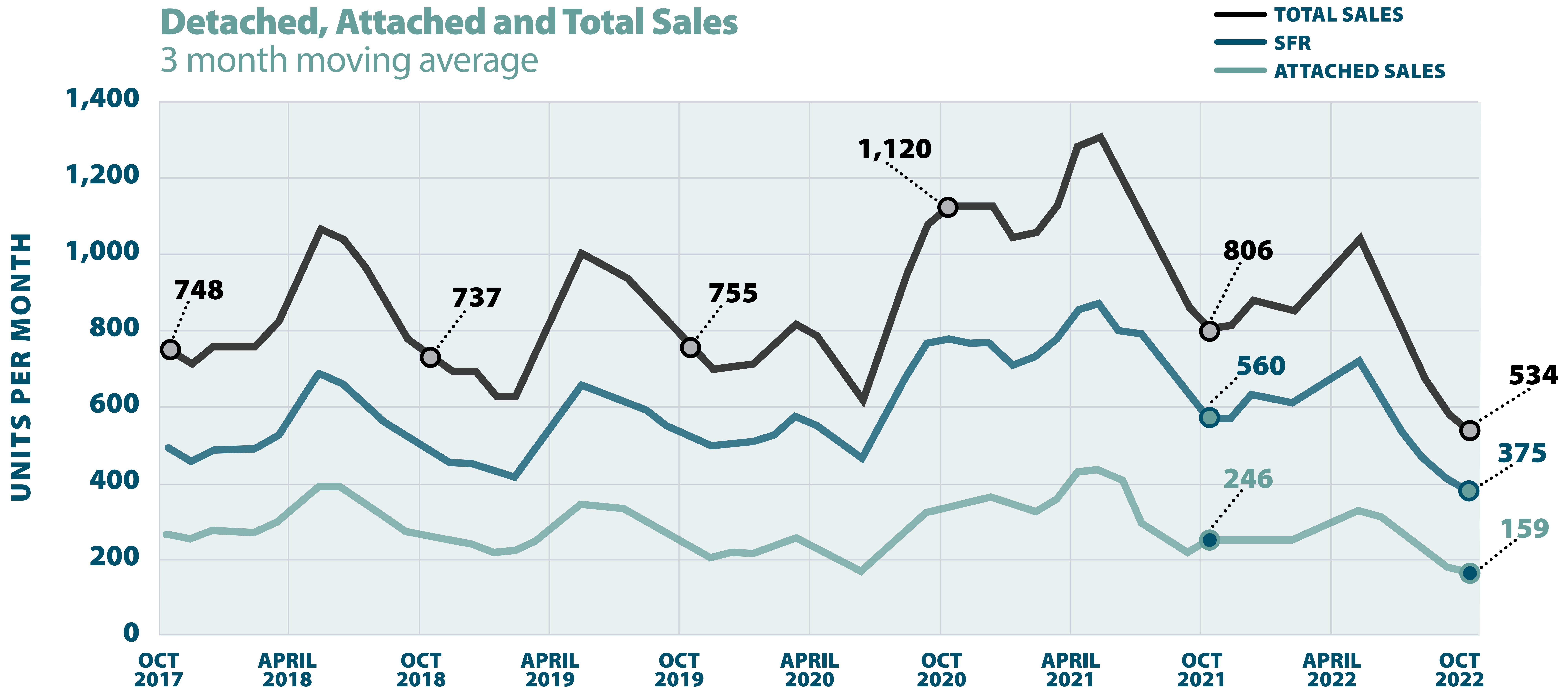
Prices Have Started to Correct

- Some of it is seasonal
- Possibility of a 15% Decline



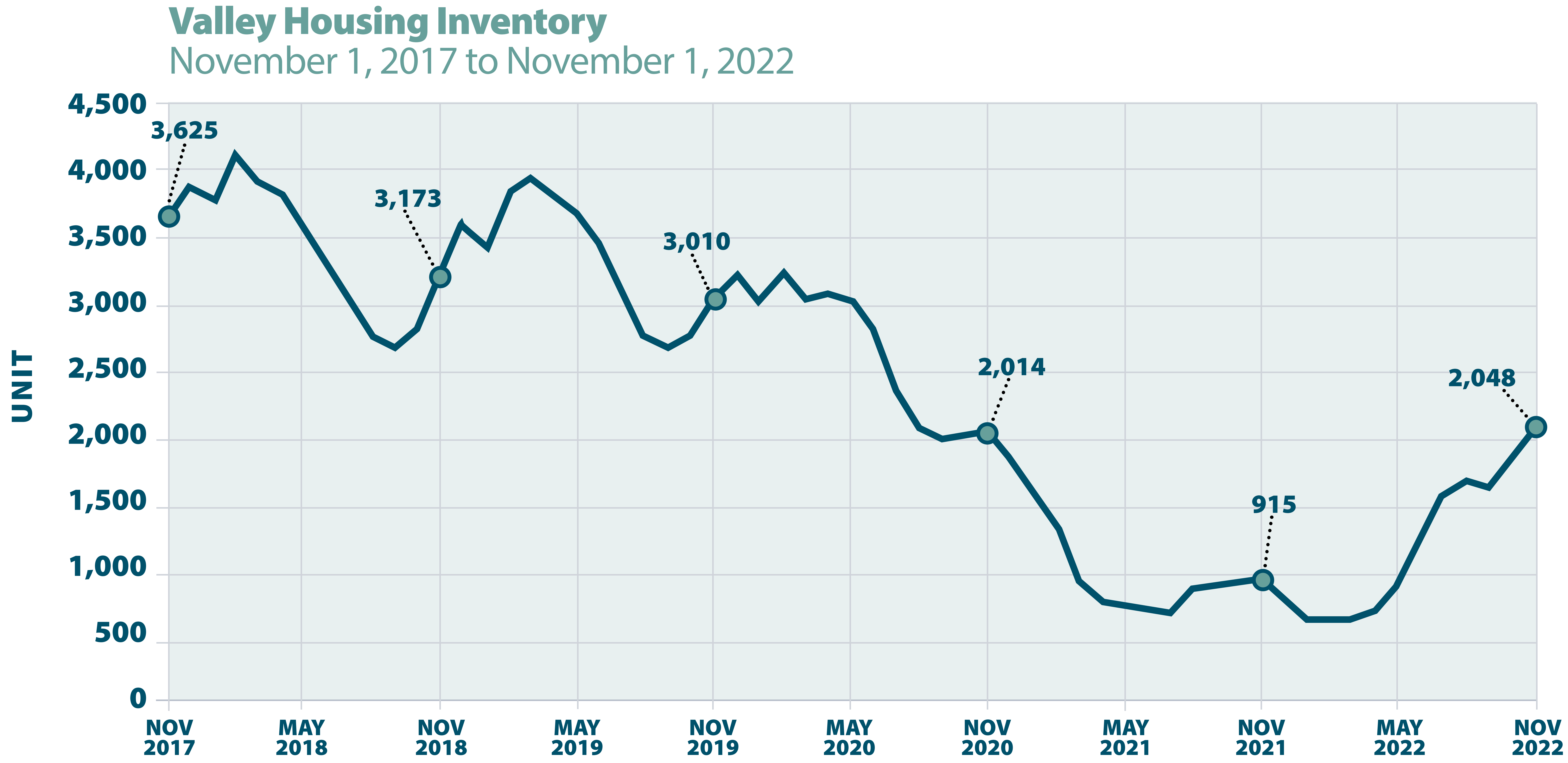
Data Source: GPSR and CDAR MLS Database

Unit Sales Are 20% Below Pre-Pandemic Averages



Data Source: GPSR and CDAR MLS Database

Inventory Is Growing But Still Below Past Norms



Data Source: GPSR and CDAR MLS Database

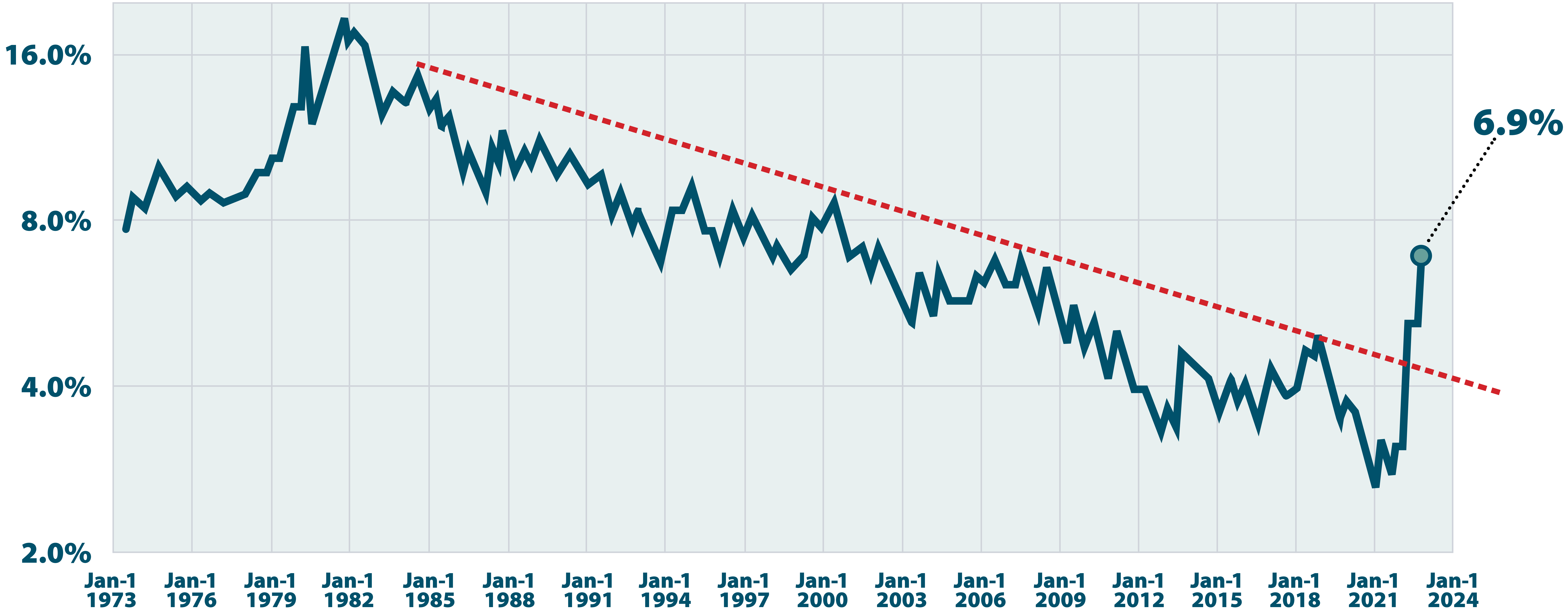
Because of Higher Prices Dollar Sales are 57% above Pre-Pandemic Averages

Coachella Valley Dollar Sales 2013 – 2022

Data Source: GPSR and CDAR MLS Database

- **Rise in Rates is Unprecedented – We're in Uncharted Territory**
- **A Rapid Rise in Rates Effects Housing in Two Ways**

Mortgage Rates 1973 - 2022 (SEP)



Data Source: Federal Reserve

Southern California New Listings are Down Over 16%

- 67% of buyers are "sellers and movers" while 33% are new
- New listings are down because homeowners don't want to sell, move and re-buy at higher rates

Decline in Southern California New Listings

COUNTY	2013-2019	YEARLY AVERAGE	LATEST 12 MONTHS	% BELOW AVERAGE
Los Angeles	621,318	88,760	76,489	13.8%
Orange	269,461	38,494	30,945	19.6%
Riverside	330,348	47,193	41,442	12.2%
San Diego	349,014	49,859	39,972	18.8%
San Bernardino	273,849	39,121	31,381	19.8%
Coachella Valley	107,233	15,319	12,998	15.2%
Five County Avg.	**1,951,223**	**263,427**	**220,229**	**16.4%**

Data Source: GPSR and CDAR MLS Database

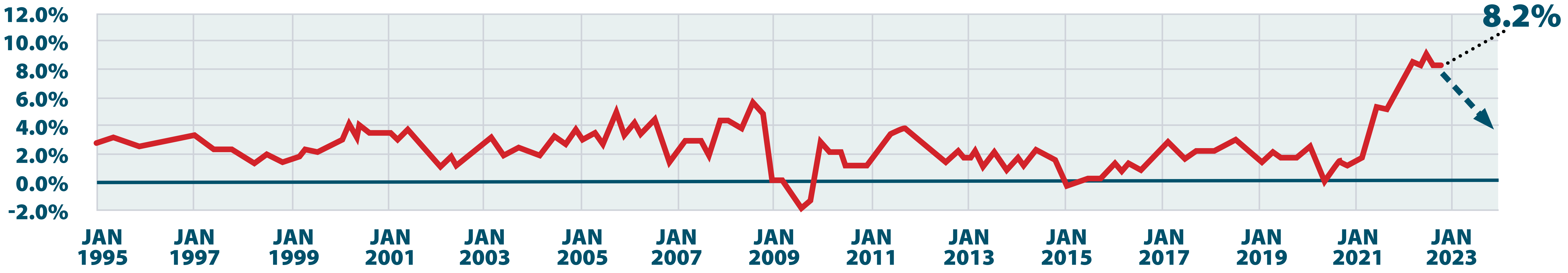
Inflation

We believe the sudden rise in the CPI is over and that inflation and interest rates will slowly return to lower levels by next summer (see the evidence).

CPI 1995-2022 (Sep)

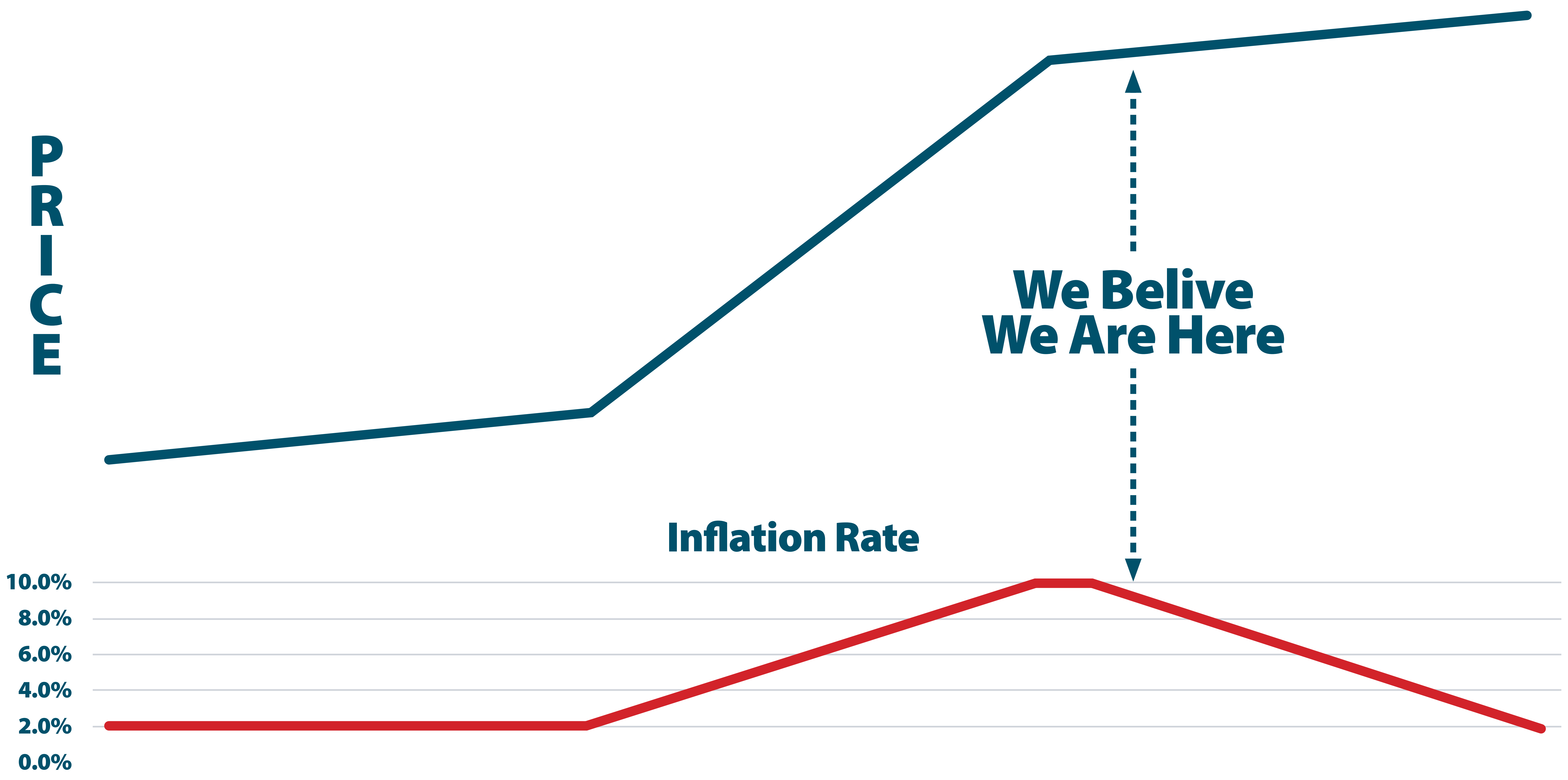
The CPI appears to be flattening out

12 Month Inflation Rate 1995-2022 (Sep)



Data Source: Federal Reserve

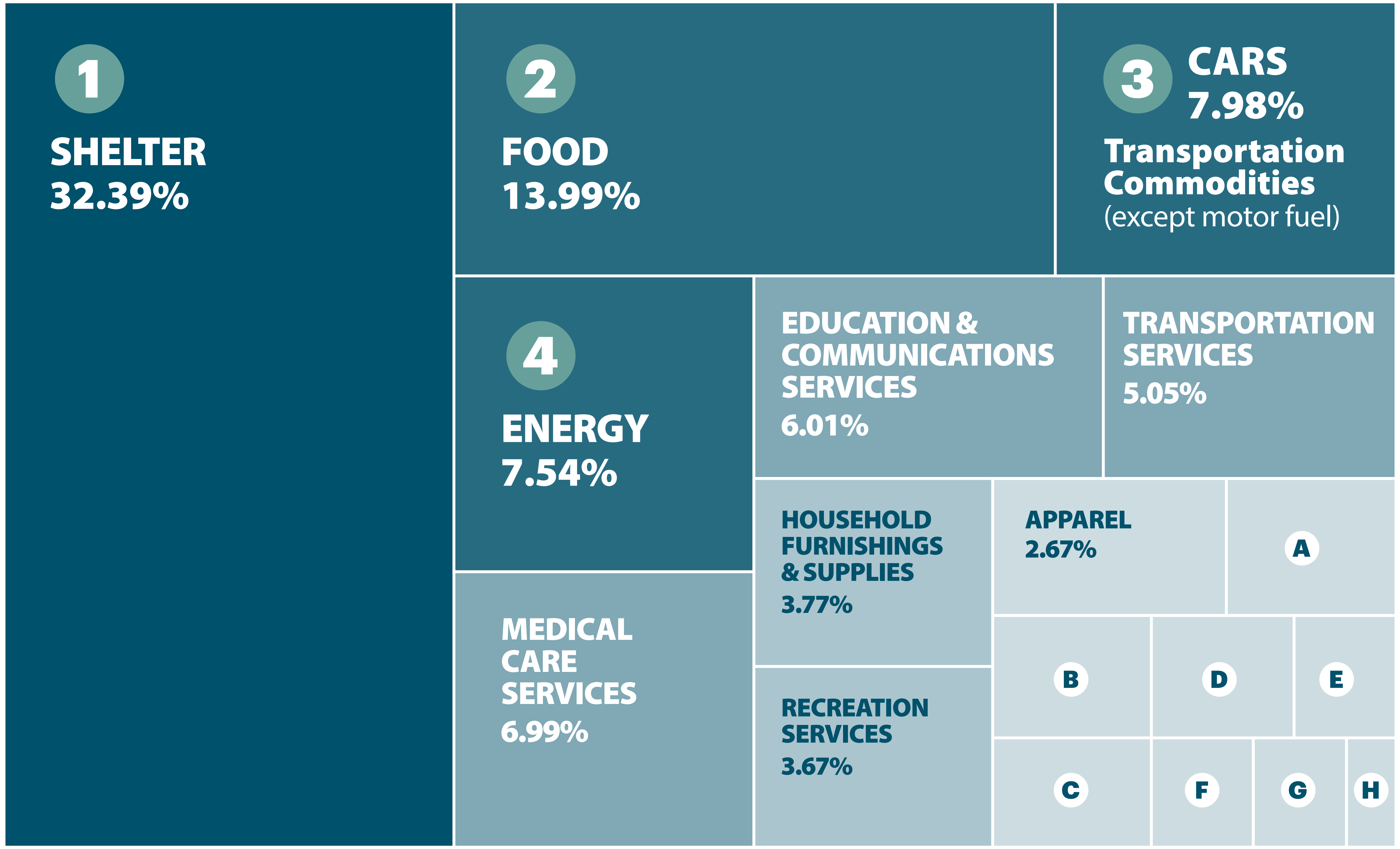
An Inflation "Step Function"



Components of Inflation (CPI)

WHAT GOES INTO THE CONSUMER PRICE INDEX?

Relative importance of different expenditure categories, November 2021



1 32.39% SHELTER
2 13.99% FOOD
3 7.98% CARS
4 7.54% ENERGY

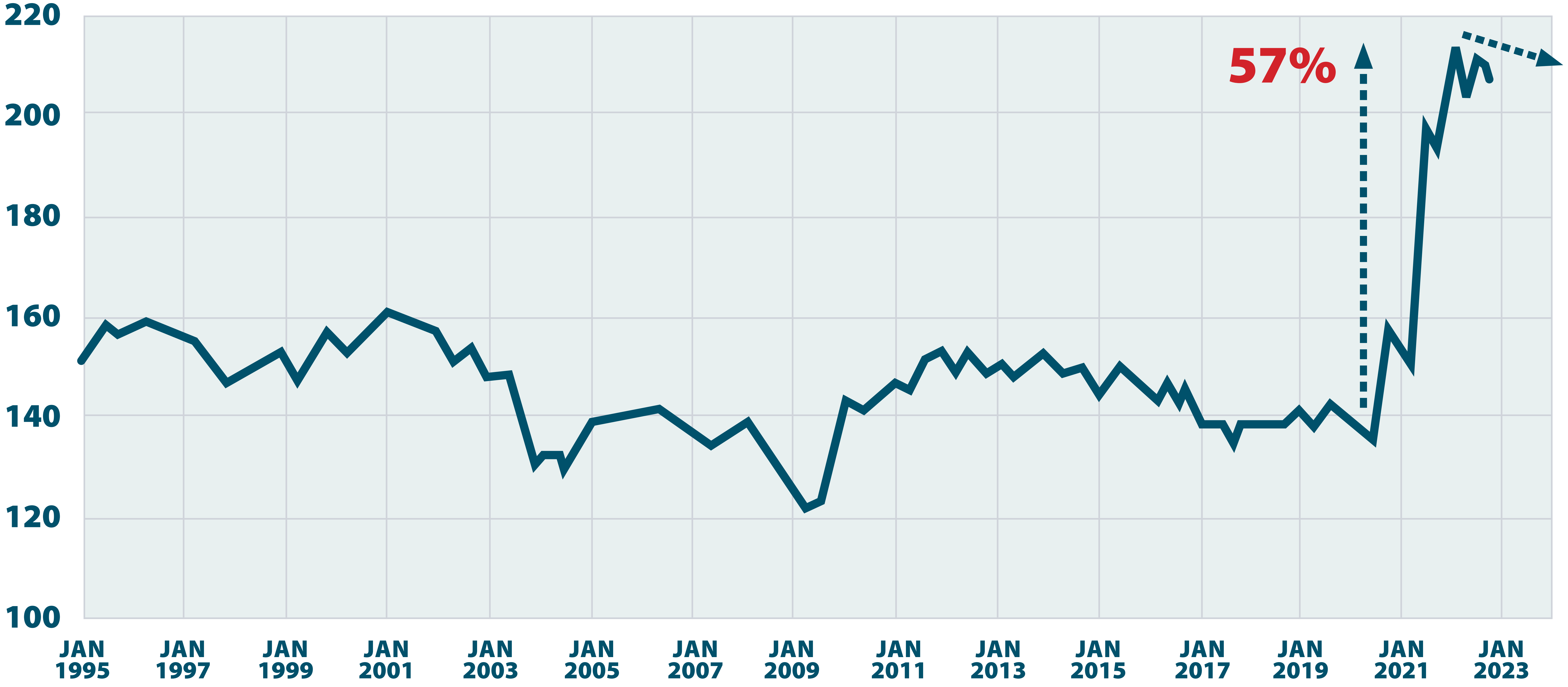
62.90% TOTAL

A 1.95% Recreation Commodities
B 1.63% Other Personal Services
C 1.49% Medical Care Commodities
D 1.45% Other Goods
E 1.07% Water, Sewer & Trash Collection Services
F 0.99% Alcoholic Beverages
G 0.90% Household Operations
H 0.47% Education & Communication Commodities

Data Source: U.S. Bureau of Labor Statistics. PEW Research Center.

After a 57% Rise, Used Car Prices Continue to Retreat

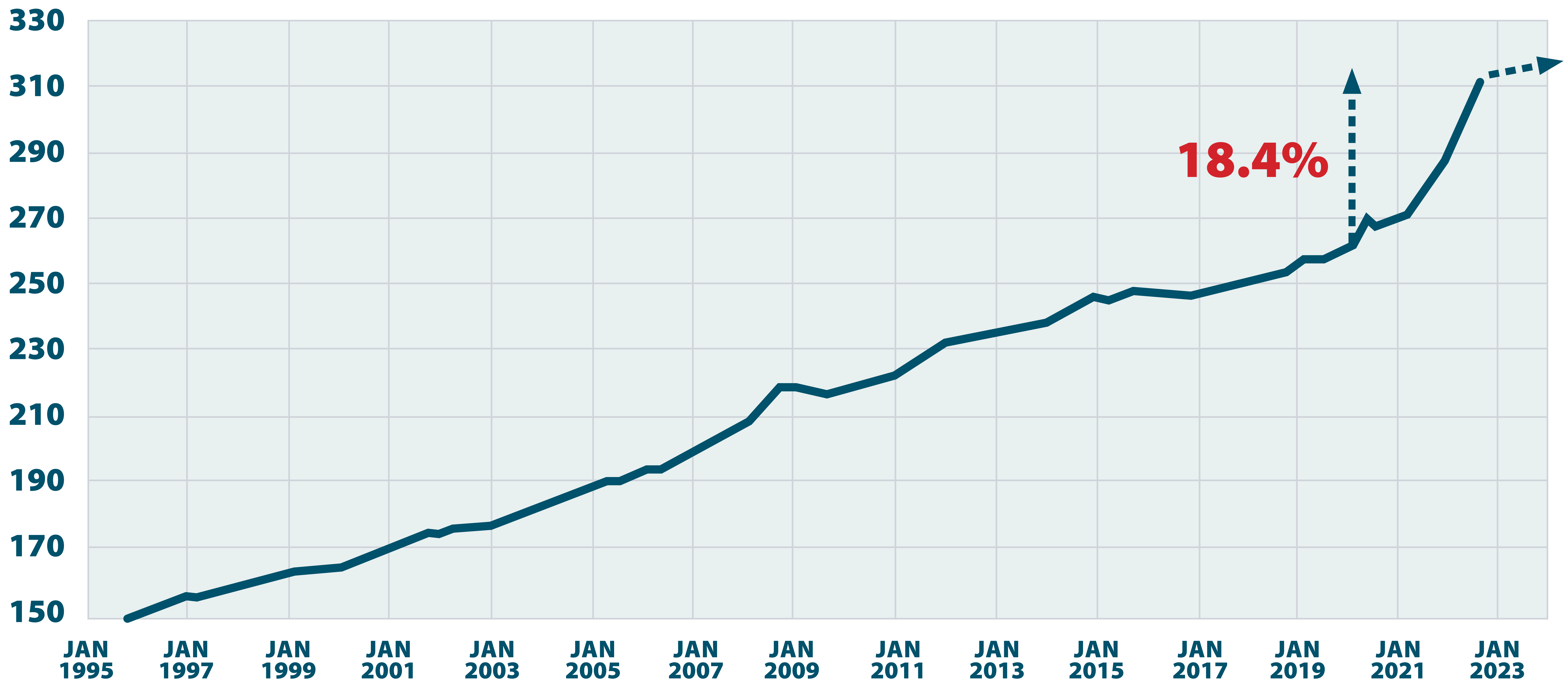
Used Car Prices - CPI Index 1995 – 2022 (SEP)



Data Source: Federal Reserve

After a 18.4% Rise, the CPI Food Index is Expected to Slow Down in 2023

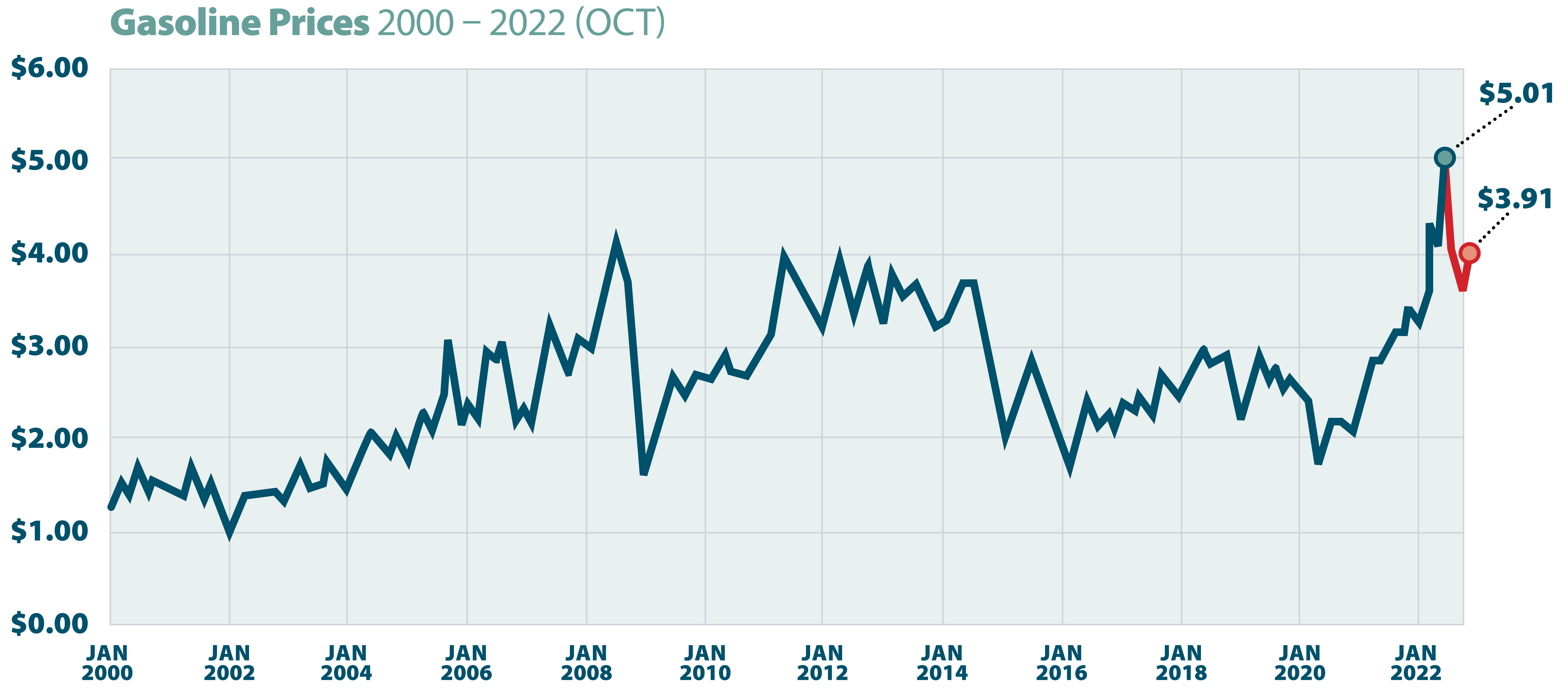
CPI Food Index 1995 – 2022 (SEP)



The USDA is forecasting only 2% - 3% increase in 2023

Data Source: Federal Reserve

The Decline in Gasoline Prices is Already Helping Lower The C.P.I.

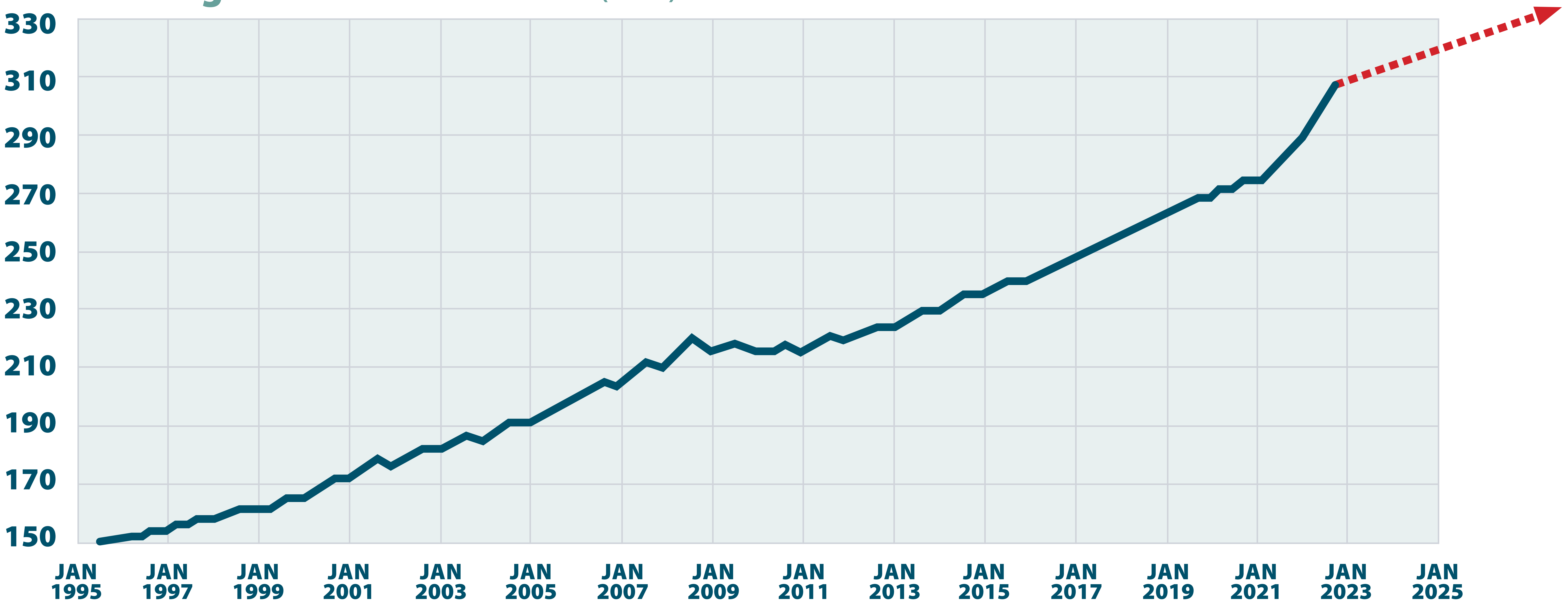


Data Source: Federal Reserve

The Housing CPI is a composite made from rents and rent equivalent costs

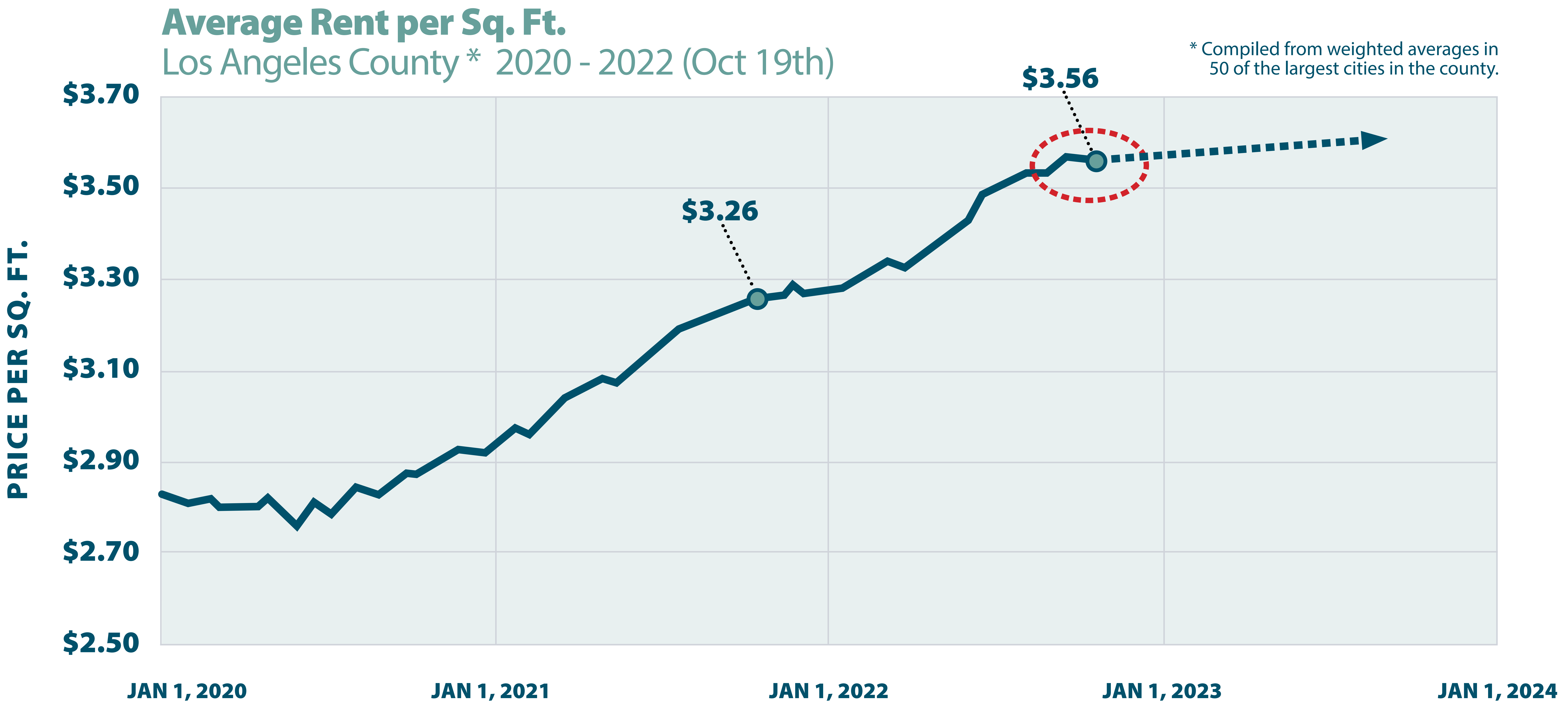
We believe low rent growth and falling home prices will flatten the Housing CPI to 2% to 3% by mid next year

Housing CPI Index 1995 – 2022 (SEP)



Data Source: Federal Reserve

Rent Increases Have Already Started to Slow in L.A. County

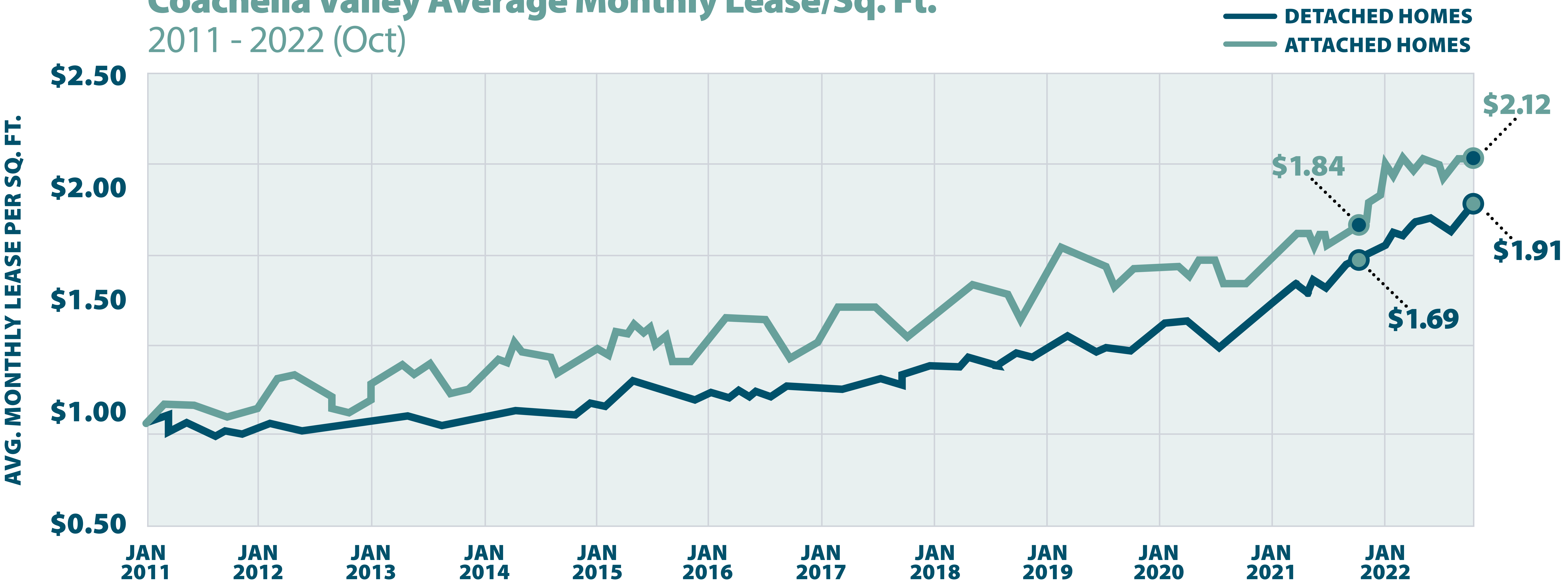


Data Source: GPSR and CDAR MLS Database

Coachella Valley Long Term Rents (SFR) Still Strong

- Up 13.5% Last Twelve Months
- Valley Rents Are 46% Less than in LA County
- Will Probably Also Slowdown

Coachella Valley Average Monthly Lease/Sq. Ft.
2011 - 2022 (Oct)



Data Source: GPSR and CDAR MLS Database

Final Summary

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Good News: We think the sudden rise in the CPI is over and after January 1st , mortgage rates will gradually return to lower levels by next summer - 4.5% to 5%.

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Until Then:
High Rates are "Freezing" the Market. There Are 15% to 20% Fewer Daily New Listings.

- **Homeowners are staying put. They don't want to sell, then re-buy at higher rates.**
- **No "home sellers" means no "home re-buyers"**

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Sales Should Continue To Run 20% Below Pre-pandemic Averages Until Summer.

Expect a 15% Price Decline also Until Next Summer.

PALM SPRINGS LIFE market WATCH

WINTER WEBINAR

FRANKLIN LOAN CENTER

NOVEMBER 16, 2022

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OVERVIEW

- 2021 vs 2022
- Inflation data – CPI – shelter component
- The FED
- Recession indicators and predictions
- Interest rate dynamic
- Real estate values
- 2023 yellow cards

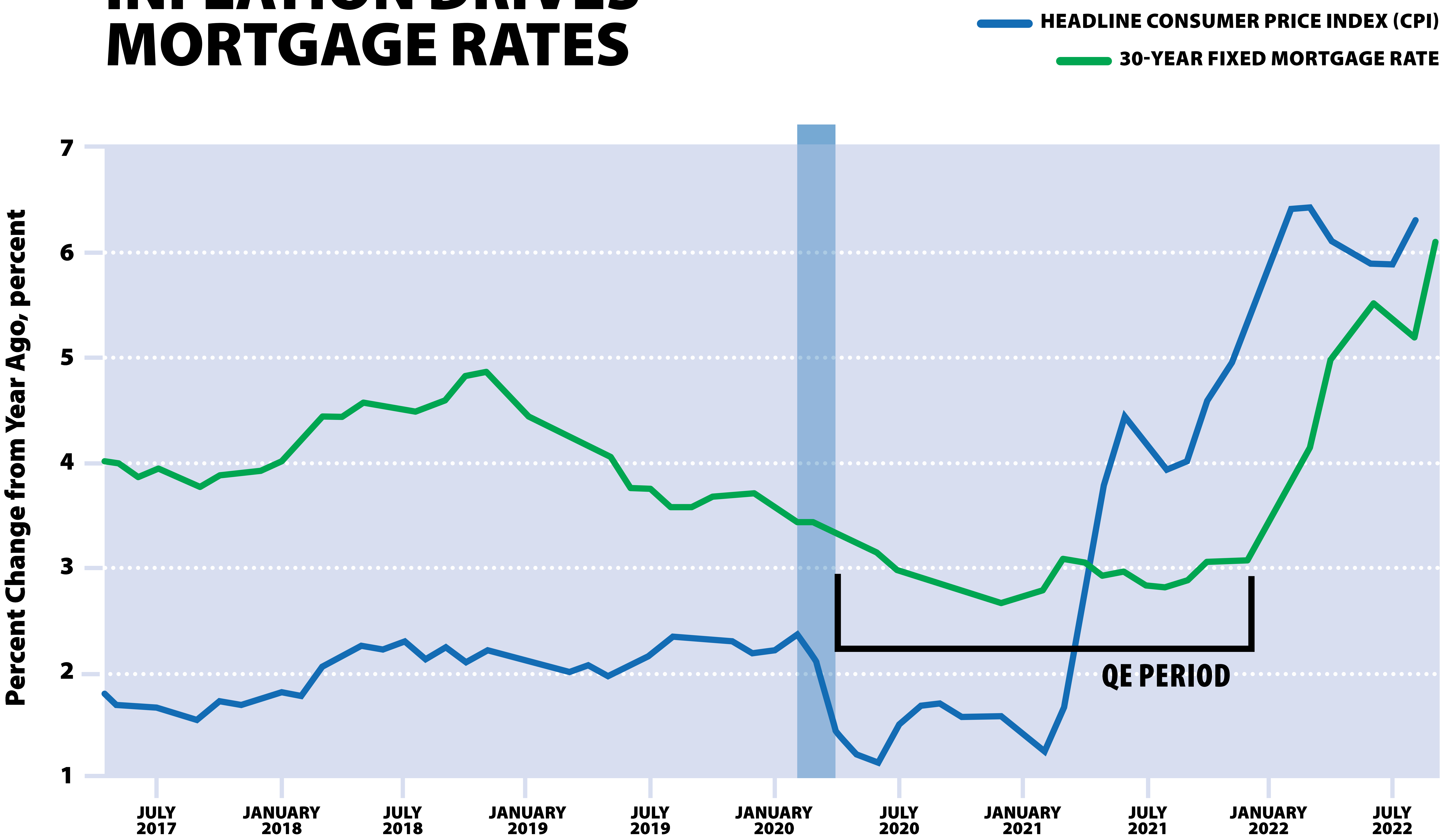
There have been a lot of 'Shots' taken at the US Economy

HOW LONG CAN THE US ECONOMY DEFEND AGAINST A RECESSION?

2021	STATISIC	2022
0.25%	FED FUNDS RATE	4.0%
-12.4%	FEDERAL DEFICIT	-4.3%
$3.02	AVERAGE GASOLINE PRICE	$4.10
4.68%	AVERAGE INFLATION	8.31%
60	ISM MANUFACTURING	55
562K	JOB CREATION/MONTH	438K
78	CONSUMER SENTIMENT	59
73	S&P 500 RECORD HIGHS	1

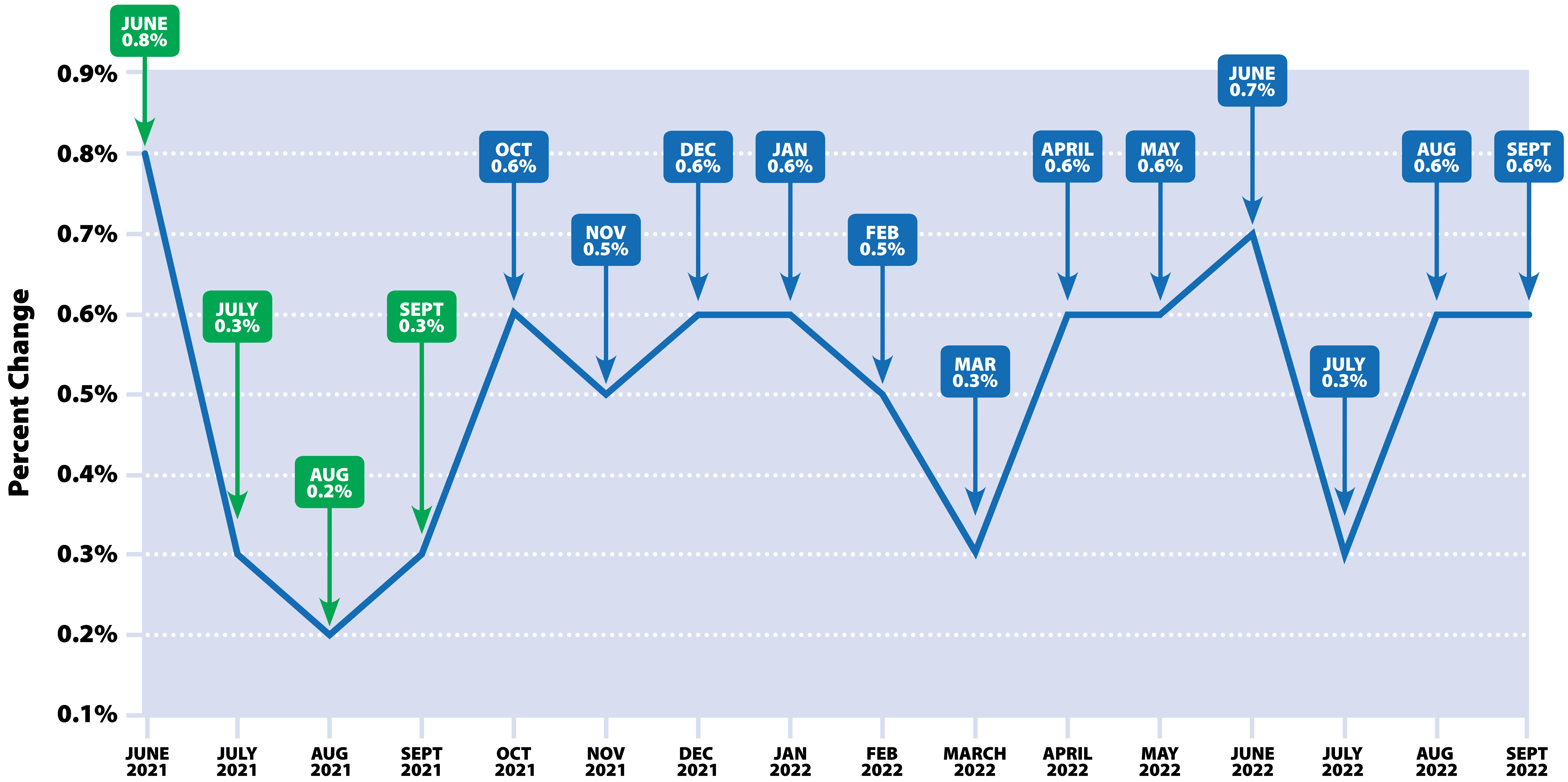
Source: FactSet, Data as of 9/30/2022. All numbers are full-year averages except for the Fed Funds rate, the federal deficit and the number of S&P 500 record highs.

INFLATION DRIVES MORTGAGE RATES



WHEN WILL INFLATION PEAK?

Core Consumer Price Index (CPI) – currently 6.6% YOY



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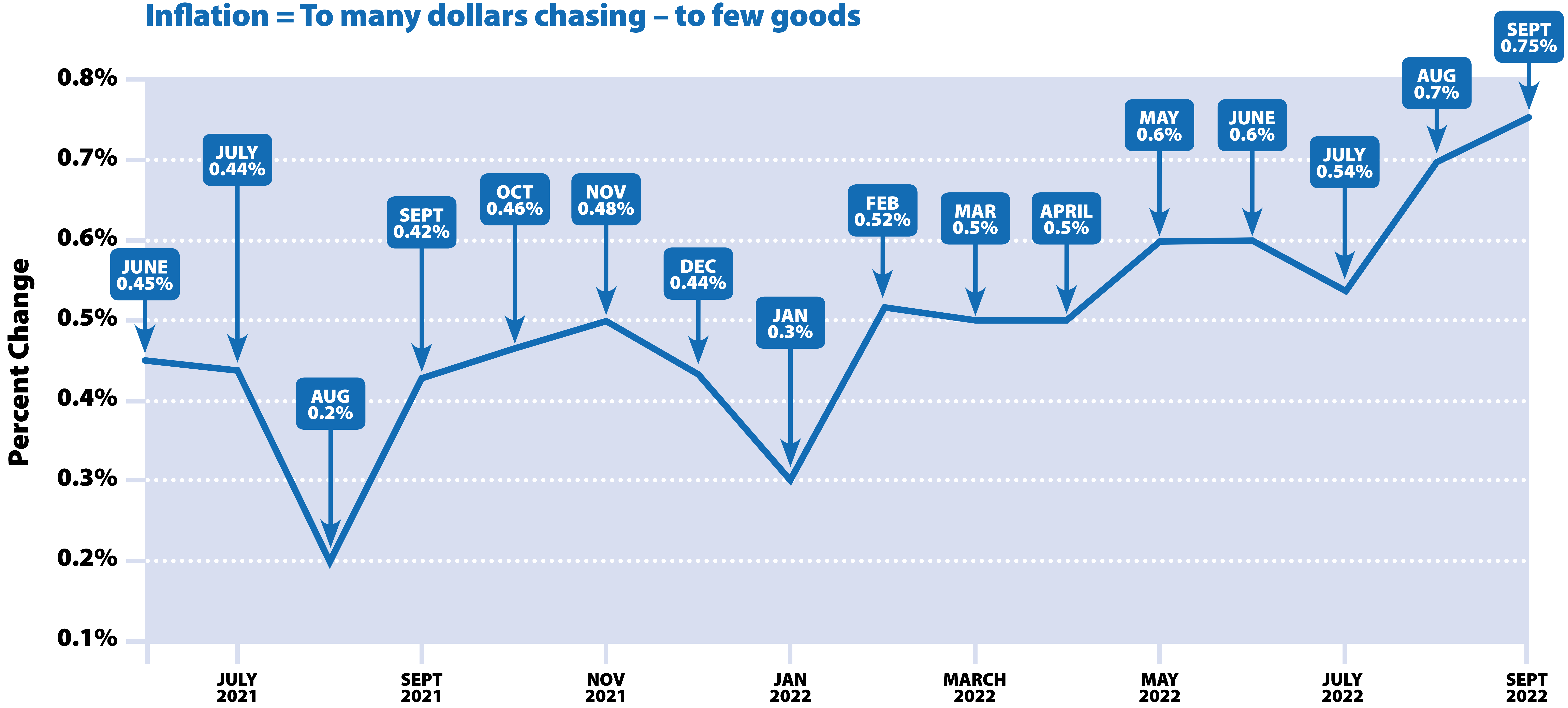
SHELTER INFLATION HURTS THE MOST

WHEN WILL SHELTER PEAK?

Shelter costs make up 39% of Core CPI
Continues higher over next few months, but must get past January to see real progress

Inflation = To many dollars chasing – to few goods



SHELTER COSTS ARE LAGGING

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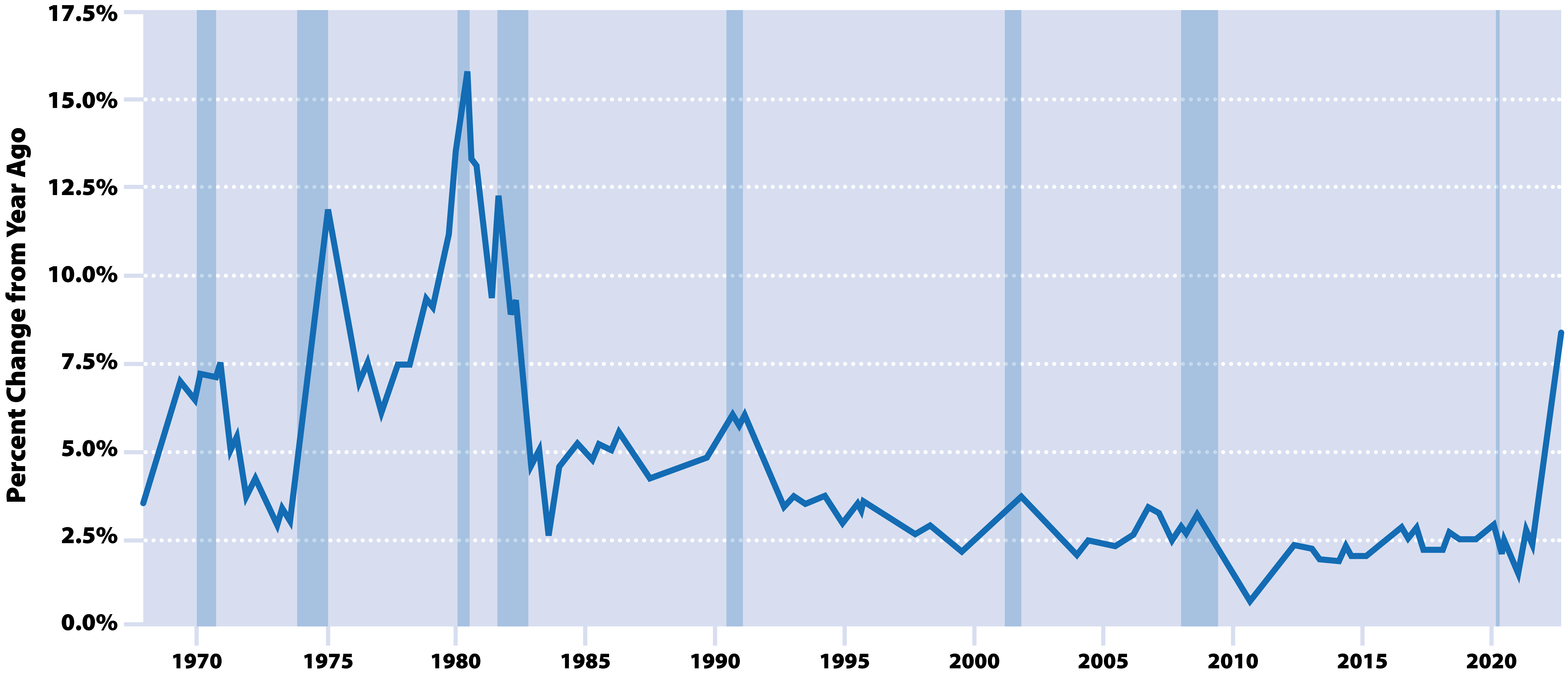
STICKY PRICE CONSUMER PRICE INDEX LESS FOOD AND ENERGY



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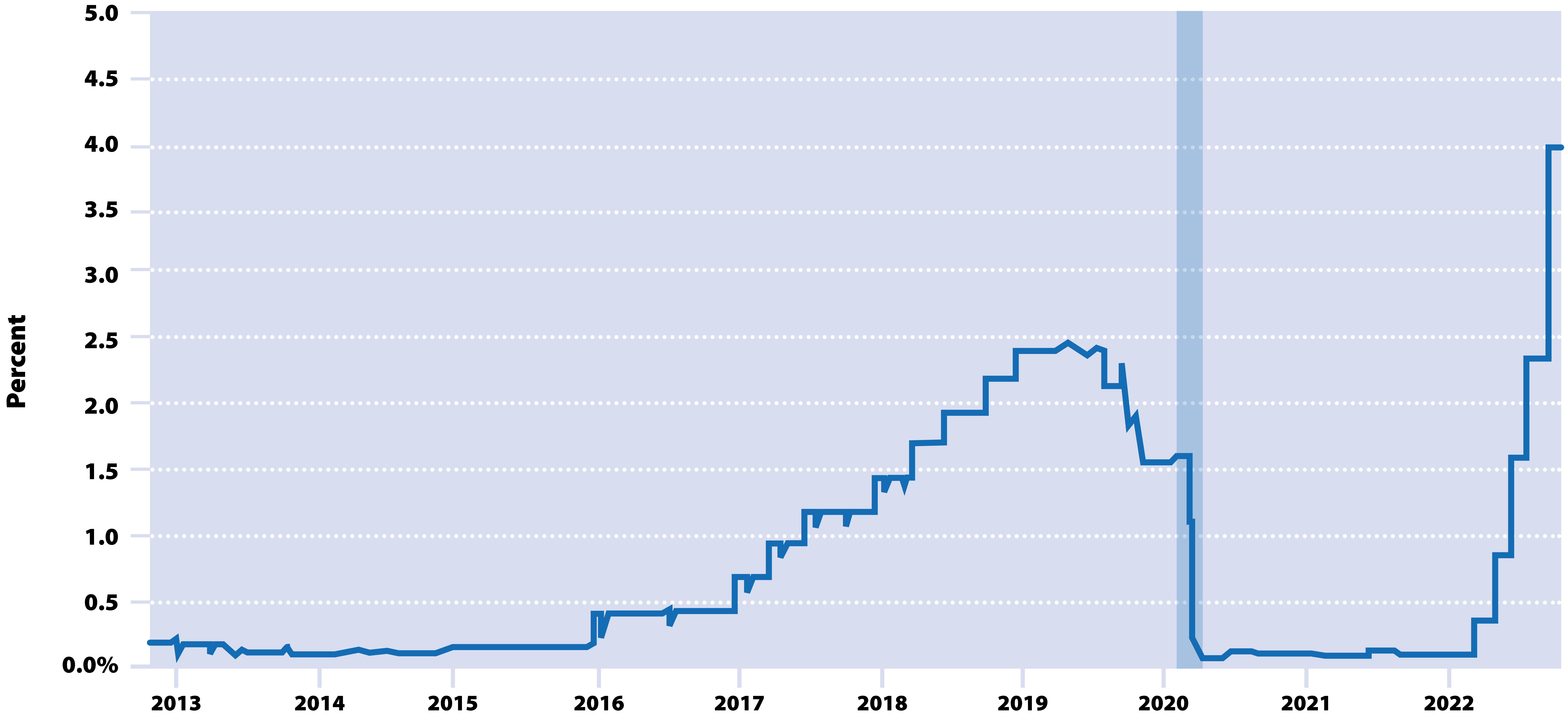
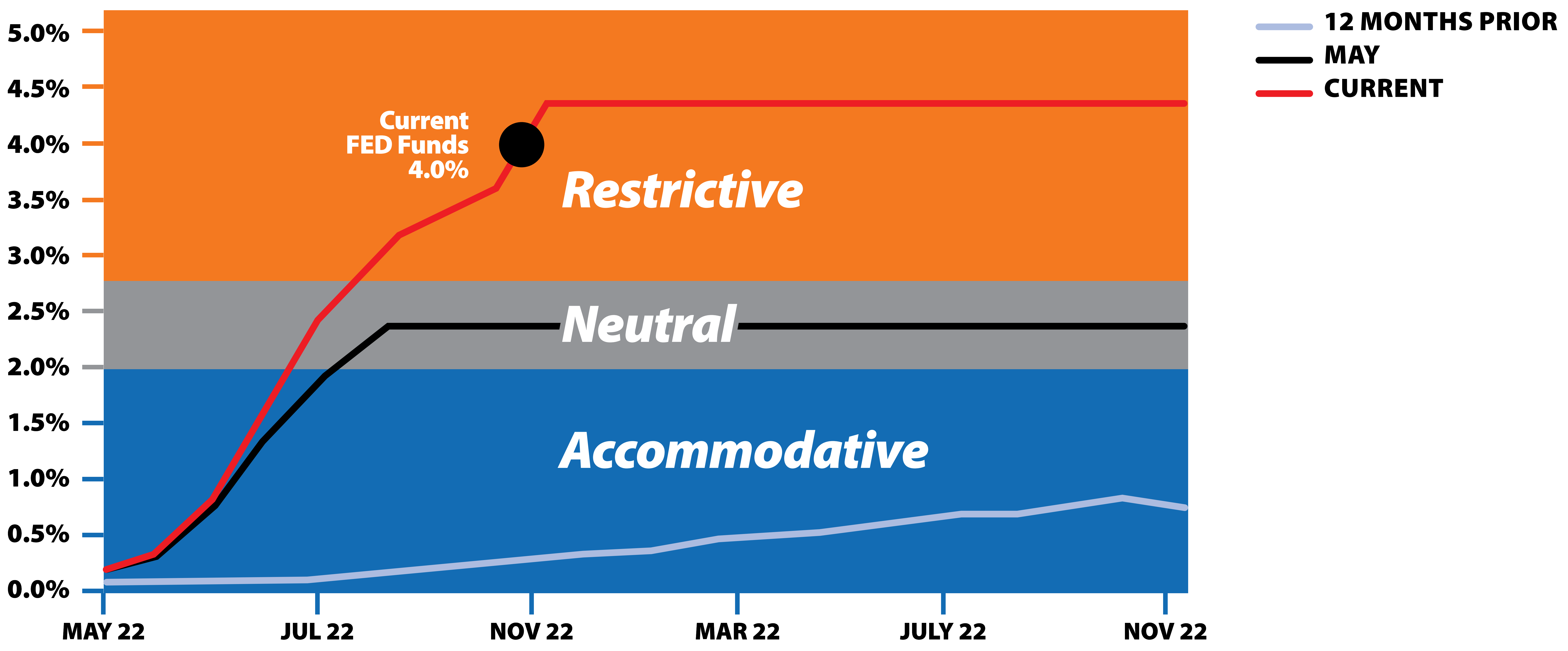
FEDERAL FUNDS EFFECTIVE RATE



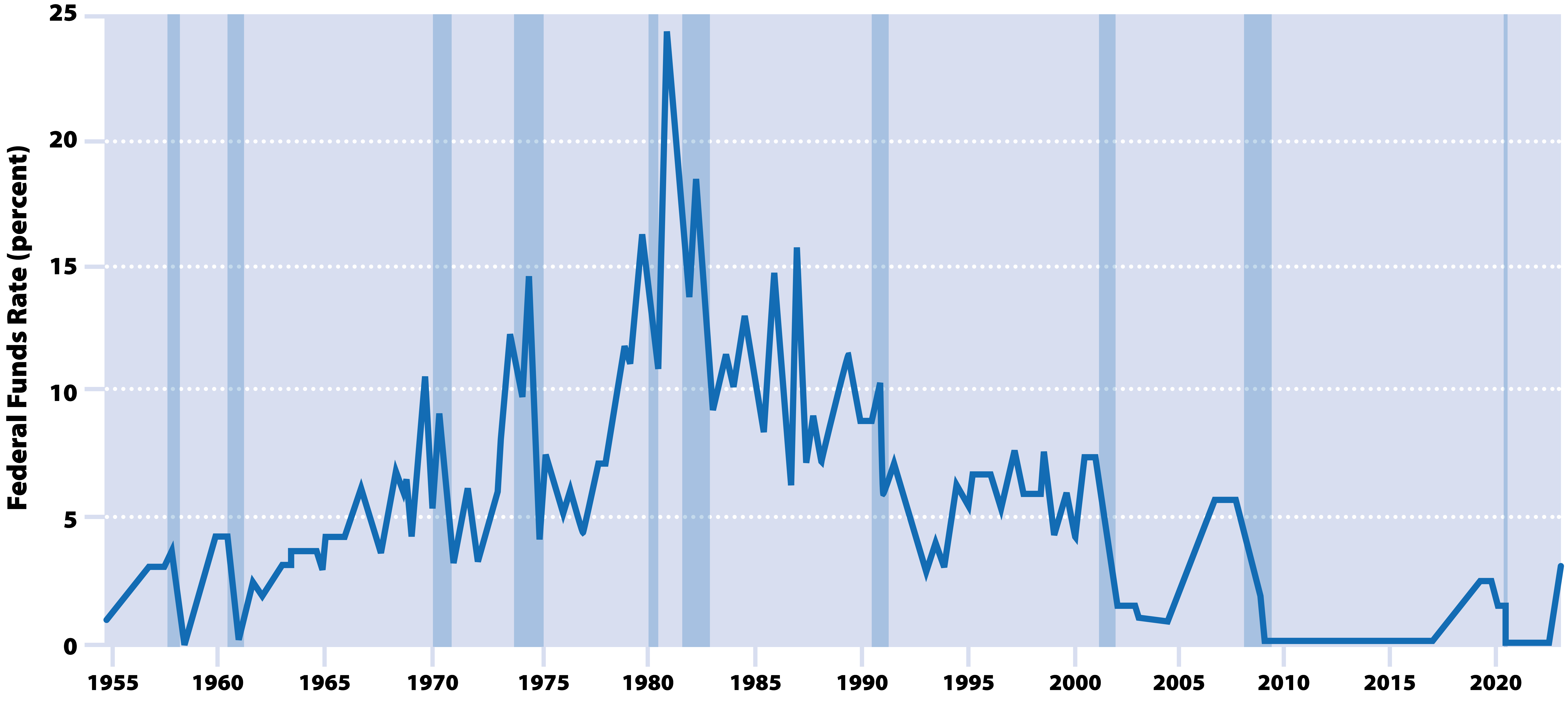
FED POLICY BECOMES 'RESTRICTIVE'

The FED has been aggressive lifting interest rates to curb inflation

- The Fed Has aggressively hiked rates into restrictive territory

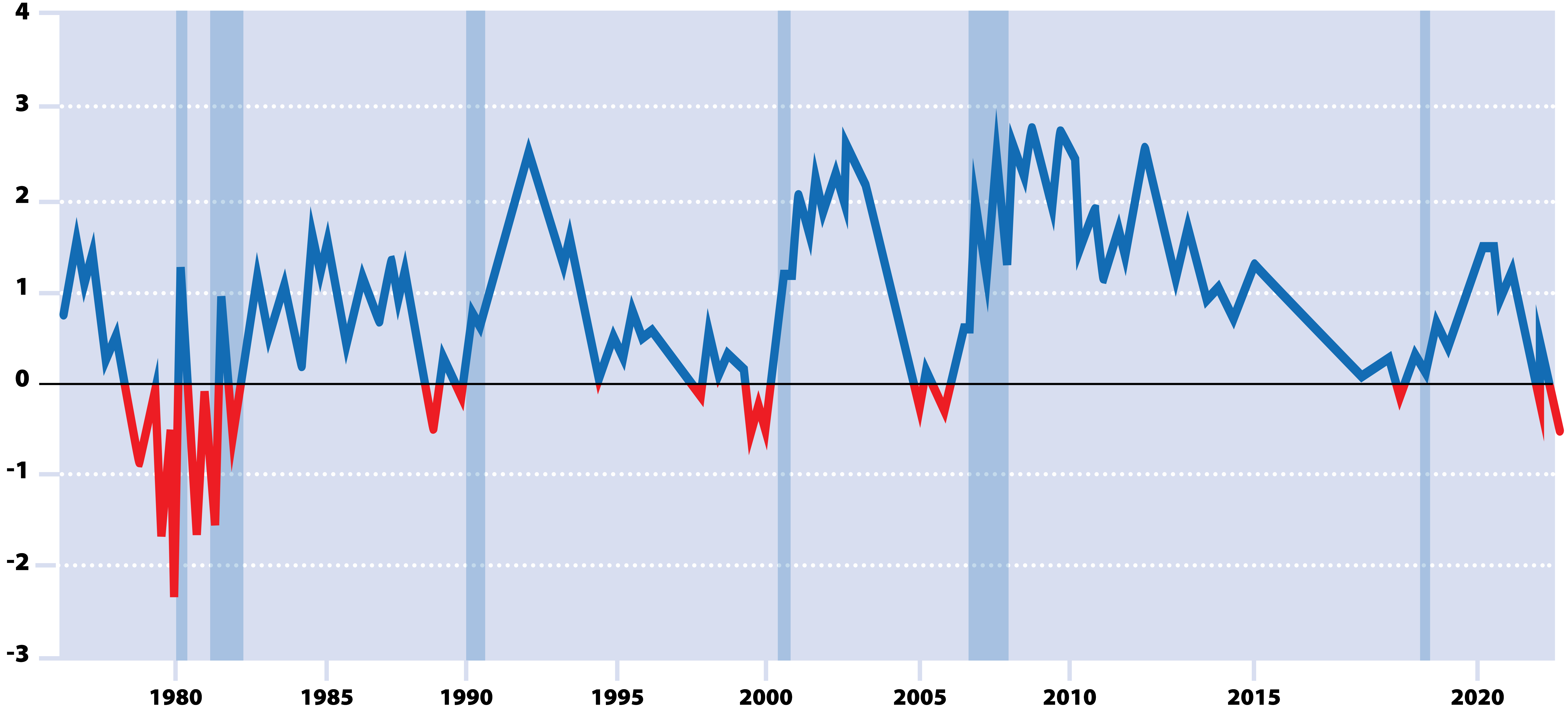


FED HIKES LEAD TO RECESSIONS



INVERSIONS LEAD TO RECESSIONS

10-year minus 2-year Treasury yield spread



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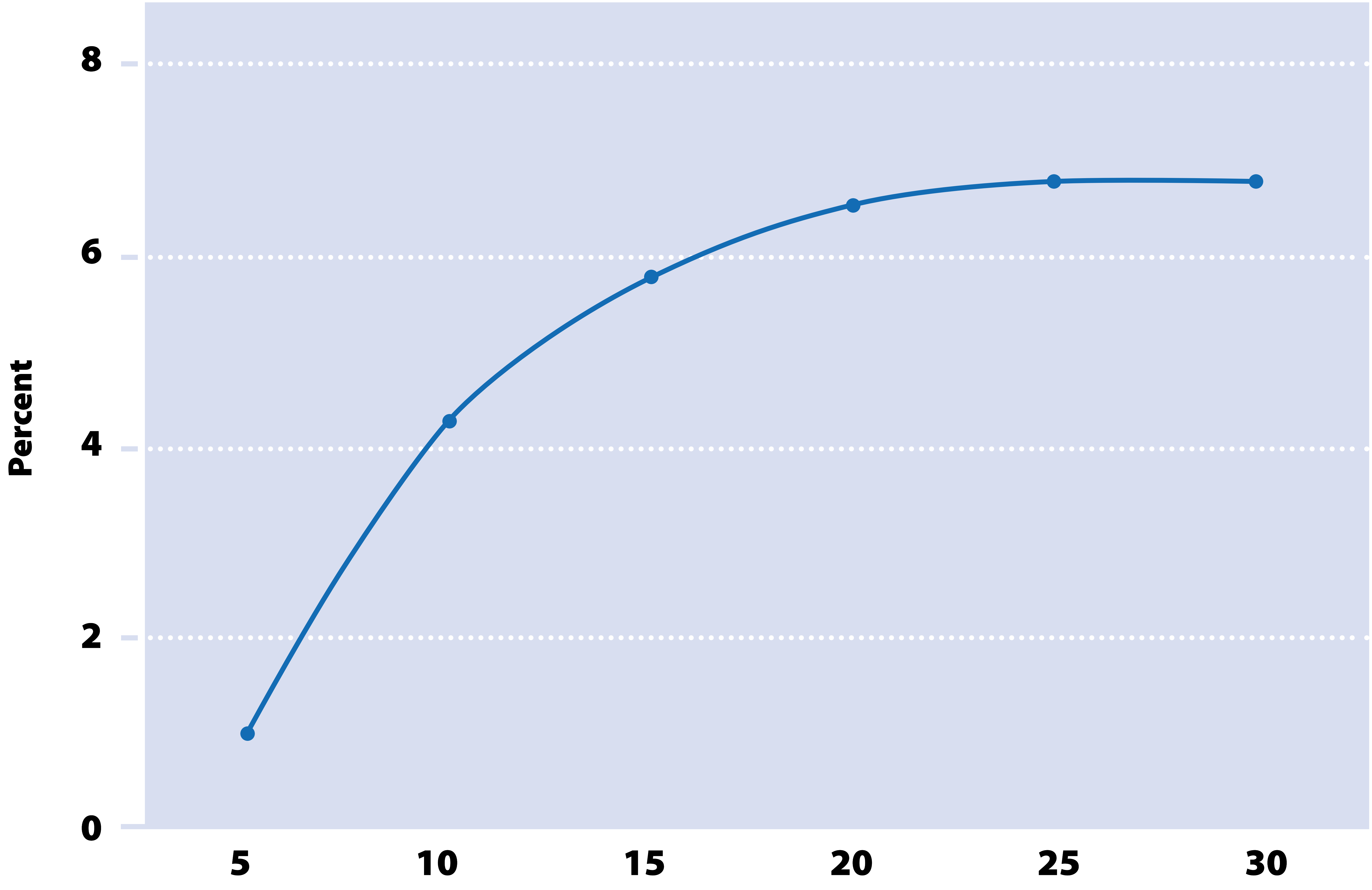
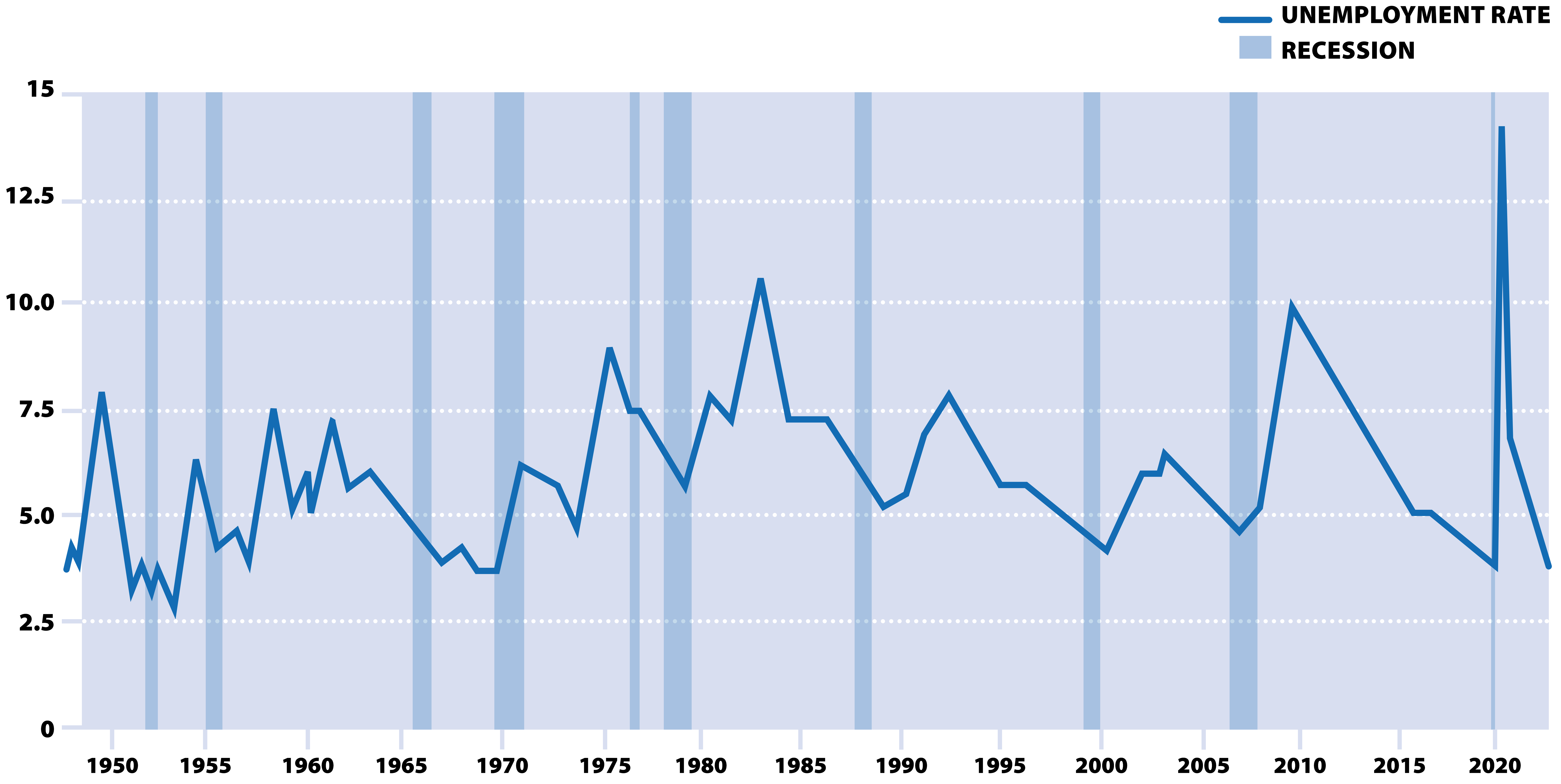
NORMAL YIELD CURVE

Interest = The Price of Time



UNEMPLOYMENT RATE & RECESSIONS



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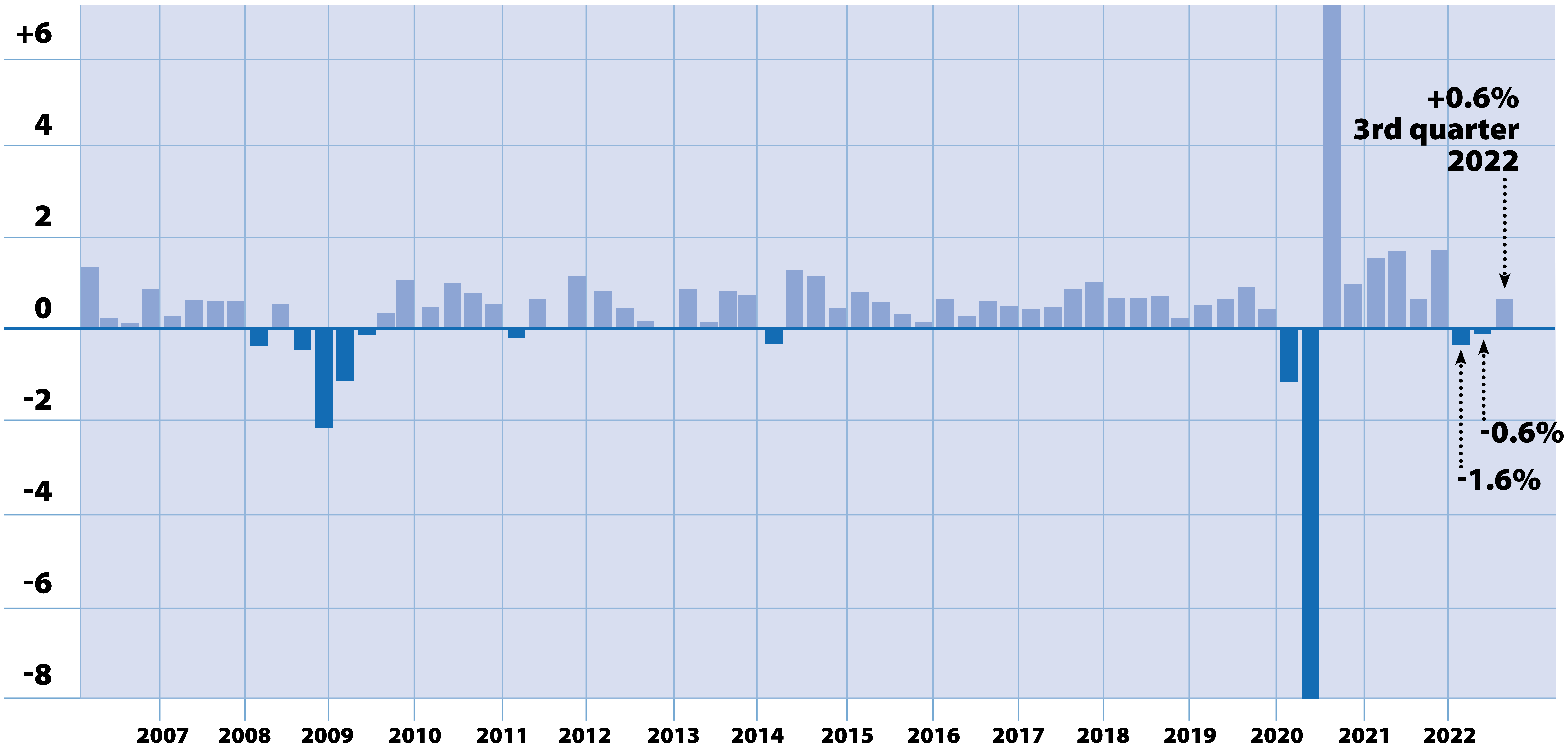
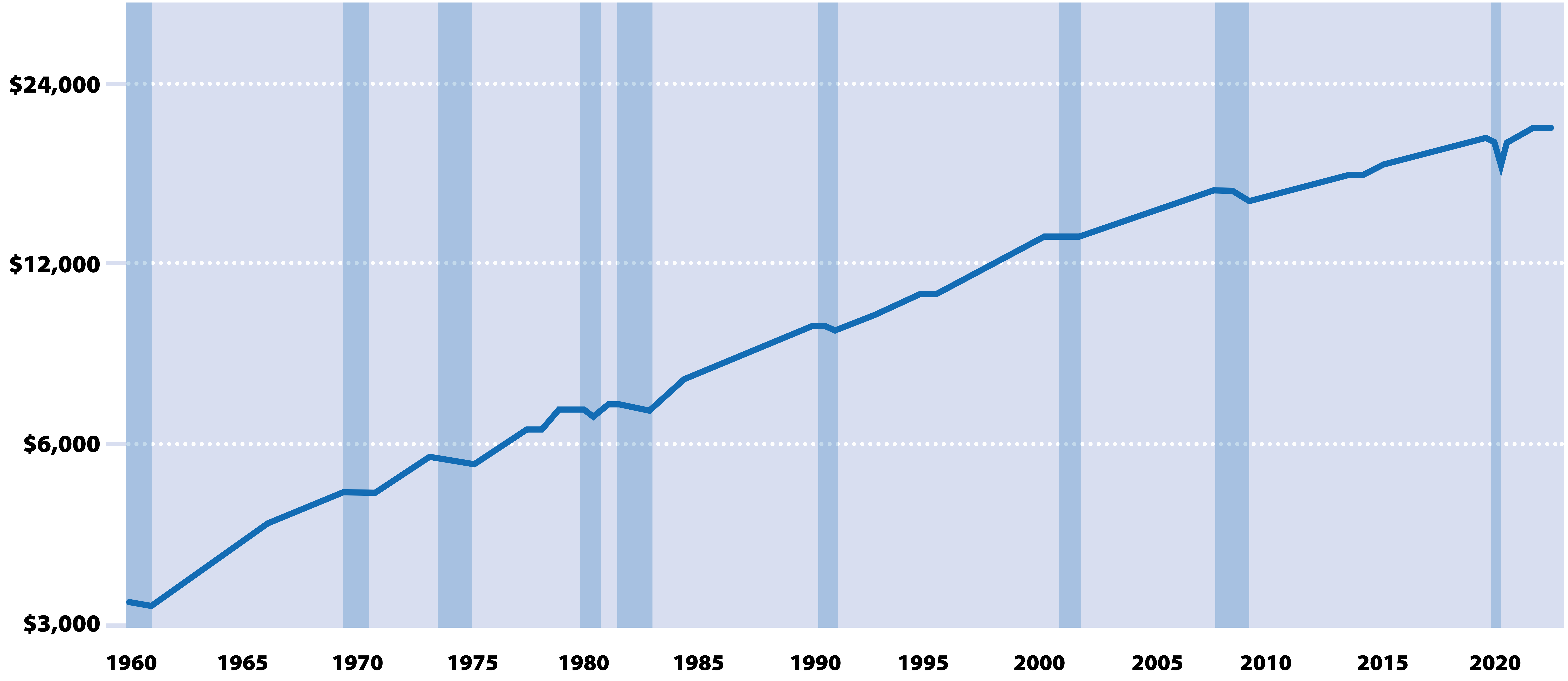
GROSS DOMESTIC PRODUCT



REAL GROSS DOMESTIC PRODUCT

1960–2022 (Sep)

2012 DOLLARS



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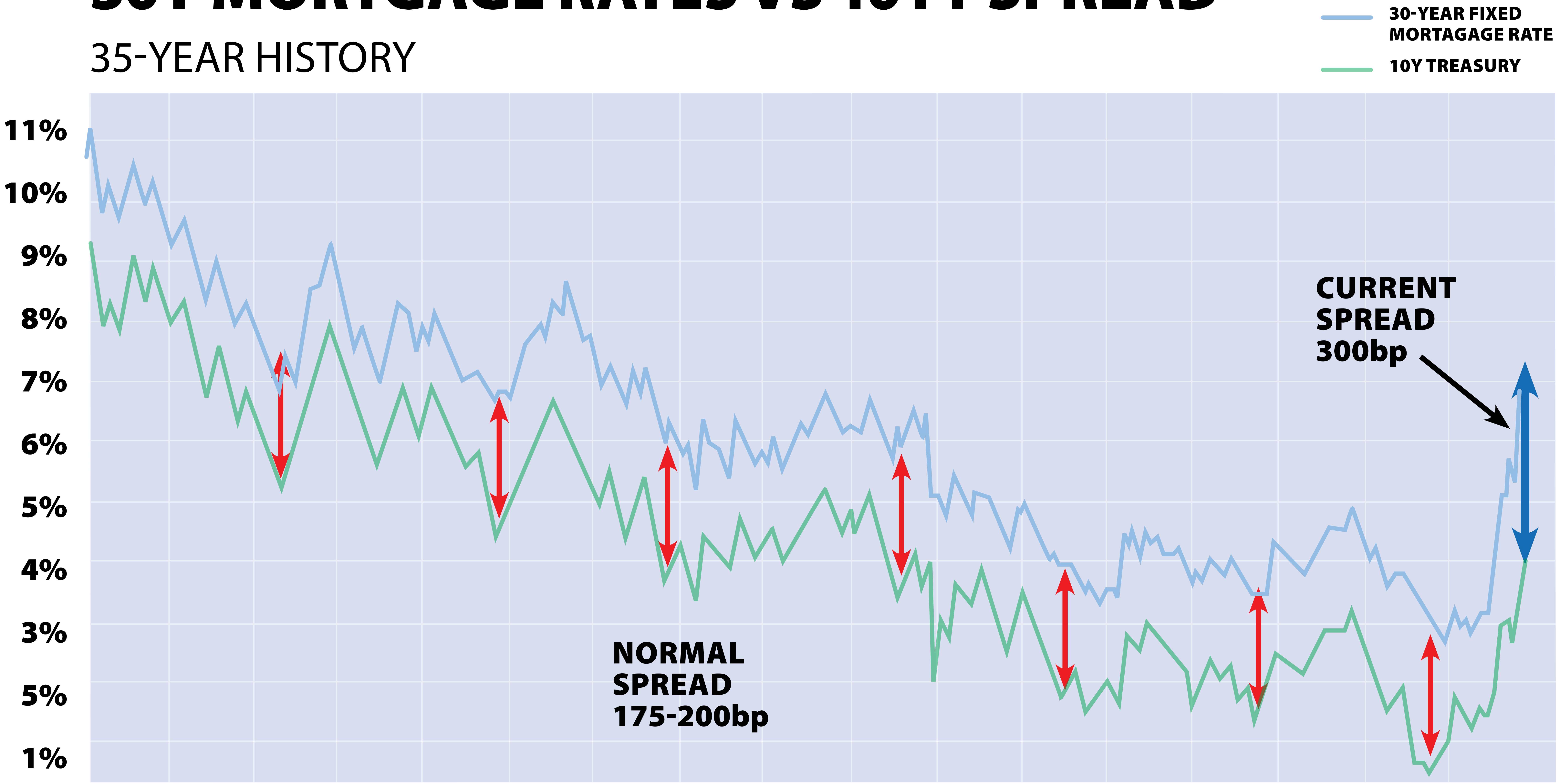
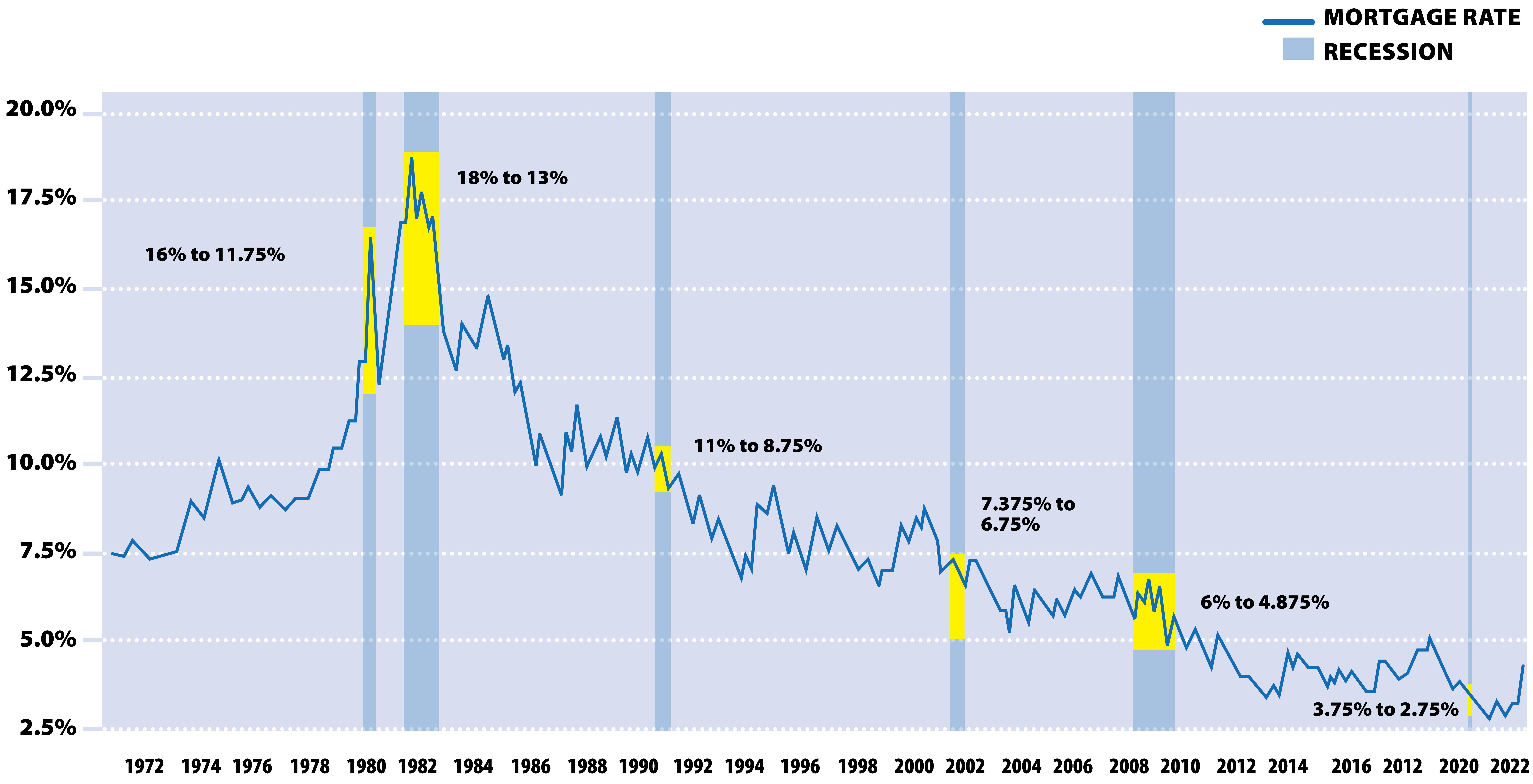
30Y MORTGAGE RATES VS 10YT SPREAD

35-YEAR HISTORY

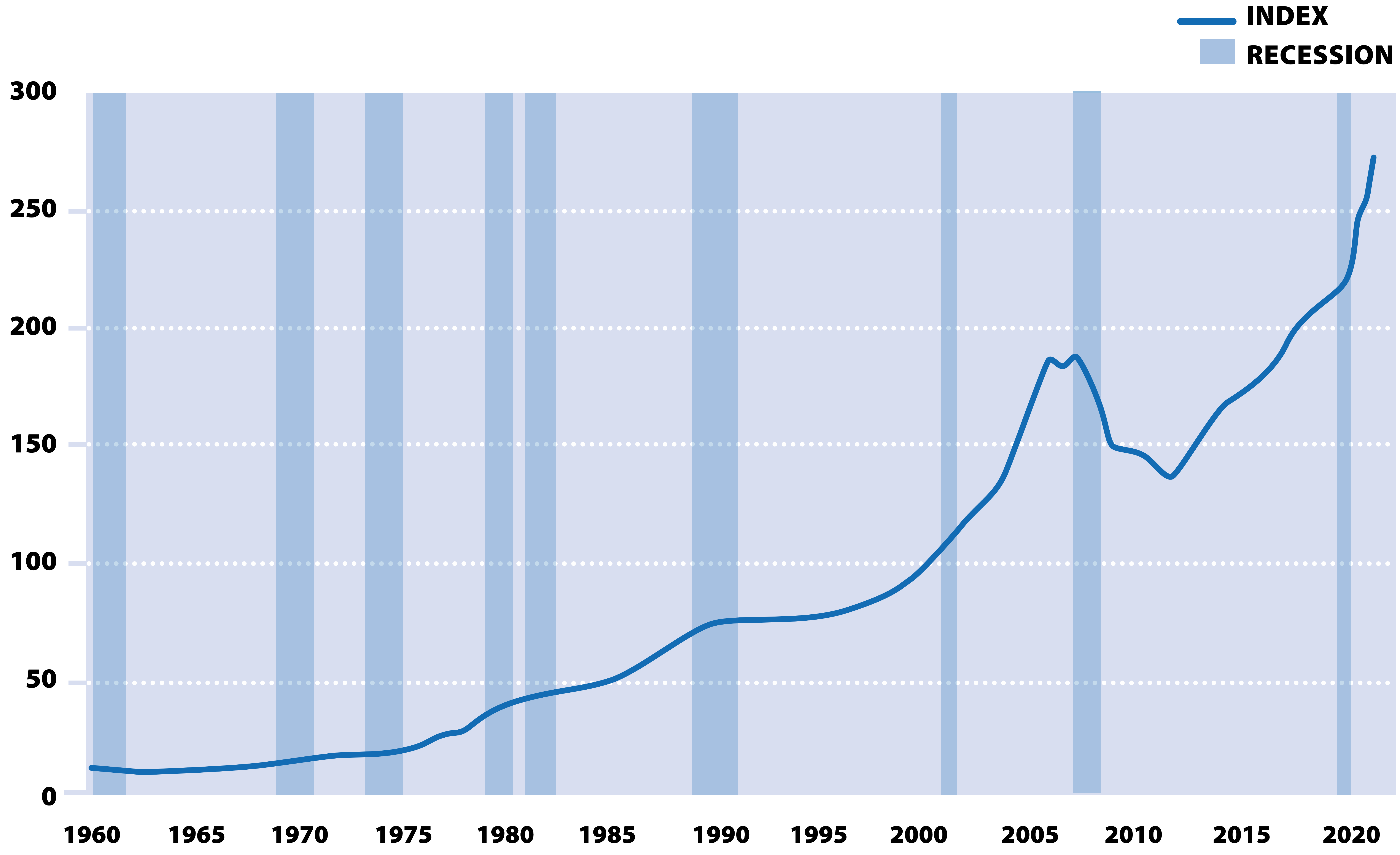


MORTGAGE RATES & RECESSIONS



HOUSING STAYS STRONG THROUGH RECESSIONS

S&P Case-Shiller U.S. National House Price Index



WHERE WE CAME FROM & WHERE WE ARE GOING? FALL WEBINAR

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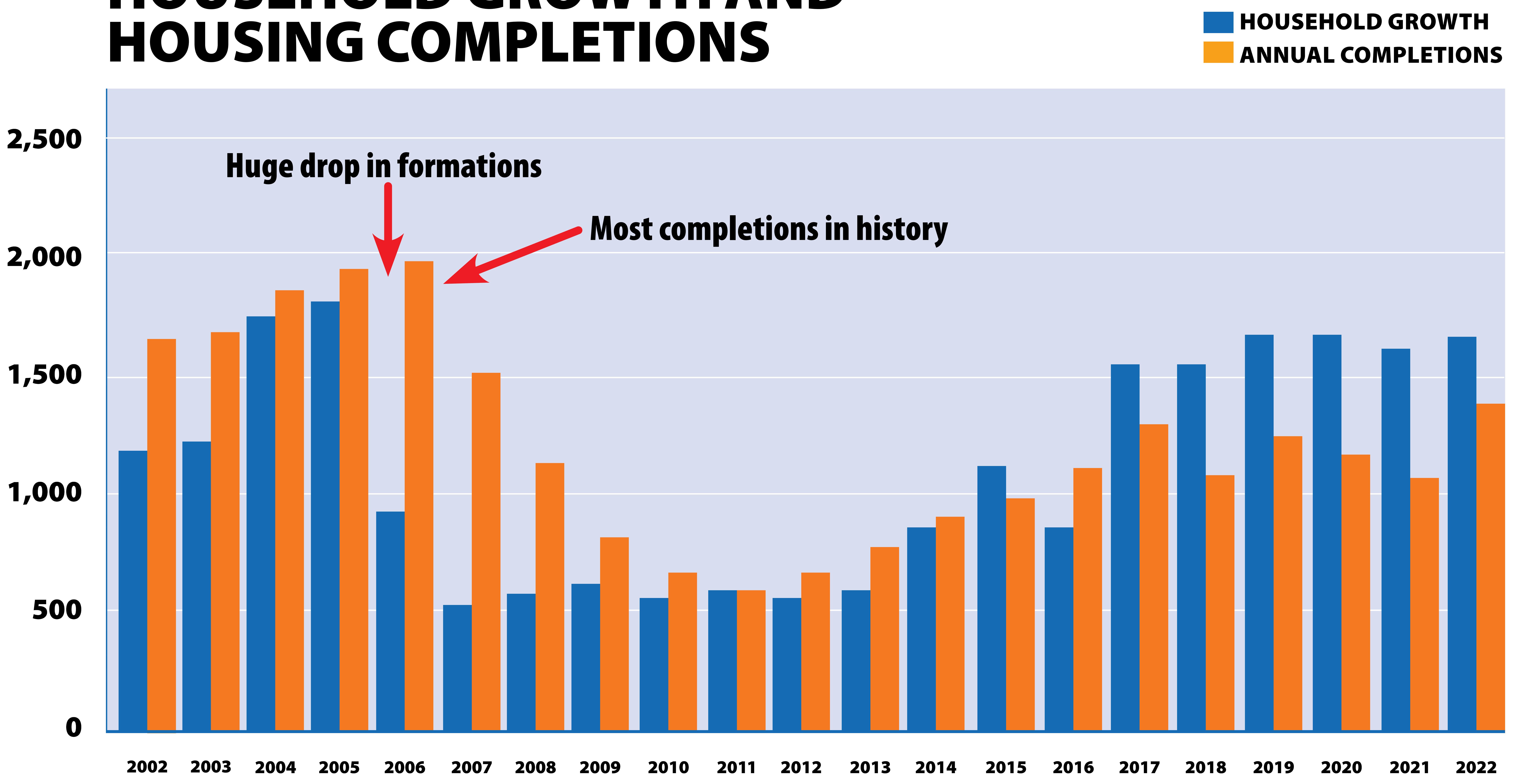
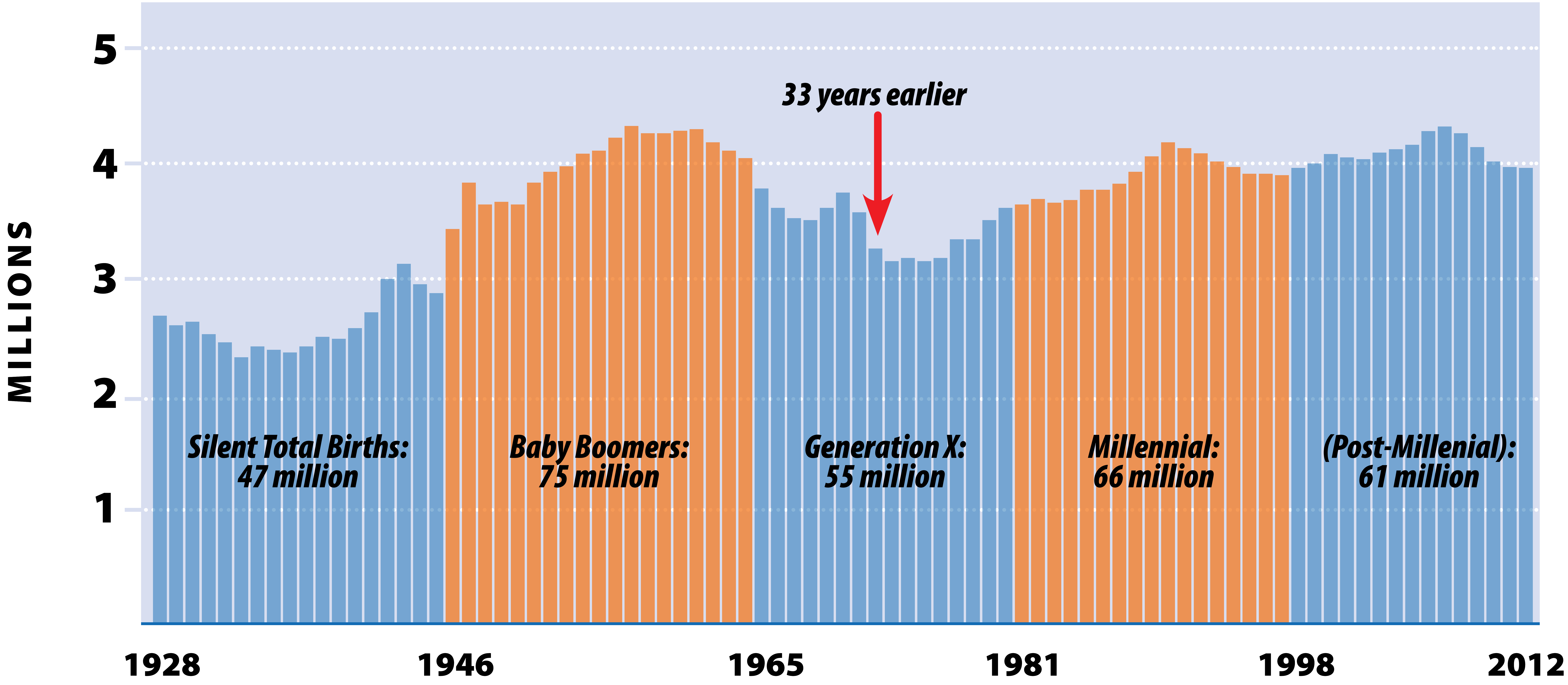
HOUSEHOLD GROWTH AND HOUSING COMPLETIONS



BIRTHS UNDERLYING EACH GENERATION

Number of U.S. births by year and generation



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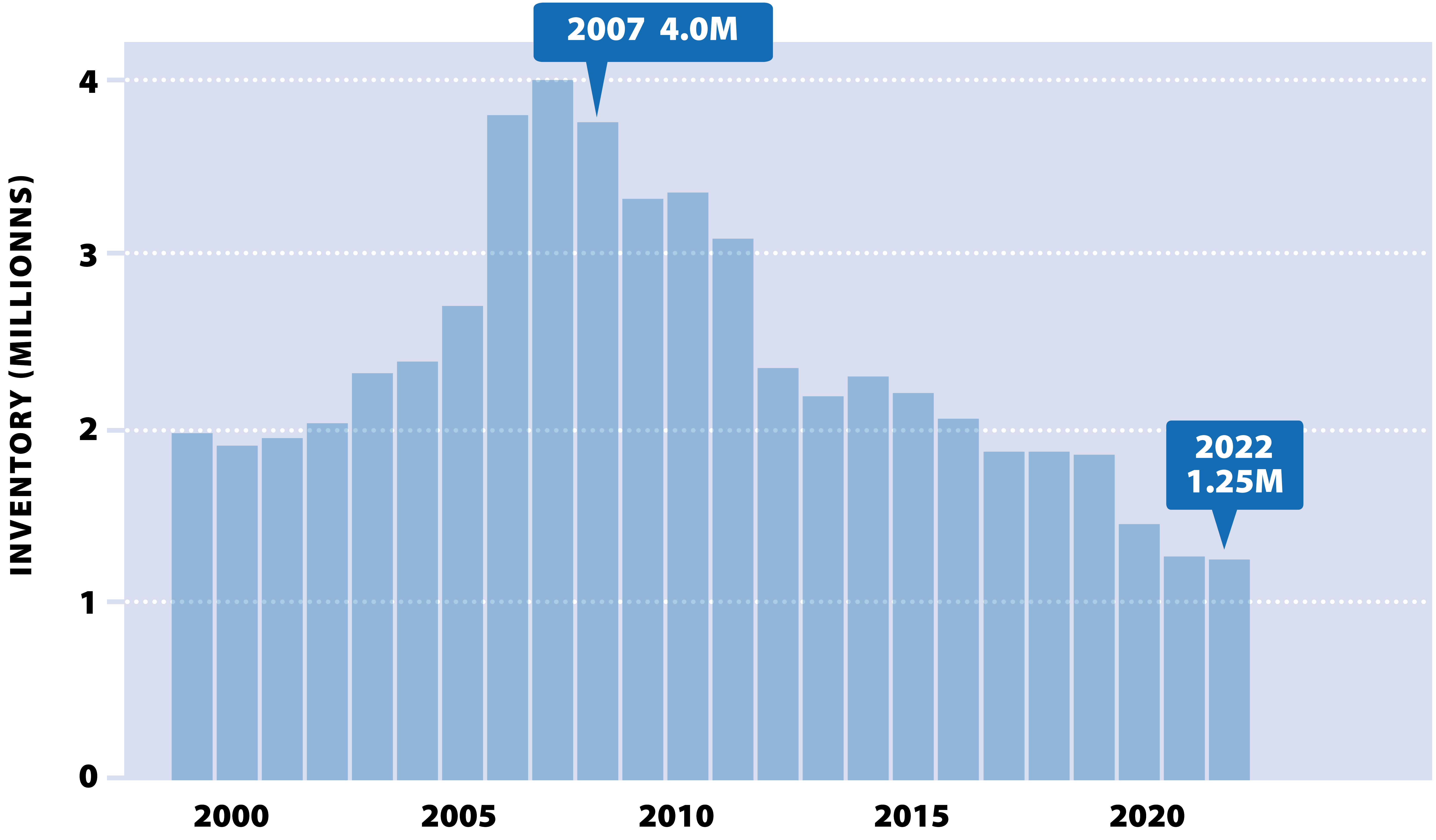
EXISTING HOME INVENTORY

1999-2022



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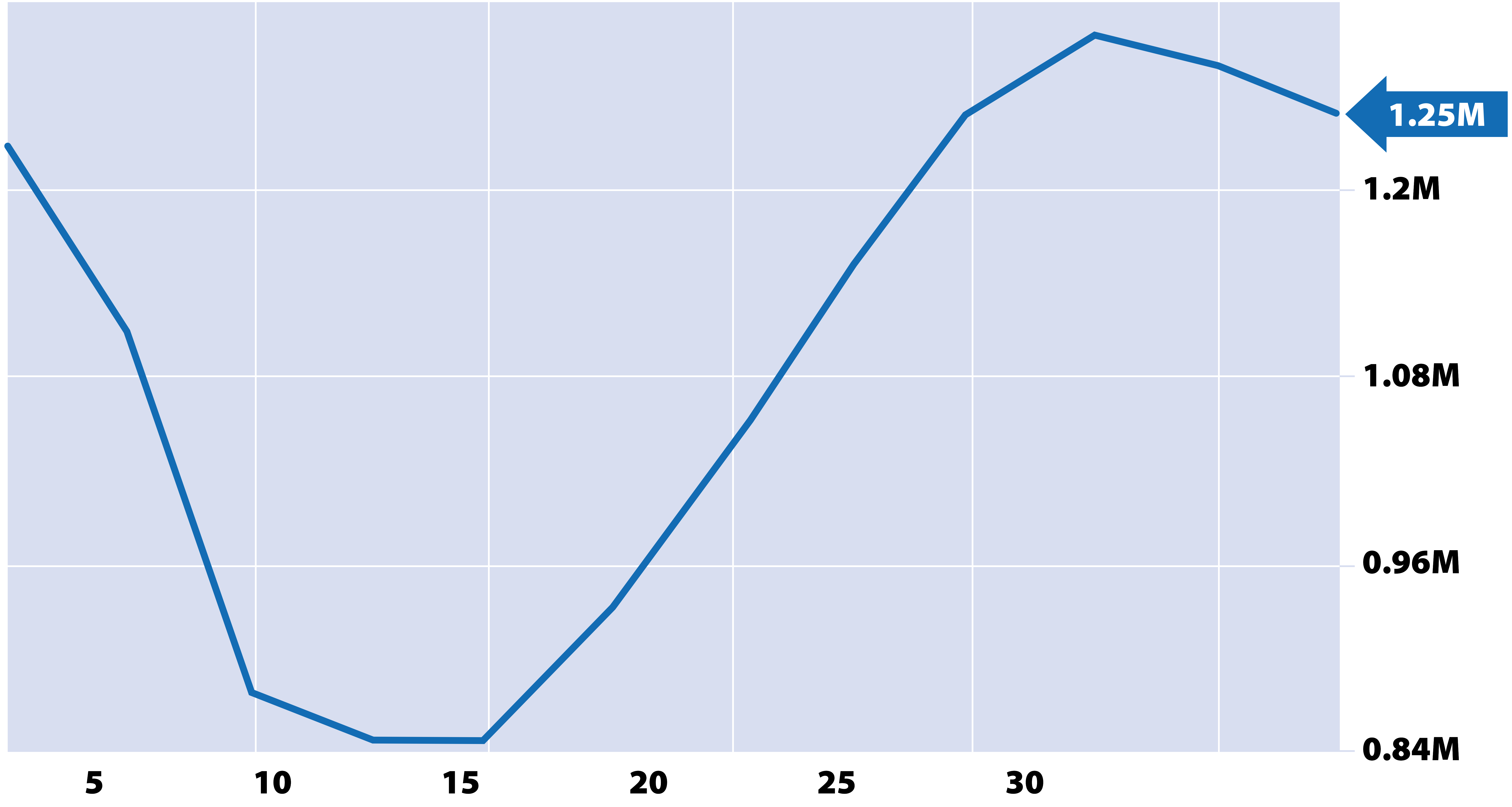
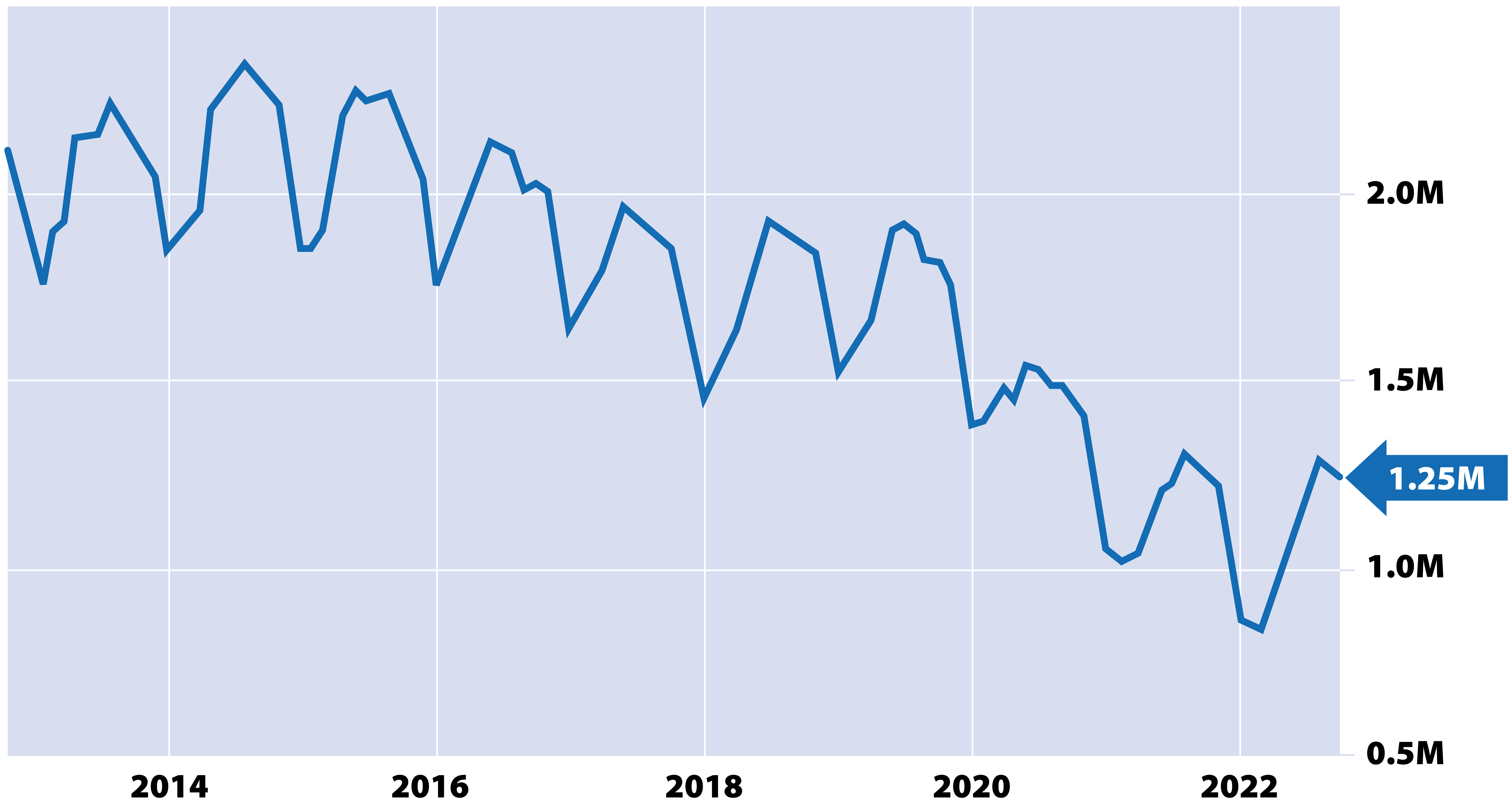
RISING EXISTING HOME INVENTORY

Interest = The Price of Time



NORMAL CYCLE



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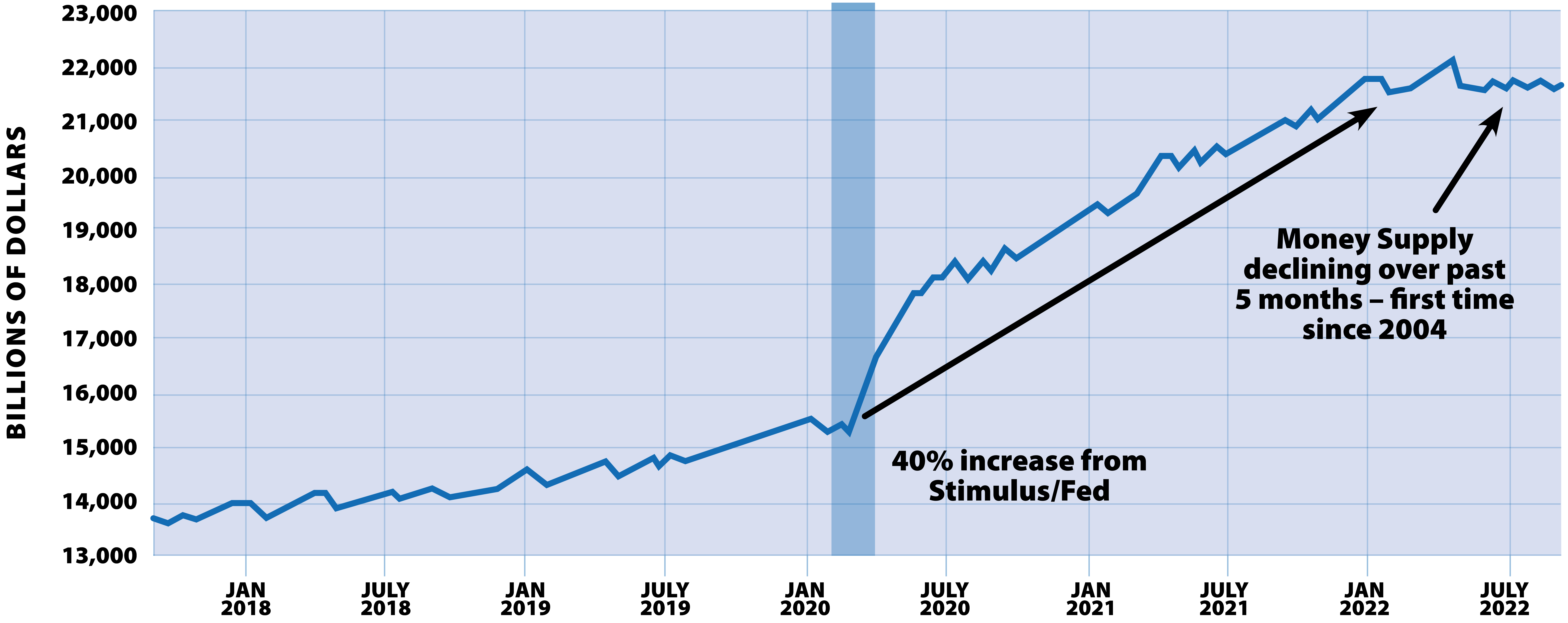
MONEY SUPPLY

Lacy Hunt expects money supply to get to a more neutral level in March, removing the excess in the system over the past 2 years from stimulus and the injection of liquidity from the Fed



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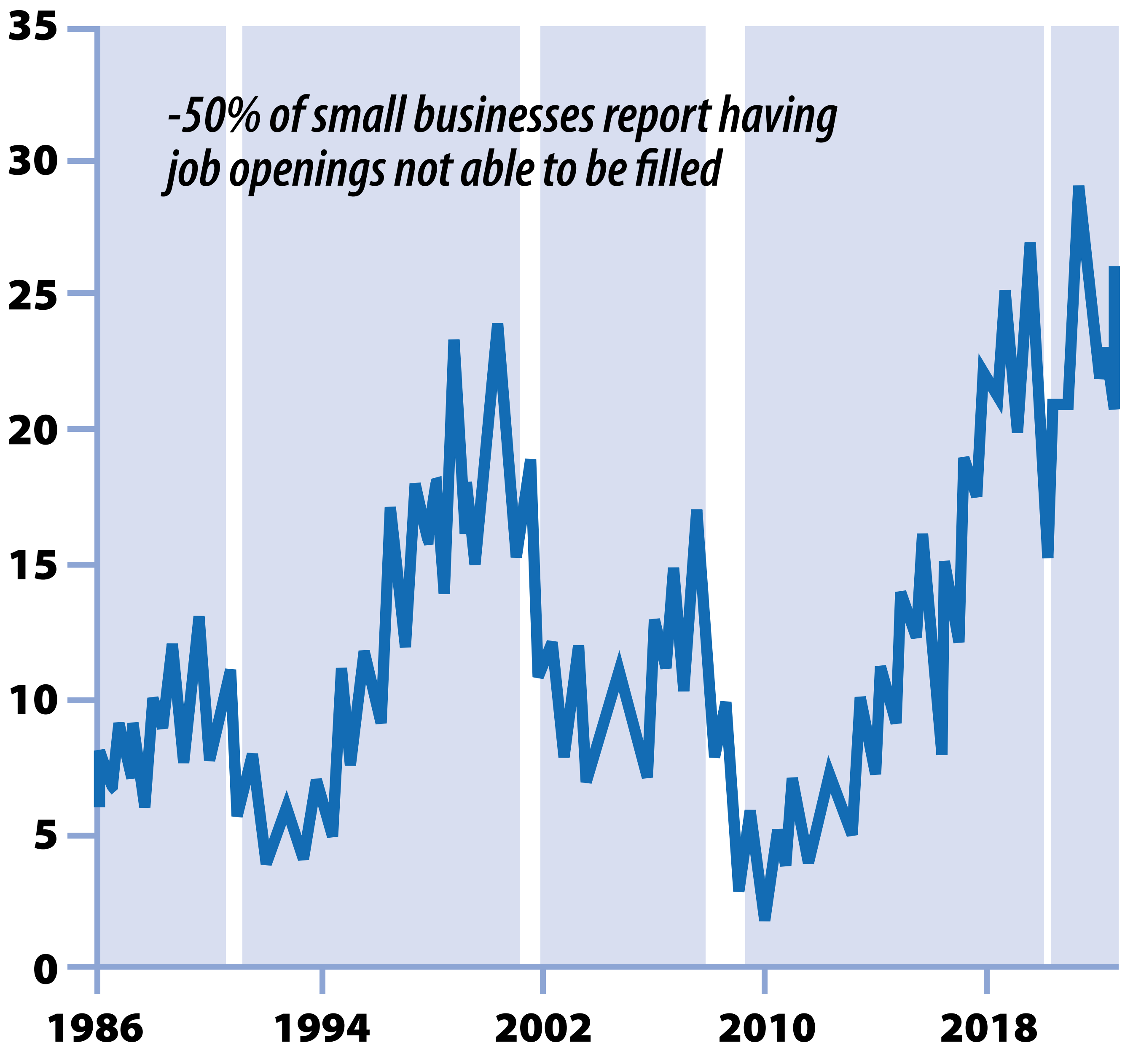
THREE REASON WHY WE EXPECT A MILD RECESSION

• Slack in the labor market, few excesses in the economy, and healthy consumer balance sheets are reasons we do not expect a severe recession.

MUTED JOB LOSSES IN THIS CYCLE – LABOR SUPPLY STILL A PROBLEM

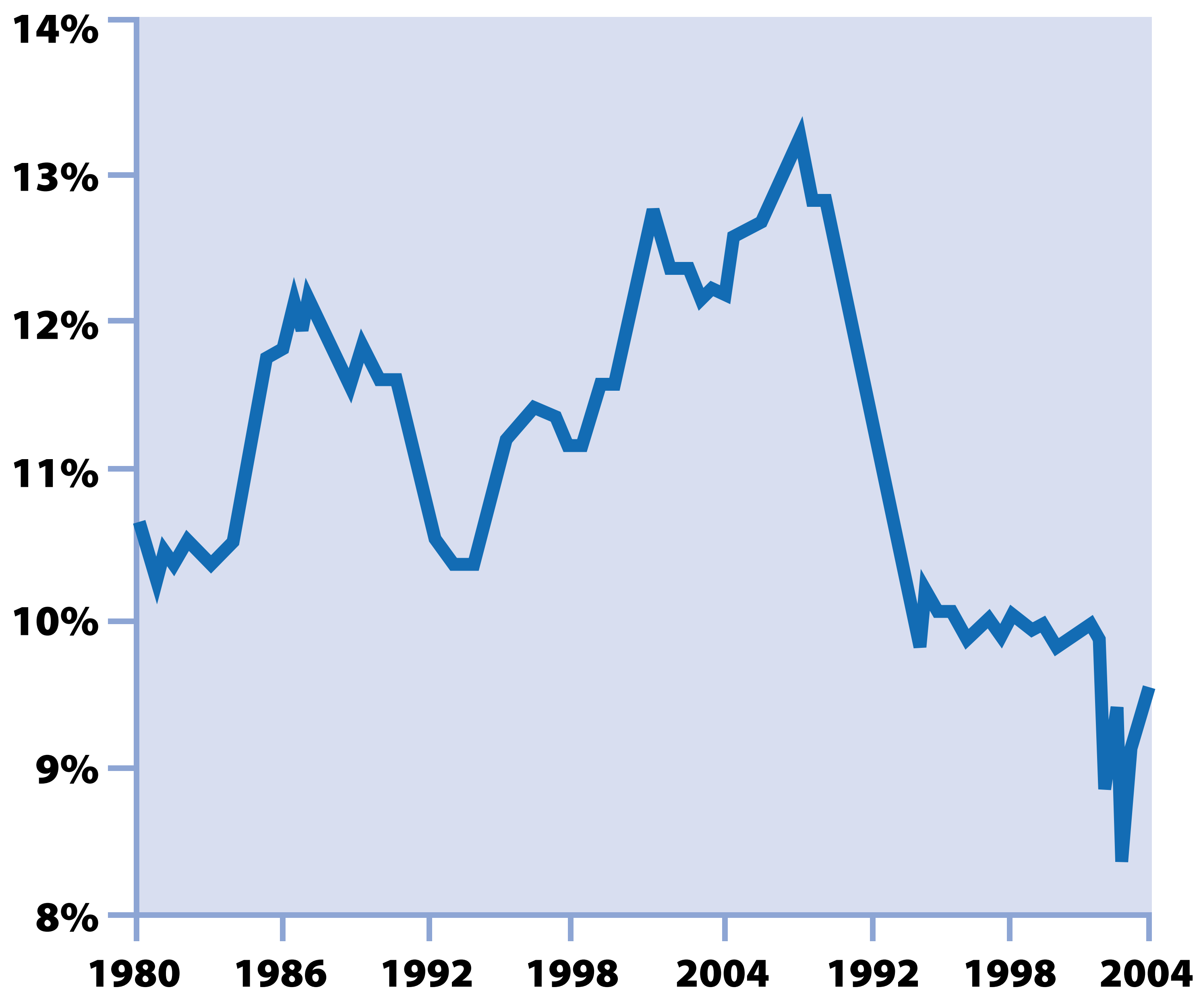


NFIB Small Business Optimism Index - Single Biggest Problem - Quality of Labor

FEW EXCESSES IN ECONOMY

1. **No Pandemic**
2. **No Housing Bubble**
3. **The Banking System is Healthly**
4. **Tech Sector Valuations not Exuberant**

CONSUMER BALANCE SHEET REMAINS HEALTHY

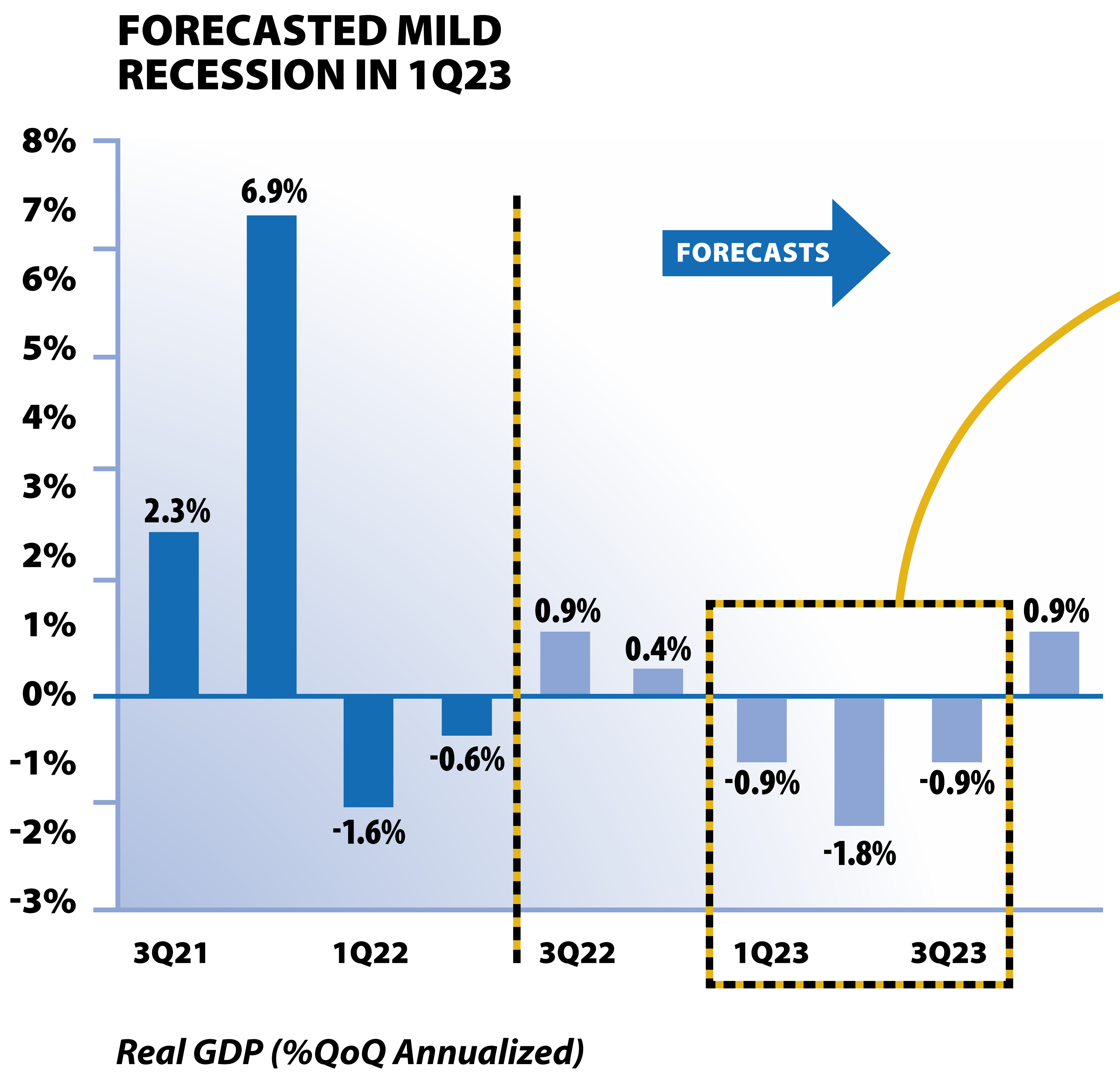


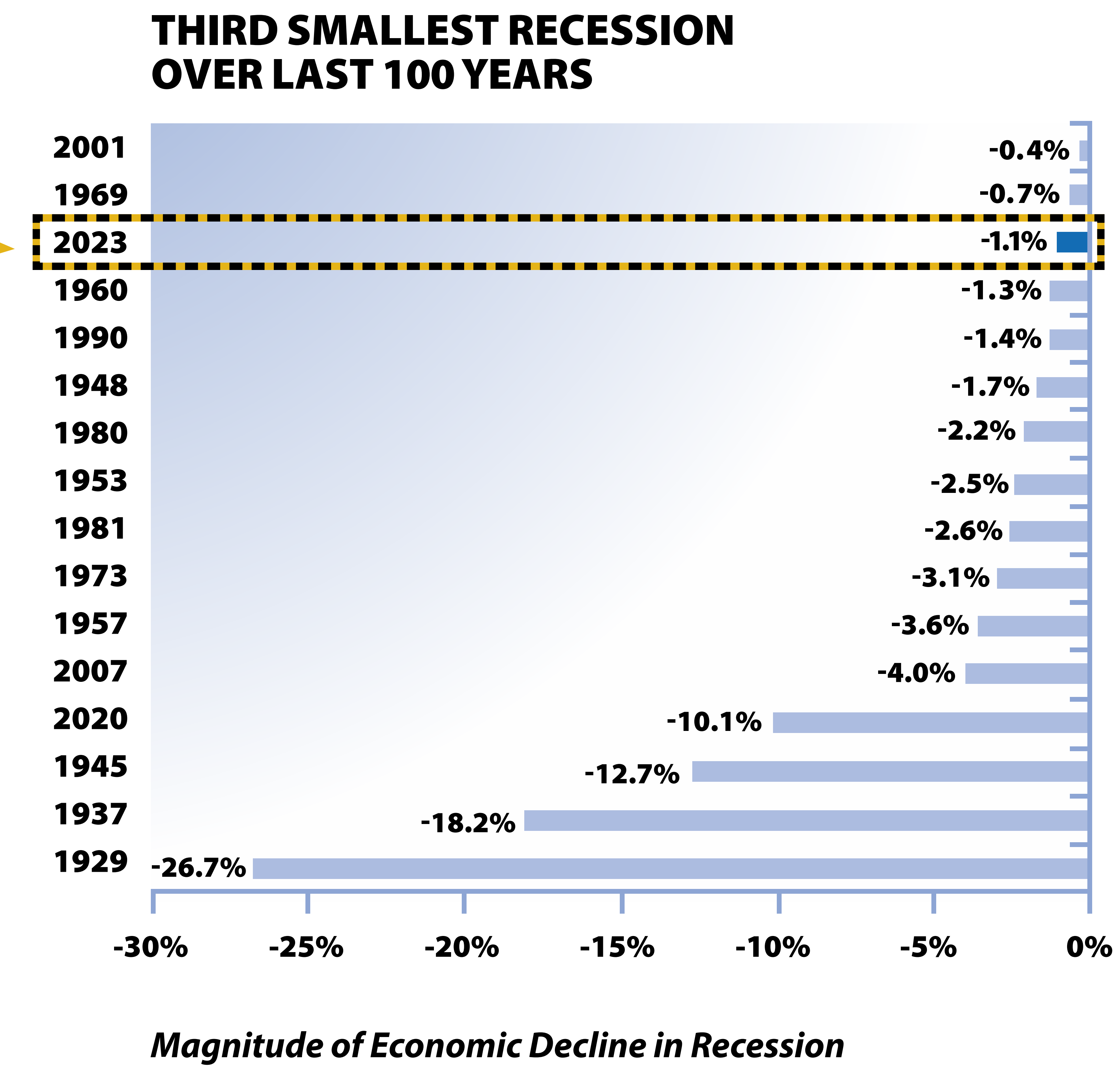
Household Debt Service Payments as a % of Disposable Personal Income

Source: FactSet, Data as of 9/30/2022.

THE POTENTIAL FOR A FED-INDUCED RECESSION

- While we forecast a rising probability of recession, it should be one of the more muted in history.



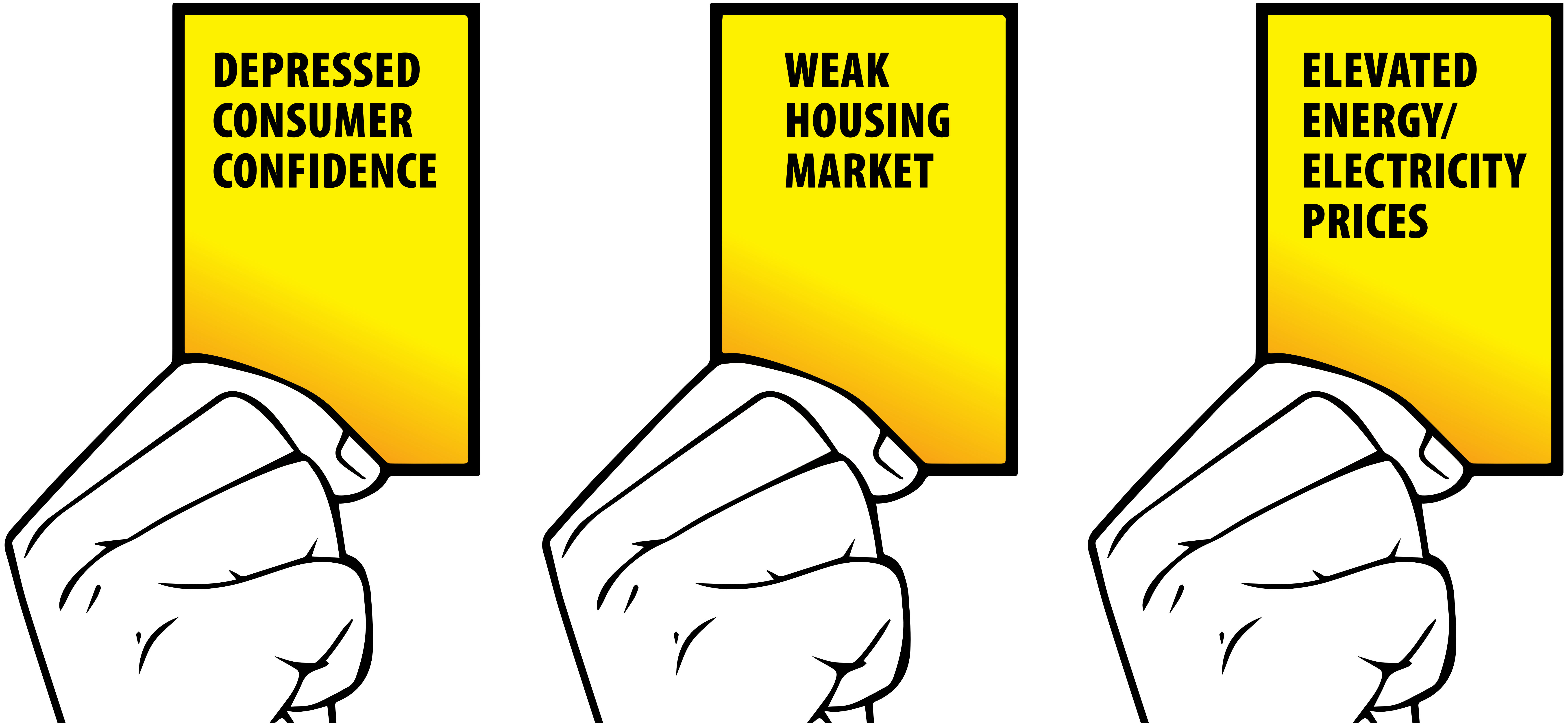


Source: FactSet, Data as of 9/30/2022.

THREE YELLOW CARDS FOR ECONOMY GOING FROWARD

Economic dynamics that could lead to further negative impacts to the economy

- Depressed consumer confidence, a weakening housing market and elevated energy cost are all risks to the economy.



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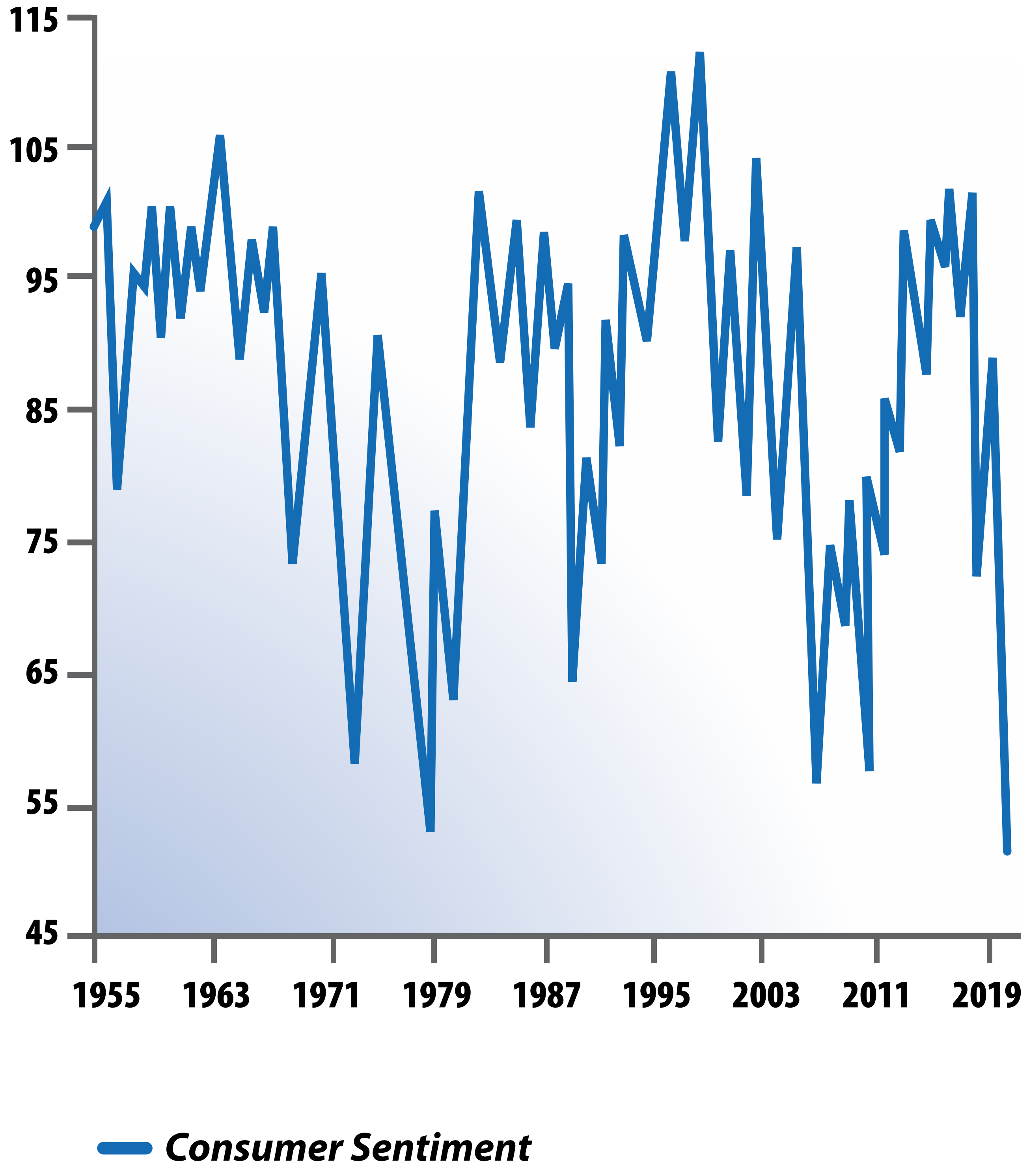
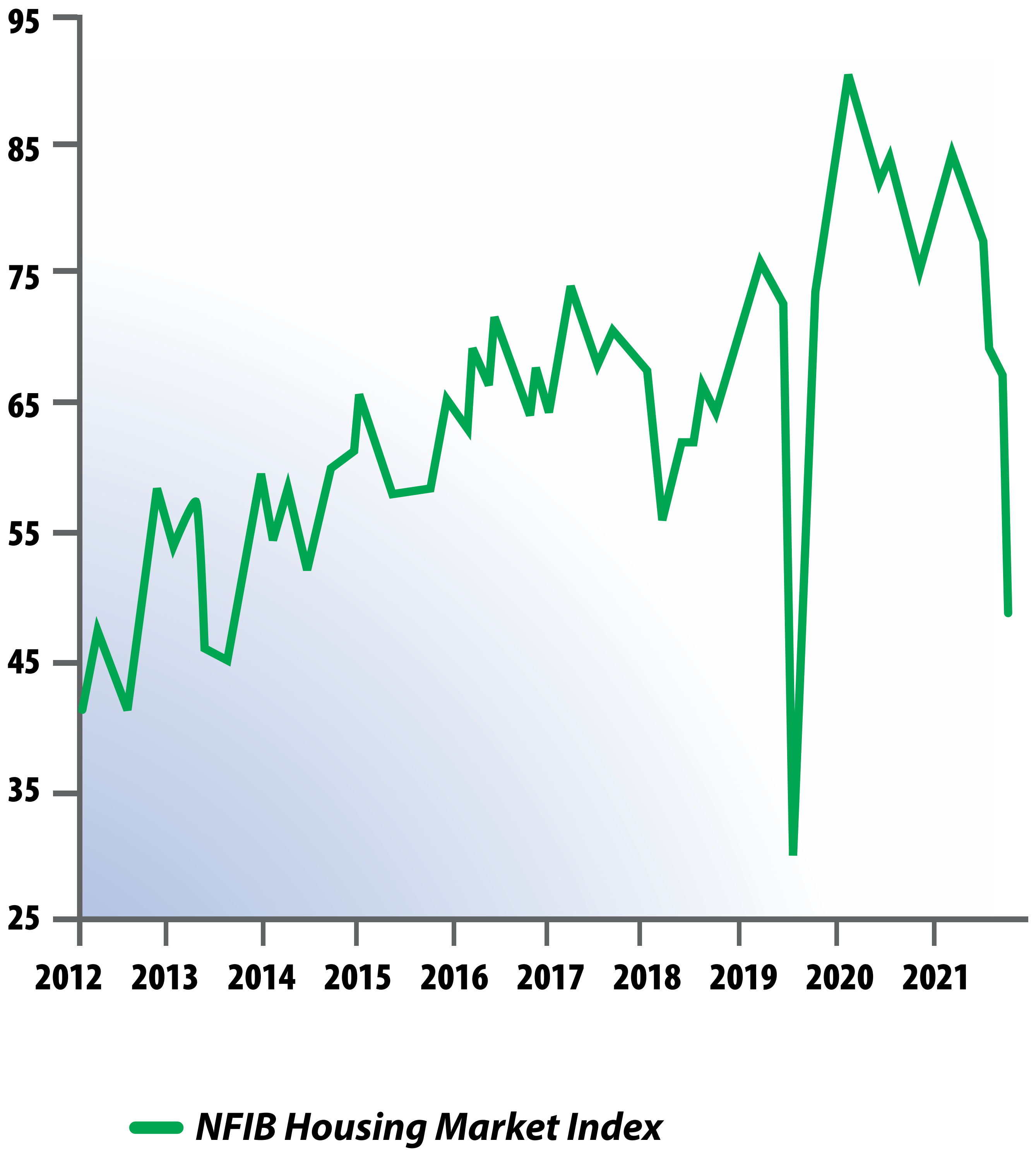
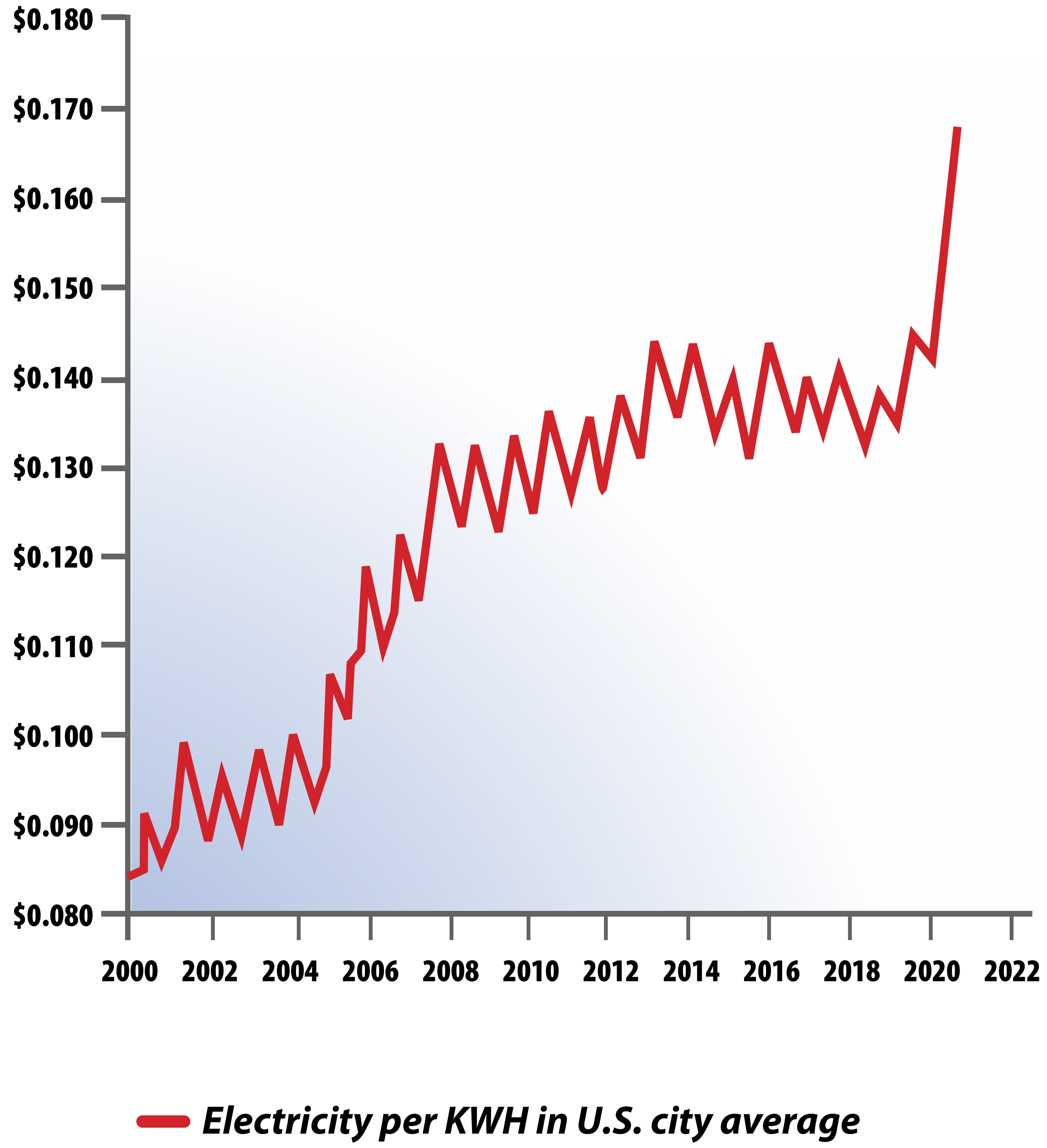
DEPRESSED CONSUMER CONFIDENCE



WEAK HOUSING MARKET



ELEVATED ENERGY/ELECTRICITY PRICES



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PREDICTIONS

- Inflation should peak by January 2023
- Recession likely in first quarter of 2023 –should be short in duration
- Rates should decline to 5% summer 2023
- 10 year Treasury yield should decline to 3% by summer 2023
- Stock market volatility should decrease in 2023
- FED fund rate to 4.5% in 2022 – two FED hikes possible in 2023
- Home values nationally flat/slightly down due to demographics and demand
- Unemployment expected to rise to 5% in 2023

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Thank you.

PALM SPRINGS LIFE

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