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Mise à jour de l'économie US par Rafic Vartan

Market update for the week ending February 23 2019

CRUDE OIL **57.07** GOLD **1.330.70** SILVER **15.89** EUR/USD **1.13**

US stock markets are up more than 18% in nine weeks – Stock markets have made up nearly all the declines suffered in the last three months of 2018. Indexes are now approaching their all-time highs reached last fall. Experts point to investor's renewed confidence based on three key issues.

1. Progress in the US – China trade negotiations. In the third quarter of 2018 it appeared an all-out trade war was beginning. Both countries began experiencing slowing in the economy. In fact, China's economy showed drops in economic output, not the US. Fears that their slowing economy would impact ours spooked investors here. A deal was made to pause any further tariffs until March to give the two countries time to make a deal. While no official deal has been finalized that deadline has been extended, because talks are proceeding positively. It appears that a deal will include provisions for China to encourage more purchasing of US goods with targets to close the tremendous trade imbalance between the countries.
2. Corporate earnings beat expectations. Analysts had expected corporate earnings to weaken in the fourth quarter because economies in Europe and Asia had slowed. That did not happen.
3. Investors had grown cautious that interest rate hikes by the Federal Reserve would slow the economy. Investors felt that the Fed had moved to quickly by hiking rates so many times over the last three years. Those fears added to a reason that the stock market began to collapse at the end of last year (*December 2018 was the worst December stock market loss since the Great Depression*). In reaction to that drop the Fed announced that they would pause further interest rate hikes. Minutes from their latest meeting released this week showed that members voted unanimously to leave rates unchanged, and that they were planning no hikes for 2019 if conditions remain unchanged. The Dow Jones Industrial Average closed the week at 26,031.81, up 0.6% from 25,883-25 last week. It's up 11.6% year to date. The S&P 500 closed the week at 2,792.67, up 0.6% from 2,775.50 last week. It is up 11.4% year to date. The NASDAQ closed the week at 7,527.54, up 0.7% from 7,472.71 last week. The NASDAQ is up 13.4% year to date.

Treasury Bond Yields almost unchanged this week – The 10 year Treasury bond closed the week yielding 2.65%, down slightly from 2.66% last week. The 30 year Treasury bond yield ended the week at 3.02% up slightly from 3.00% last week. We watch Treasury bond yields because mortgage rates follow bond yields.

30 year mortgage rate at lowest level in one year – The Interest rates have fallen from their peak of 5% to about 4.3% making homes more affordable. The February 21, 2019 Freddie Mac Primary Mortgage Survey reported that the 30 year fixed mortgage rate average was 4.35%, down from 4.37% last week. The 15 year fixed was 3.78%, down from 3.81% last week. The 5 year ARM was 3.84%, down from 3.88% last week.

January 2019 California existing home sales report – The California Association of Realtors released their data for January home sales. The number of sales dropped for the fourth straight month hitting the lowest level since April 2008. Closed escrows on existing homes dropped to 357,530 units on a seasonally adjusted annualized basis in January. That marked a 12.6% year over drop from 409,520 closings last January. This data is for closed escrows so we are talking about homes that went under contract between October and December. This was at the same time that the stock market dropped almost 20%. People were in a panic and that affected home purchases. Now that stocks have made back over 18% of those losses we see buyers returning to the market. Interest rates have also dropped to the lowest level in one year. We have seen a drastic improvement in the number of homes that have gone into escrow in the last two weeks. It's like someone flipped a switch and homes are selling briskly again. Unfortunately, those homes won't close escrow for 30-60 days so we won't see the impact until March or April in the data. Those should be very positive reports when these sales begin to close. February's home sales report will be another disappointing month because that is closings for homes that went under contract in December and January.

Home prices – The median price paid for a home in California was $538,690, up 2.1% year over year from $527,780 last January. The median price is the point at which 1/2 the homes sell for more and 1/2 sell for less. While we look at how low the median price is compared to prices in our market it's easy to assume that it has nothing to do with us, but over the 30 years that I have been following this data it's amazing at how neighborhoods at all price levels follow similar percent increases and decreases as the median price percentages. It's a reliable indicator of what is going on across all price levels. Unfortunately, the median price is compared year over year. Nobody looks at six months ago until now. The median price is 2.1% higher than last January. Prices spiked in April, May and June when inventory hit all-time lows. Prices increases were approaching 10% year over year for the first time since 2014. That corrected from July to October and prices actually dropped before stabilizing again. The median price is about 8% below its peak in June, but higher than last January.

Home inventory – Inventory levels have risen for the 10th consecutive month after dropping for three straight years to historic lows. There was a 4.6 month supply of homes for sale in January, up from a 3.6 month supply in January 2018. There are more choices for buyers. We are seeing many buyers that couldn't find a home last year and gave up returning to the market.

A whole new credit score is coming. Are you prepared? – Chances are good you know all about your credit score. Also called a FICO score, this magical number is a major factor in many financial transactions, including qualifying for a mortgage or renting an apartment. The Fair Isaac Corp, the creators of FICO, announced a whole new scoring method called the UltraFICO. Currently in beta testing with a small, undisclosed group of lenders, this new scoring method is expected to be more widely released in April 2019. So, what is this exciting new scoring model? Will it help? Will it hurt? Here’s what you need to know.

FICO vs. UltraFICO. What's the difference? – Your traditional FICO score looks only at the money you borrow from lenders (*through credit cards, and car and college loans*). FICO scores generally do not factor in any traditional bank accounts, be it checking or savings. The UltraFICO, in contrast, does look at your banking behavior, adding it to the mix along with more traditional metrics like your credit card payments. UltraFICO examines your checking, savings, and/or money market accounts (*which are similar to savings accounts but offer a higher interest rate in exchange for maintaining a higher balance*), and reports on details such as the following:

- ***Your account history –*** How long have you had these accounts? The longer the better.
- ***Your account balance –*** According to the UltraFICO website, it's looking for “a healthy average balance.” It doesn't spell out exactly what that means, but it suggests that consumers with a balance of at least $400 over a three month period should fare well with this new scoring system.
- ***Your account activity –*** Do you regularly pay your bills through your bank account? If you don't, you may want to start, since that will be considered, too, particularly how often you pay your recurring bills (*cellphone and utility bills*).If you show “responsible financial behavior” in these accounts, this could improve your credit score.

If you have imperfect credit or no credit but you have a positive banking history, your score may see a nice boost. If you have even a few hundred dollars in your account, and if you haven’t bounced checks or gone under the minimum balances, that will now count in your favor.
Will UltraFICO replace FICO? – No. Most banks and lenders are going to use it initially as a backup scoring model. The way it will likely work, is that when you apply for a loan or mortgage, if your regular FICO score isn’t high enough to qualify you, the lender may ask for your UltraFICO. The UltraFICO is also voluntary. You don’t have to volunteer your banking information with a prospective lender for review unless you want to. This is a major difference from your FICO score, which is calculated whether you like it or not.

Who will benefit from UltraFICO Scores? – Building a credit history takes time. If you have little or no credit history but do have a banking history, you may be able to generate an UltraFICO score even if you don’t have enough of a credit history to generate a FICO score. As such, the UltraFICO has a lot of potential, especially for consumers with borderline credit (*meaning you’re at the cutoff between having poor and fair credit or between having fair and good credit*) or who have a limited credit history. FICO estimates that over 15 million consumers who don’t have a FICO score could receive an UltraFICO score. If you already have a good FICO score, then you probably don’t need to worry about the UltraFICO. Whether the UltraFICO will help you depends on your banking history. If the consumer finds themselves among the 60% of Americans who have very little to no savings funds, the UltraFICO will likely not help build their credit rating. Consumers who don’t have a recent pattern of positive savings may not want to opt in to the UltraFICO.

How to prepare – The UltraFICO is currently in beta testing. Ultimately whether the program is expanded depends on how well it does for consumers as well as lenders. If everything goes well, consumers may soon see this option available with lenders in April. And there's a way to prepare. Start building up your savings now, so that if you have the chance to opt in, you’ll have a positive banking history for lenders to review. Ultimately, though, don’t let the UltraFICO distract you from taking steps to improve your FICO credit score. It’s still important to make on-time payments to lenders, to pay down your credit balances, and to make payments arrangements if you have any delinquent accounts.

Quote of the week

Not everything you try can be done,
but nothing can be done until you try.