

# Are we in a recession?

August 5, 2022 / Chuck Lech

Sorry, you have reached the wrong blog, at least the wrong person to give you that decision. Lots of high-priced economists are arguing over that one.

When the great recession of 2008 was upon us, people said the difference between a recession and a depression was that a recession is when your neighbor lost their job, a depression was when you lost your job.

Neither is happening. Jobs are being created at a solid, high pace, and unemployment remains at record lows. People are working and earning money. However, the FED is working dilligently to increase interest rates in order to slow down inflation, and that will eventually have the effect of increasing unemployment. It has already had the effect of raising mortgage rates, thereby slowing down the real estate market.

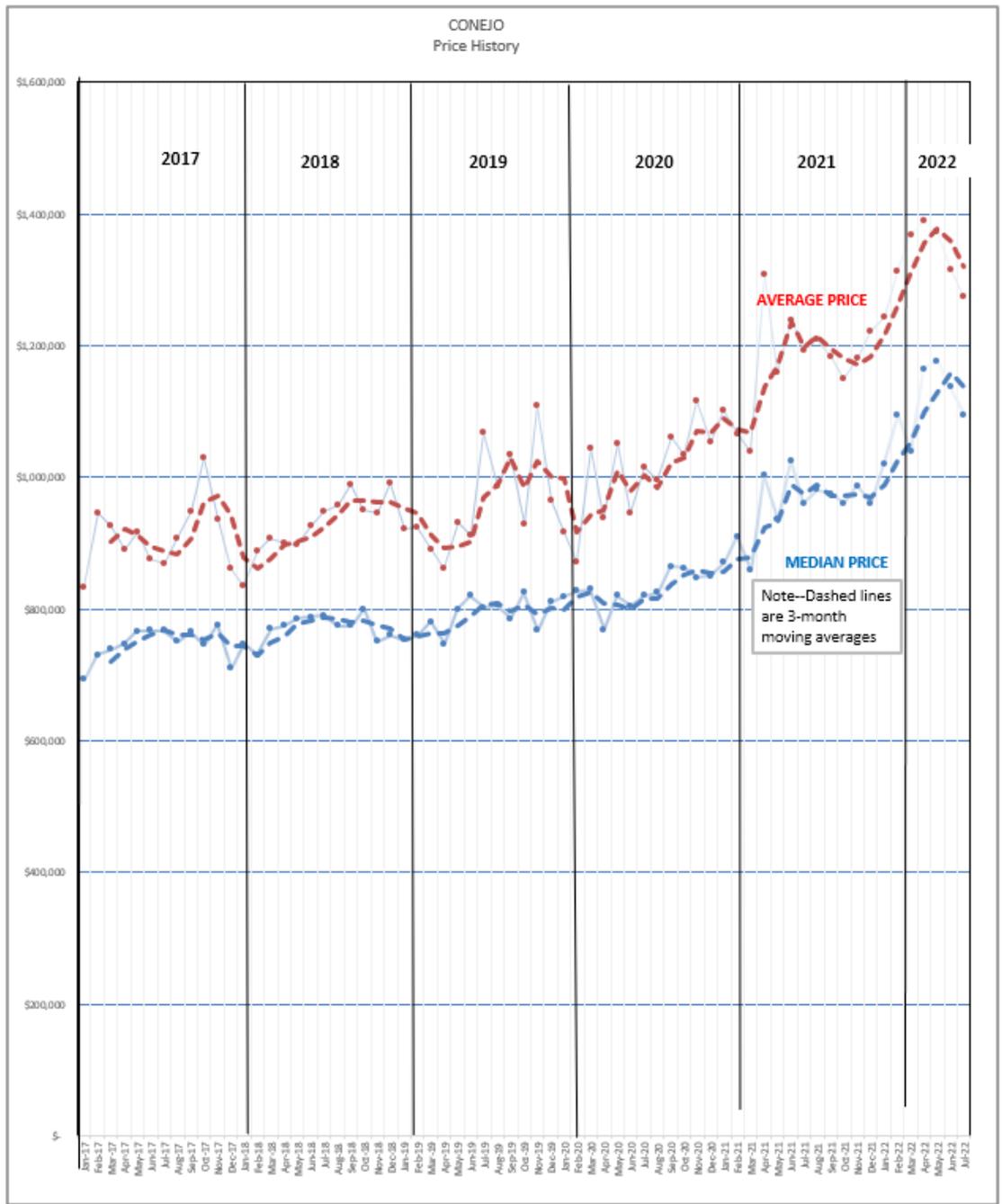
Instead of talking about the larger economy, let's talk about our part of it, our real estate market. All real estate is local.

With the onset of Covid-19, everyone forecasted that the entire economy would tank. The real estate market looked as if it would cease to exist. Everyone was locked up inside their home, fearing the freeze of all economic activity. No open houses, no listing appointments, no showings, no offers.

Instead, it lead to a period of high home price inflation coupled with a high rate of sales. I am not talking about the inflation figures that the Bureau of Labor Statistics publishes, but inflation of home values. The Fed noticed inflation climbing in the past few months. Our real estate inflation has already taken place, and most of it happened before the start of this year.

The graph below is a history of monthly Conejo Valley Median and Average home prices from January 2017 to July 2022. In those five years, median prices increased a total of 58%. ( Average prices increased 43%. For the remainder of this writing, I am going to reference only Median prices. If you want to compute the average prices, the figures are below.)

CONEJO VALLEY		
	MEDIAN	AVERAGE
Jan-17	\$ 693,000	\$ 833,505
Feb-17	\$ 730,000	\$ 944,801
Mar-17	\$ 739,000	\$ 926,804
Apr-17	\$ 747,000	\$ 890,111
May-17	\$ 766,500	\$ 917,196
Jun-17	\$ 767,000	\$ 875,586
Jul-17	\$ 766,900	\$ 867,574
Aug-17	\$ 750,000	\$ 907,669
Sep-17	\$ 765,000	\$ 949,097
Oct-17	\$ 745,750	\$ 1,029,891
Nov-17	\$ 775,500	\$ 936,479
Dec-17	\$ 710,000	\$ 862,565
Jan-18	\$ 747,500	\$ 835,575
Feb-18	\$ 730,000	\$ 888,357
Mar-18	\$ 770,000	\$ 906,240
Apr-18	\$ 774,900	\$ 900,068
May-18	\$ 785,000	\$ 898,481
Jun-18	\$ 788,200	\$ 926,918
Jul-18	\$ 790,000	\$ 947,440
Aug-18	\$ 775,000	\$ 957,017
Sep-18	\$ 775,000	\$ 988,026
Oct-18	\$ 800,000	\$ 949,696
Nov-18	\$ 750,000	\$ 945,902
Dec-18	\$ 760,000	\$ 990,409
Jan-19	\$ 752,500	\$ 922,295
Feb-19	\$ 760,000	\$ 924,258
Mar-19	\$ 780,000	\$ 891,026
Apr-19	\$ 747,000	\$ 862,369
May-19	\$ 800,000	\$ 930,176
Jun-19	\$ 820,000	\$ 912,404
Jul-19	\$ 802,500	\$ 1,067,988
Aug-19	\$ 806,000	\$ 986,789
Sep-19	\$ 785,000	\$ 1,034,622
Oct-19	\$ 825,000	\$ 927,955
Nov-19	\$ 767,500	\$ 1,108,783
Dec-19	\$ 810,000	\$ 965,586
Jan-20	\$ 818,700	\$ 917,906
Feb-20	\$ 827,400	\$ 870,226
Mar-20	\$ 830,000	\$ 1,042,890
Apr-20	\$ 769,000	\$ 938,795
May-20	\$ 820,000	\$ 1,051,872
Jun-20	\$ 805,000	\$ 945,644
Jul-20	\$ 820,000	\$ 1,014,336
Aug-20	\$ 825,000	\$ 995,356
Sep-20	\$ 865,000	\$ 1,060,749
Oct-20	\$ 862,500	\$ 1,033,982
Nov-20	\$ 847,500	\$ 1,115,324
Dec-20	\$ 850,000	\$ 1,052,577
Jan-21	\$ 870,000	\$ 1,101,123
Feb-21	\$ 910,000	\$ 1,064,590
Mar-21	\$ 858,000	\$ 1,039,843
Apr-21	\$ 1,003,750	\$ 1,308,864
May-21	\$ 935,000	\$ 1,158,744
Jun-21	\$ 1,025,000	\$ 1,238,194
Jul-21	\$ 960,000	\$ 1,192,702
Aug-21	\$ 980,500	\$ 1,210,621
Sep-21	\$ 975,000	\$ 1,183,644
Oct-21	\$ 960,000	\$ 1,148,478
Nov-21	\$ 987,500	\$ 1,181,805
Dec-21	\$ 960,000	\$ 1,222,485
Jan-22	\$ 1,020,000	\$ 1,243,839
Feb-22	\$ 1,094,975	\$ 1,313,957
Mar-22	\$ 1,040,000	\$ 1,368,892
Apr-22	\$ 1,165,000	\$ 1,388,774
May-22	\$ 1,177,000	\$ 1,372,918
Jun-22	\$ 1,137,250	\$ 1,315,114
Jul-22	\$ 1,095,000	\$ 1,275,512



Covid hit in March 2020, and due to 60-day escrows, we reported the drop-off in sales 60 days later, in May 2020.

During the roughly three years from January 2017 until May 2020, median home prices increased from \$693,000 to \$820,000, a total increase of \$127,000 or 6% a year. A realistic number, considering the absolute shortage of homes.

What happened after Covid hit? Median home prices in May 2020 were \$820,000, versus last month's price of \$1,095,000, an increase over those two years of \$275,000 or an average increase of 17% per year (34% over two years). Almost triple the annual home price inflation rate of the prior three years.

The media talks about how inflation has gotten out of control this year, gasoline prices jumped significantly, with housing and food costs also rising.

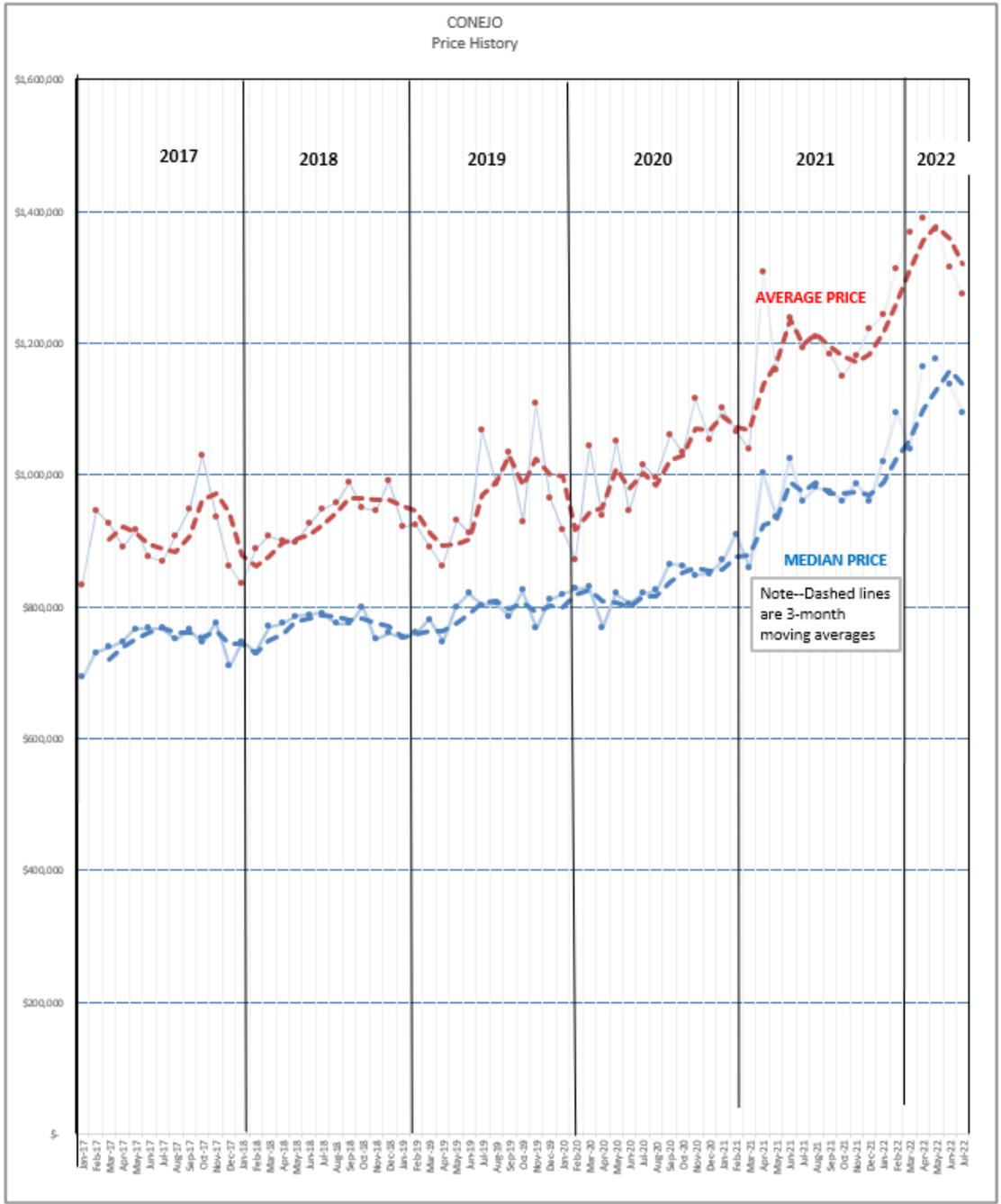
News flash: housing prices already increased over the prior two years, by 34%. Inflation has already taken place. Activity and prices are now leveling out. You can see from the chart above that prices are beginning to trend downward. That can be expected when mortgage rates significantly increase and consumer confidence tanks. The question everyone wants to know is: How far down will prices adjust?

Someone a lot smarter than I, CAR Chief Economist Jordan Levine, gave a market update on July 7. His forecast is that prices may decline by as much as 7% next year. That seems realistic to me. After the rambunctious market of the past two years, it is time for the market to pause, to take a breather. Balancing that 33% increase in the last two years with a 7% decrease next year, prices will have risen by 26% over this three year period, or an 8% average increase per year. A realistic number, compared to the 6% annual increase from 2017 to 2020. You might even call it normal.

And the 7% price drop comes with some good news attached. Affordability will go up, enabling more people to buy a home, creating more demand.

Buyers are hesitant to buy when the market is declining, waiting for it to balance out. There will be a short period of time during which the market will see a slowdown. But when that market begins to level out, buyers will come roaring back. We have a shortage of homes. We have millennials making excellent salaries, and they are saving up for a down payment. The market will not cease to exist, it will just be less active for a short while.

CONEJO VALLEY		
	MEDIAN	AVERAGE
Jan-17	\$ 693,000	\$ 833,505
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How about Simi Valley and Moorpark?

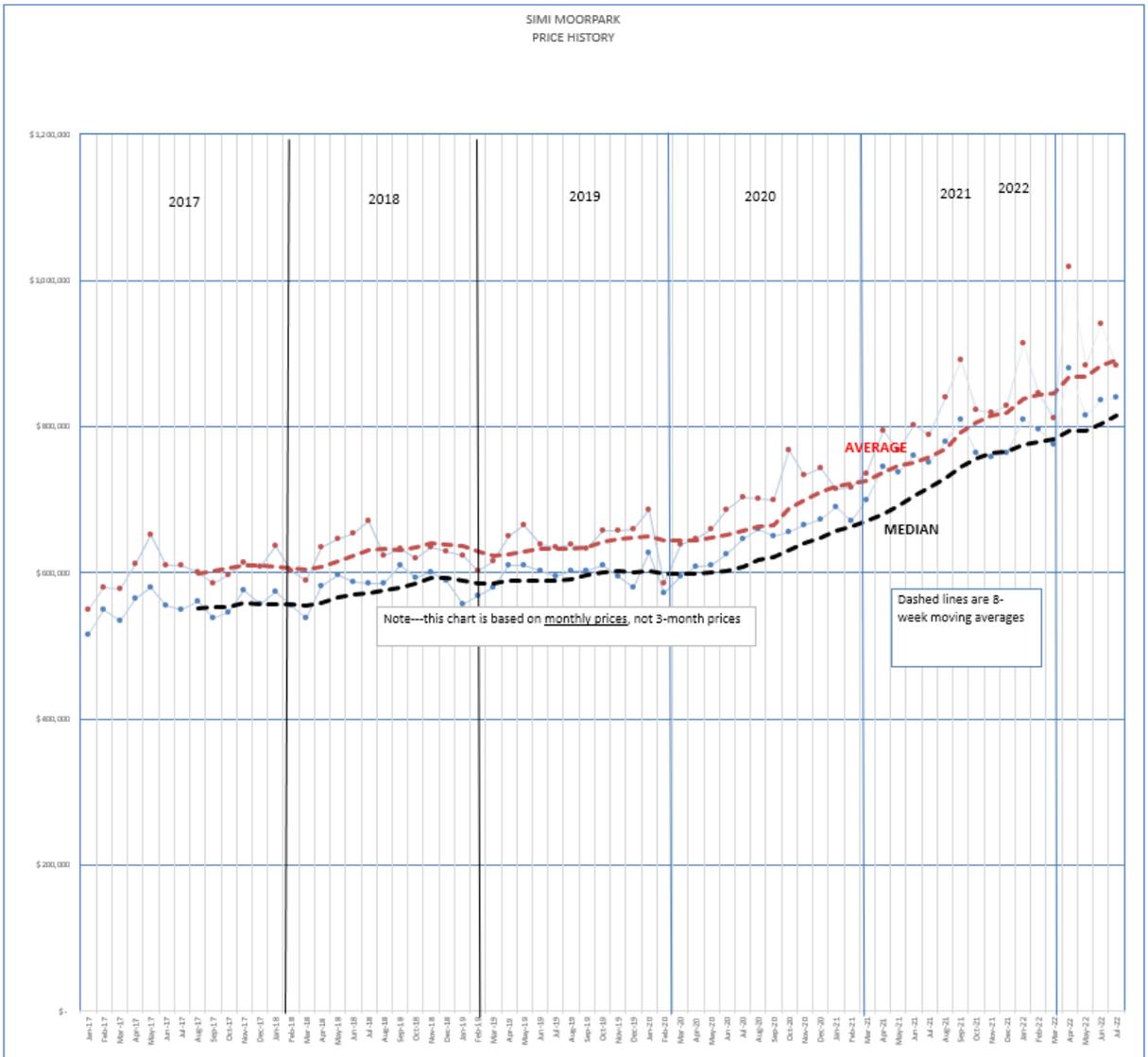
Covid hit in March 2020, and due to 60-day escrows, we reported the drop-off in sales 60 days later, in May 2020. During the roughly three years from January 2017 until May 2020, median home prices increased from \$515,000 to \$610,000, a total increase of \$95,000 or 6% a year. A realistic number, considering the absolute shortage of homes.

What happened after Covid hit? Median home prices in May 2020 were \$610,000, versus last month's price of \$840,000, an increase over those two years of \$230,000 or an average of 18% per year (36% over two years). Similar to Conejo, almost triple the inflation rate of the prior three years.

Balancing that 36% increase in the last two years with a 7% decrease next year, prices will have risen by 29% over this three year period (2021-2023) . Or a 9% average increase per year. A realistic number, compared to the 6% annual increase from 2017 to 2020. Considering the shortage of housing, you might even call it normal.

And the 7% price drop comes with some good news attached. Affordability will go up, enabling more people to buy a home.

SIMI MOORPARK		
	MEDIAN	AVERAGE
Jan-17	\$ 515,000	\$ 543,361
Feb-17	\$ 550,000	\$ 573,443
Mar-17	\$ 535,000	\$ 578,043
Apr-17	\$ 565,000	\$ 611,836
May-17	\$ 573,350	\$ 651,621
Jun-17	\$ 555,000	\$ 610,833
Jul-17	\$ 550,000	\$ 603,521
Aug-17	\$ 560,000	\$ 600,525
Sep-17	\$ 538,500	\$ 585,616
Oct-17	\$ 545,000	\$ 596,587
Nov-17	\$ 575,250	\$ 614,067
Dec-17	\$ 556,500	\$ 607,312
Jan-18	\$ 575,000	\$ 636,368
Feb-18	\$ 555,000	\$ 602,313
Mar-18	\$ 539,000	\$ 583,222
Apr-18	\$ 582,500	\$ 635,306
May-18	\$ 537,000	\$ 646,354
Jun-18	\$ 588,000	\$ 653,352
Jul-18	\$ 585,000	\$ 670,386
Aug-18	\$ 585,000	\$ 623,610
Sep-18	\$ 610,000	\$ 632,167
Oct-18	\$ 593,750	\$ 620,047
Nov-18	\$ 600,000	\$ 635,252
Dec-18	\$ 530,000	\$ 628,333
Jan-19	\$ 557,538	\$ 623,387
Feb-19	\$ 568,250	\$ 602,153
Mar-19	\$ 573,450	\$ 615,764
Apr-19	\$ 603,390	\$ 643,177
May-19	\$ 610,000	\$ 666,010
Jun-19	\$ 602,500	\$ 638,214
Jul-19	\$ 534,350	\$ 634,267
Aug-19	\$ 602,625	\$ 638,864
Sep-19	\$ 603,000	\$ 632,155
Oct-19	\$ 610,000	\$ 658,002
Nov-19	\$ 585,000	\$ 657,806
Dec-19	\$ 580,000	\$ 658,715
Jan-20	\$ 627,500	\$ 685,434
Feb-20	\$ 572,000	\$ 584,392
Mar-20	\$ 585,000	\$ 638,210
Apr-20	\$ 603,000	\$ 645,457
May-20	\$ 610,000	\$ 653,376
Jun-20	\$ 625,000	\$ 686,350
Jul-20	\$ 647,000	\$ 702,500
Aug-20	\$ 658,750	\$ 700,640
Sep-20	\$ 650,000	\$ 693,845
Oct-20	\$ 656,000	\$ 767,301
Nov-20	\$ 665,000	\$ 734,048
Dec-20	\$ 672,000	\$ 743,228
Jan-21	\$ 630,000	\$ 713,852
Feb-21	\$ 670,000	\$ 716,670
Mar-21	\$ 700,000	\$ 736,423
Apr-21	\$ 745,000	\$ 793,345
May-21	\$ 737,500	\$ 768,061
Jun-21	\$ 760,000	\$ 801,057
Jul-21	\$ 750,000	\$ 787,708
Aug-21	\$ 780,000	\$ 839,154
Sep-21	\$ 810,000	\$ 830,600
Oct-21	\$ 763,125	\$ 822,437
Nov-21	\$ 753,000	\$ 813,558
Dec-21	\$ 764,000	\$ 826,508
Jan-22	\$ 810,000	\$ 913,113
Feb-22	\$ 795,500	\$ 846,133
Mar-22	\$ 775,000	\$ 811,634
Apr-22	\$ 873,750	\$ 1,016,855
May-22	\$ 815,000	\$ 892,906
Jun-22	\$ 835,000	\$ 940,373
Jul-22	\$ 840,000	\$ 883,101



Now let's look at what happened in July. Remember, these stats are for a three month period, May through July. That averages out the changes, but it also does not give the best picture of what is happening currently.

Inventory has grown compared to the same time period last year, up by 44%. Home price increases have been in the high teens, but the average price has now pulled back to 9% year over year. The number of sales during this three month period is down 20%. (For the month of July, 211 homes closed escrow in 2022 versus 281 in 2021, a decrease of 25%.)

When sales decrease and inventory increases, the months-worth-of-sales figure climbs. For the past two years our inventory has represented about three weeks worth of sales. This year, with inventory growing (numerator) and sales declining (denominator) the inventory now represents about six weeks worth of sales.

Where have we seen the biggest drop in sales? Inflation has played havoc with comparisons. The figures have to be adjusted to higher brackets. You can play with the numbers yourself, for your areas, but the overall sales decline of 20% for all homes is important to note, as is the 25% decline for the month of July 2022 versus July 2021.

STATS CONEJO VALLEY	8/3/2022		Versus Same Period Last Yr.
	2022	2021	
3-month Period	5/1/2022 - 7/31/2022	5/1/2021 - 7/31/2021	
Total Active Residential Listings	309	214	Up 44%
Median Sold Price	\$ 1,120,000	\$ 975,000	Up 15%
Average Sold Price	\$ 1,322,318	\$ 1,211,317	Up 9%
Average Days On MLS	20	24	3 weeks to sell
Number of sales	669	838	Down 20%
Total Dollar Value of Solds	\$ 884,630,742	\$ 1,015,083,646	Down 13%
Months of Inventory	1.4	0.8	Sales -20%, inventory +44%
Listings under \$750,000	43		
Avg Monthly Sales under \$750,000	39		
<b>Months of under \$750,000 Inventory</b>	<b>1.09</b>		<b>VERY TIGHT INVENTORY</b>
Bracket Sales for Last 3-Month Period	<b>2022</b>	<b>2021</b>	
Total Number of Sales	669	838	Down 20%
Under \$750,000	115	190	Down 39%
\$750,000 - \$1,000,000	151	253	Down 40%
\$1,000,000 - \$1,500,000	229	235	Down 3%
Over \$1,500,000	174	160	Up 9%

The table for Simi Valley and Moorpark is below. Simi/Moorpark has been working under extremely tight inventory for over two years.

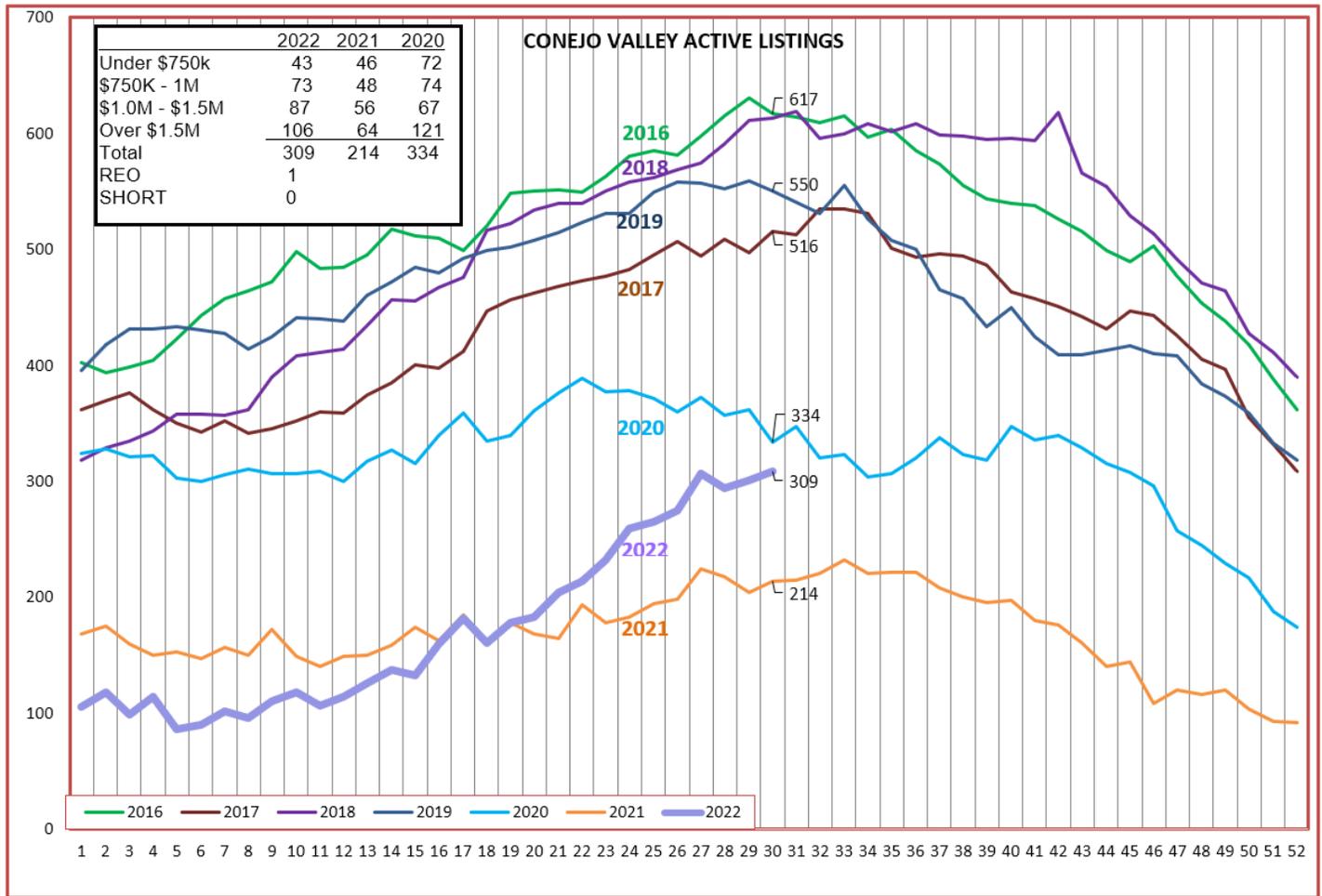
Inventory has skyrocketed compared to the same time period last year, up by 119%. Home price increases have been in the high teens, but the average price has now pulled back to the low teens. The number of sales during this three month period is down a whopping 30%. (For the month of July, 127 homes closed escrow in 2022 versus 247 in 2021, a decrease of almost 50%.)

When sales decrease and inventory increases, the months-worth-of-sales figure climbs. For the past two years our inventory has represented two-three weeks worth of sales. This year, with inventory growing (numerator) and sales declining (denominator) the inventory now represents about seven weeks worth of sales.

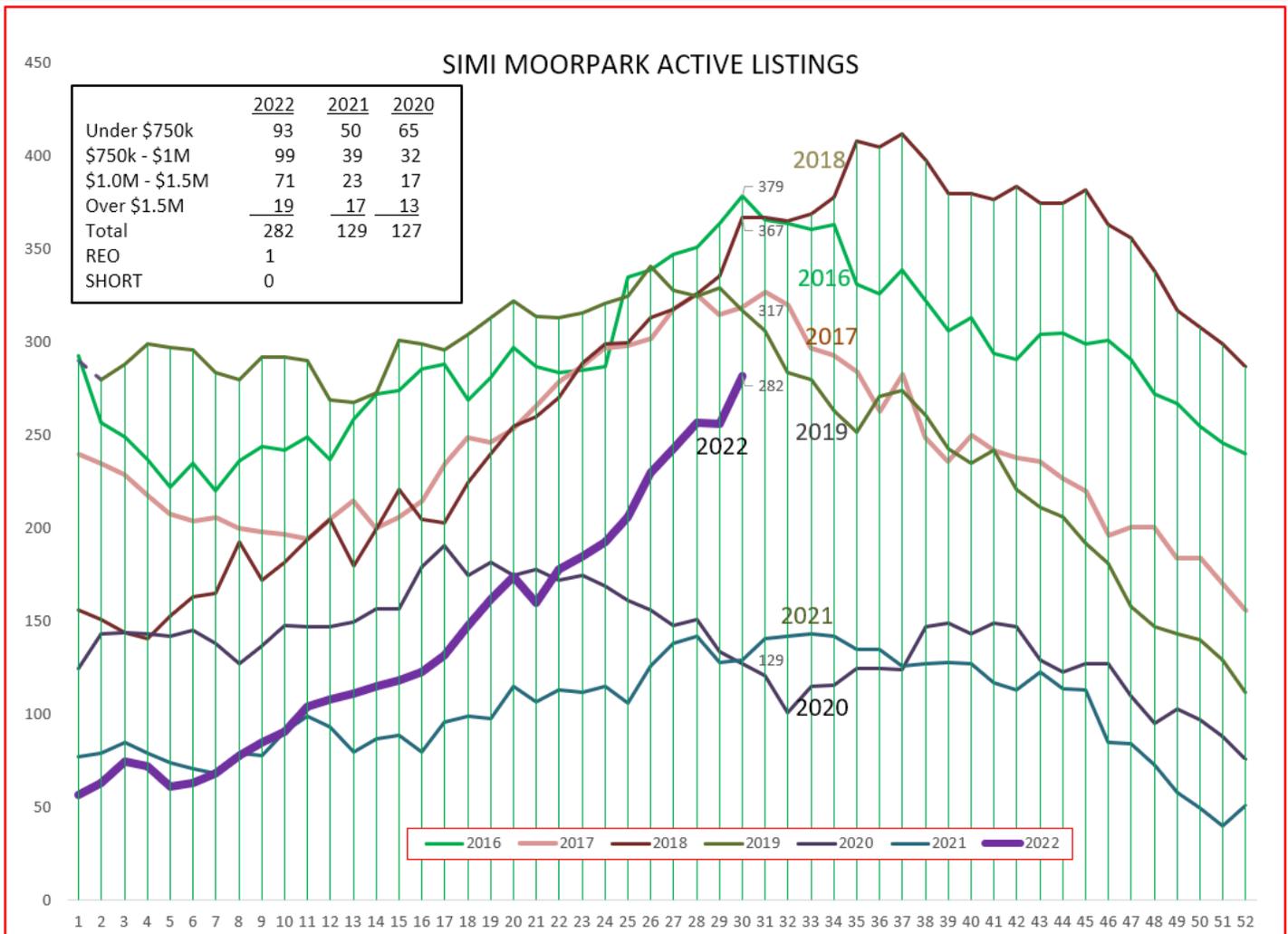
Where have we seen the biggest drop in sales? Inflation has played havoc with comparisons, particularly since the median home price in Simi/Moorpark is now \$830,000, and last year was \$750,000. The figures have to be adjusted to higher brackets. You can play with the numbers yourself, for your areas, but the overall decline of 30% for all homes is important to note, as is a 50% decline for the month of July 2022 versus July 2021. Clearly the market has slowed down.

STATS SIMI MOORPARK	8/3/2022		Versus Same Period Last Year
	2022	2021	
	5/1/2022-7/31/2022	5/1/2021-7/31/2021	
Total Active Residential Listings	282	129	Up 119%
Median Sold Price	\$ 830,000	\$ 750,000	Up 11%
Average Sold Price	\$ 898,424	\$ 792,696	Up 13%
Average Days On MLS	21	16	3 weeks to sell
Number of sales	489	697	Down 30%
Total Dollar Value of Solds	\$ 439,329,336	\$ 552,509,112	Down 20%
Months of Inventory	1.7	0.6	Sales -30%, Inventory +119%
Listings under \$750,000	93		
Avg Monthly Sales under \$750,000	53		
<b>Months of under \$750,000 Inventory</b>	<b>1.74</b>		<b><u>SALES DECLINING</u></b> <b><u>INVENTORY GROWING</u></b>
Bracket Sales for Last 3-Month Period	2022	2021	
Total Number of Sales	489	697	Down 30%
Under \$750,000	154	355	Down 57%
\$750,000 - \$1,000,000	214	234	Down 9%
\$1,000,000 - \$1,500,000	97	93	Up 4%
Over \$1,500,000	24	15	Up 60%

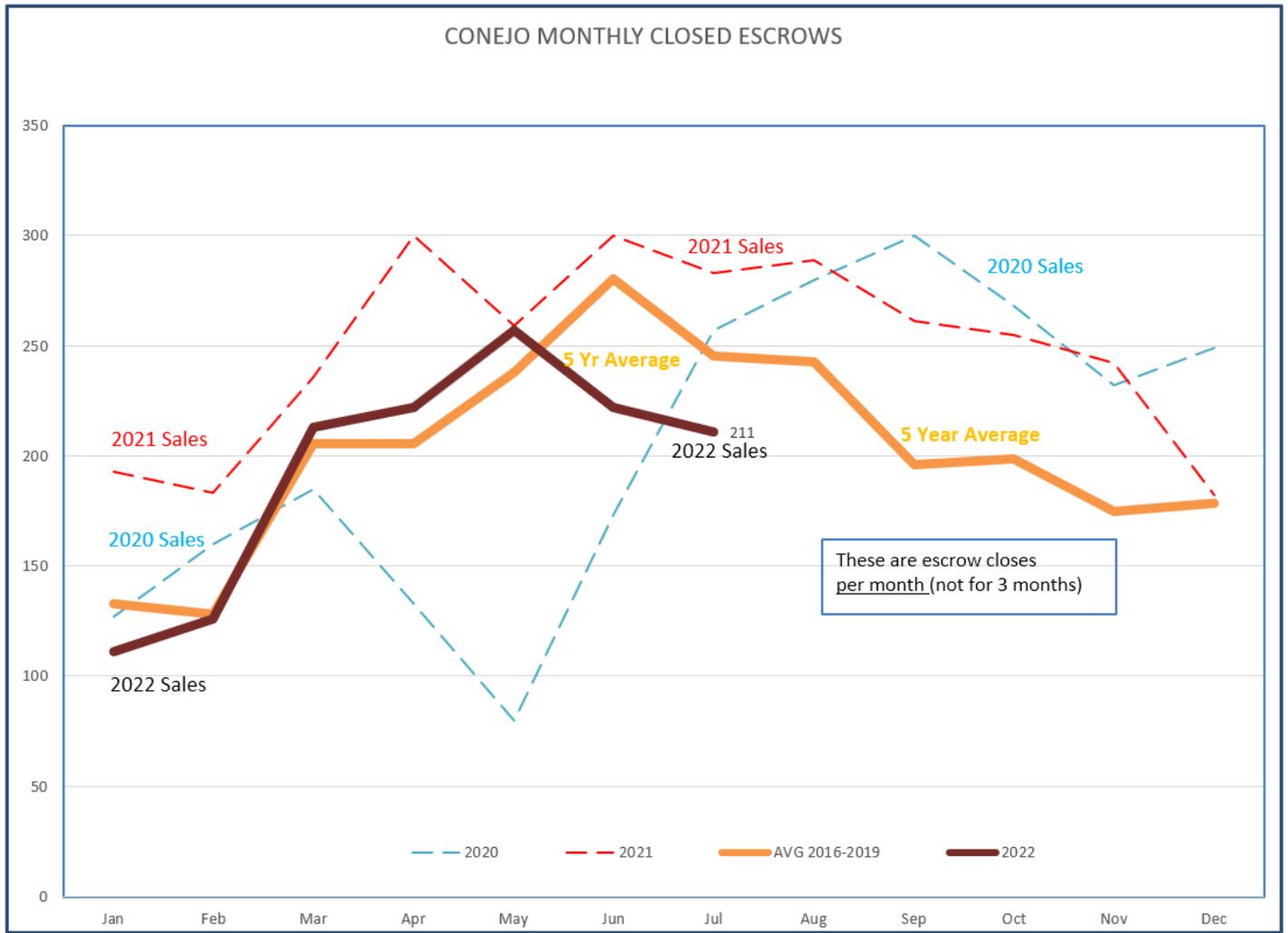
Let's look at these increases on the inventory graphs, to compare them to the past six years. 2020 and 2021 were anomalies, whereas the graph for 2022 more closely resembles the behavior of a normal year. However, I don't think that 2022 will finish as a normal year. Sales have slowed dramatically, and inventory may continue to increase as we approach the usual inventory downturn in September. Unlike 2008, notice that the area only has one REO out of 309 listings.



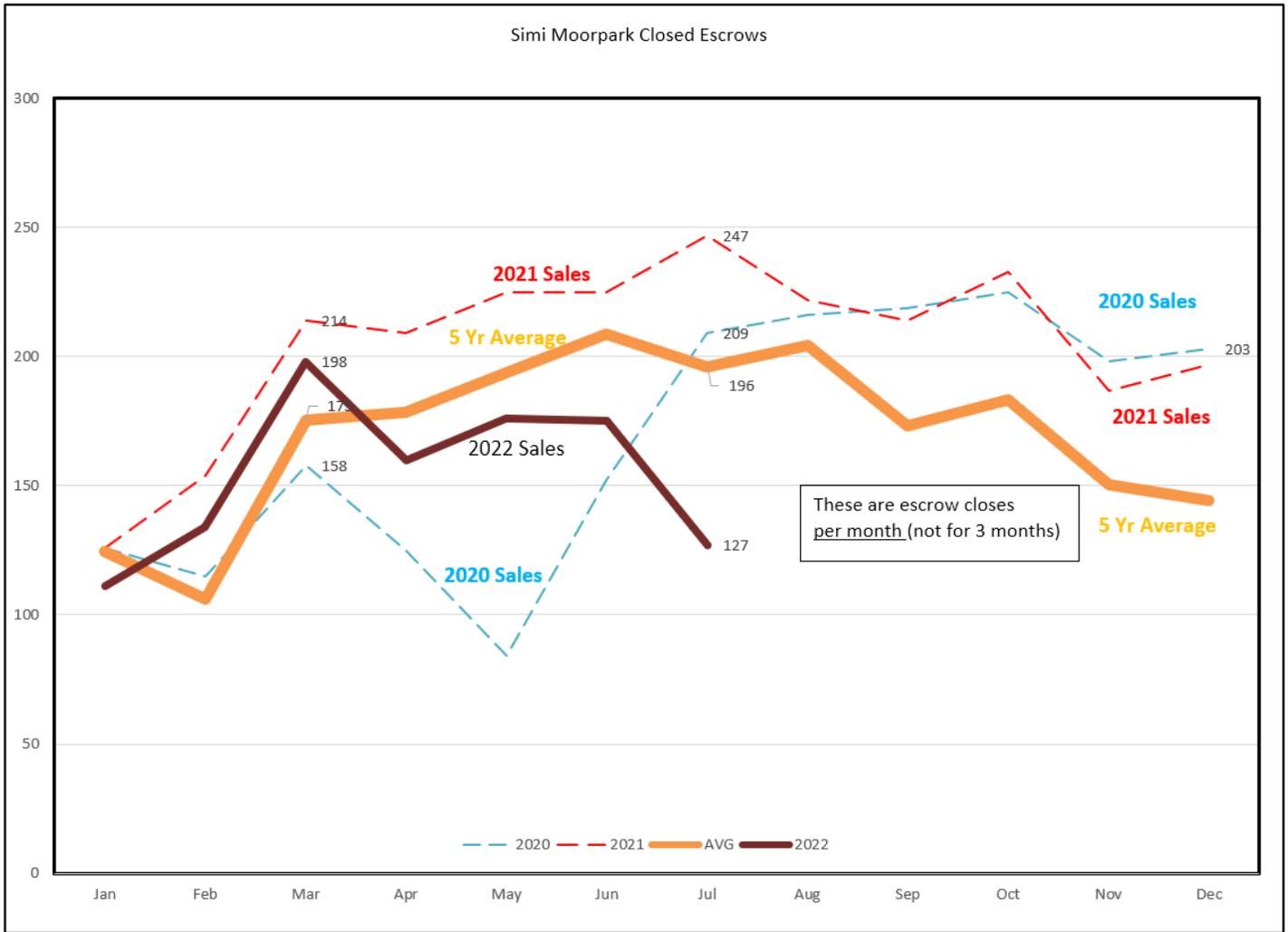
The graph for Simi/Moorpark is even more pronounced. This is what a 119% increase in inventory year over year looks like, starting from only around 60 listings at the beginning of the year. This is something to watch. Also, only one REO in the 282 listings.



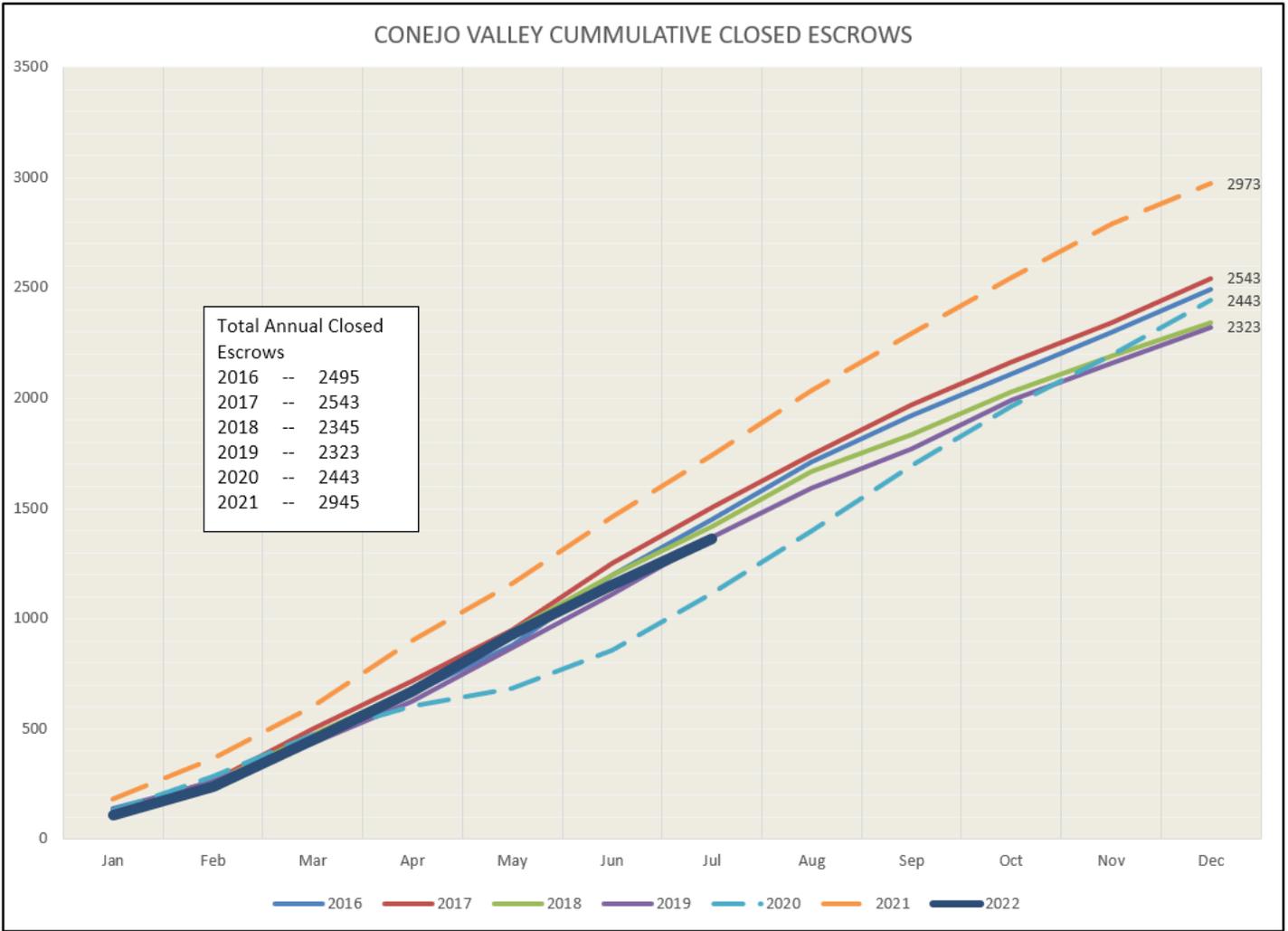
Let's next see how sales are doing in the Conejo. Rather than the table with three-month figures, this more accurately shows the drop in sales that began two months ago. 2020 and 2021 are dashed lines, because those figures were truly out of the ordinary. The orange 5-year average line is more like what a normal market looks like, and you can see that 2022 has now deviated from the expected curves.



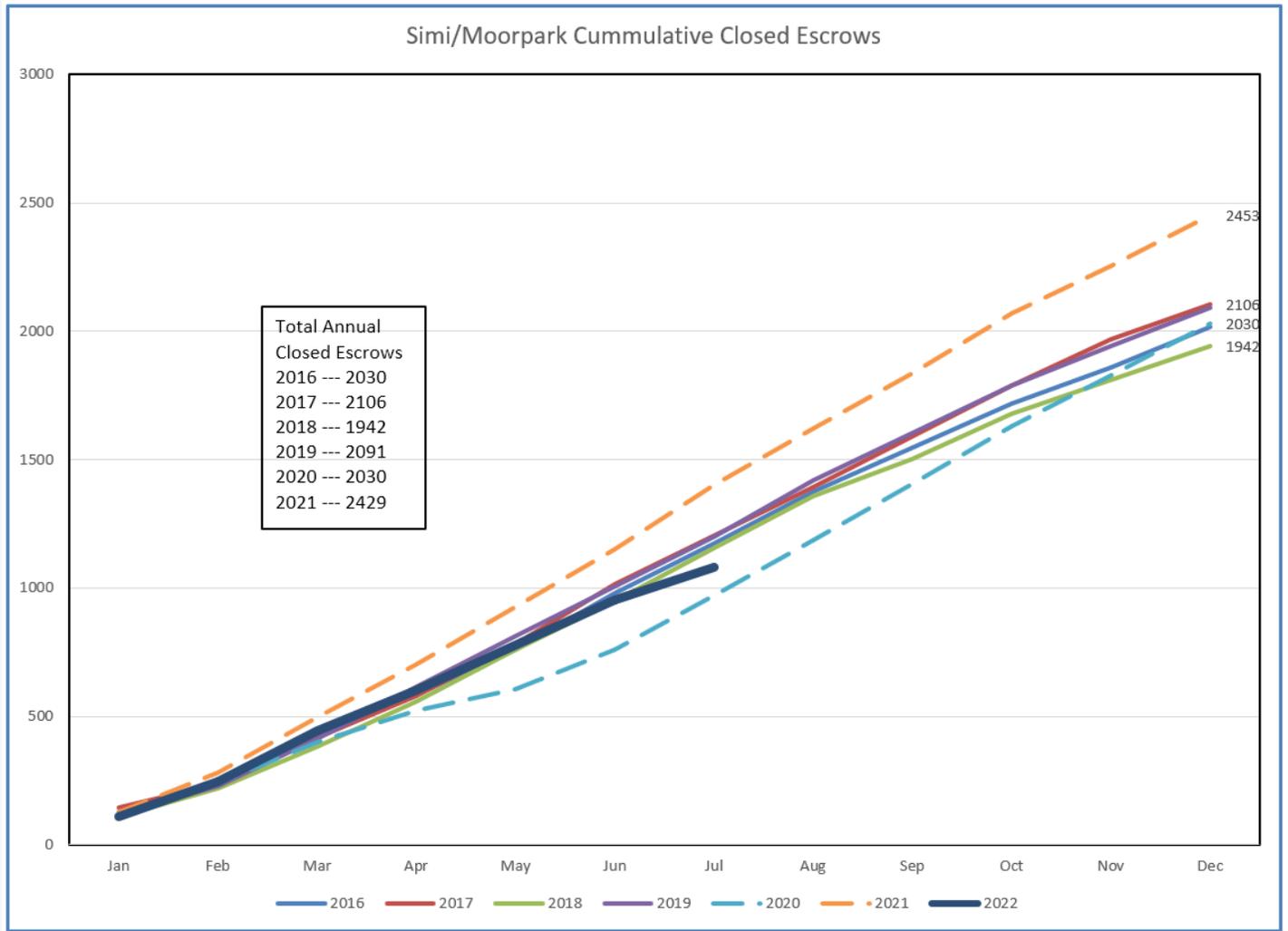
For Simi/Moorpark, the same thing is happening. Things will get better, but the combination of higher mortgage rates and dropping consumer confidence is causing the real estate market to pause and catch its breath.



Looking at the Cumulative Sales chart, we can see as the year progresses, the weakness in sales is causing the 2022 line to slowly lose altitude. Not a crash landing, but we look to finish the year a little lower than any of the past six.



Simi/Moorpark sales figures show a more pronounced drop occurring.



A wise speaker at an event I attended spoke of the value of information. If you knew what happened, and that could help you foretell what was going to happen, you could prosper from the information. It did not matter whether things were going up or going down, you could still prosper because you had knowledge of what the future would be like.

That is the best message for today's market. Multiple offers are lessening, price adjustments are increasing. Understanding the market can help you give the right advice to your clients. Think about what has happening, about what is happening now, and armed with that information you can remain the valued real estate advisor that you have worked hard to be. Everyone will still want to know "How is the Market Doing?"

Stay safe, stay healthy, and stay in touch.

Chuck