

Florida

The High-Beta Market

March, 2018



Agenda For Today

Three Questions on the Economy

1. **Where Are We in the Business Cycle?**
2. **An Update on How Demographics is Re-Shaping the Economy**
3. **Impact of the New Tax Law on Housing**

Florida Market Conditions

Three Questions for 2018

Question 1: Where are we in the business cycle?

Question 2: How will demographics shape the economy?

Question 3: How will the new tax law re-shape the housing market?

WHERE ARE WE IN THE CYCLE?

Do you expect a recession in

2018?

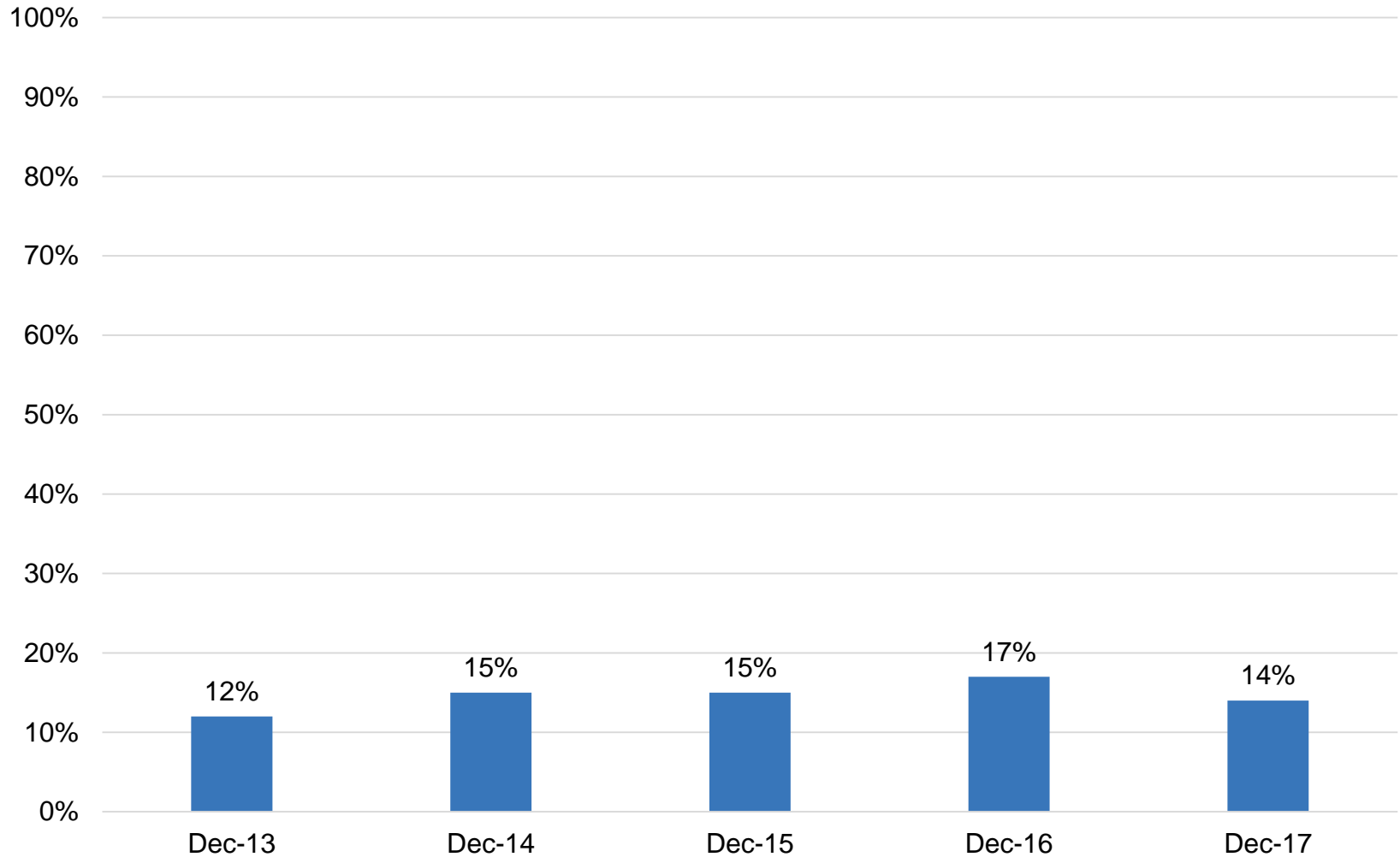
2019?

2020?

After 2020?

Where Are We Today?

WSJ Recession Probability



ARE WE GOOD AT FORECASTING?

Recession

"a significant decline in economic activity spread across the economy, lasting more than a few months."

- National Bureau of Economic Research

Recession occurs when the economy cannot continue to grow.

Recession Probability

Probability that a recession will happen in the next 12 months.

ARE WE GOOD AT FORECASTING?

NO

WSJ Recession Probability



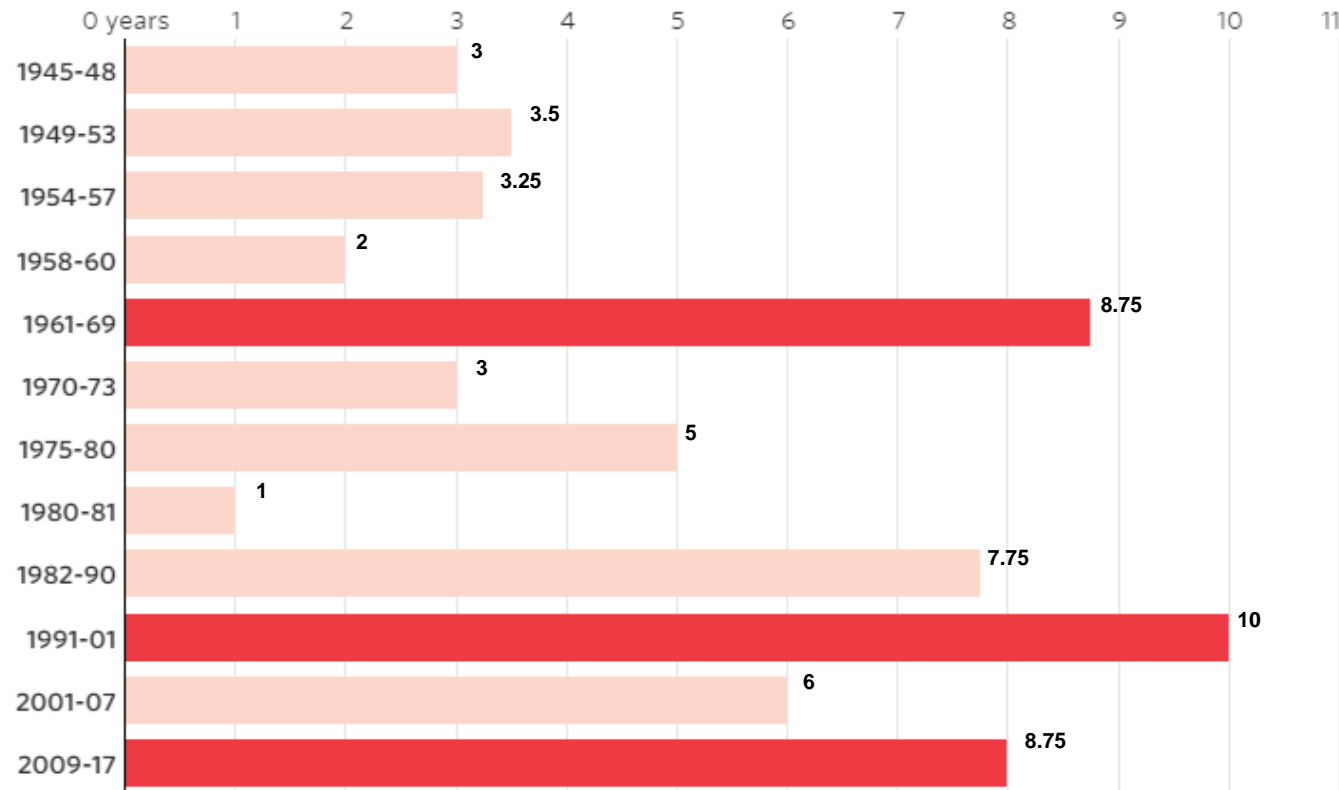
WHY ARE WE NOT GOOD AT FORECASTING RECESSIONS?

- Rare
- Recession occurs when the economy cannot continue to grow.
- Business cycles are not the same

WHAT DO WE KNOW ABOUT THE CURRENT CYCLE?

One of the Longest Economic Expansions

Duration of recent economic expansions



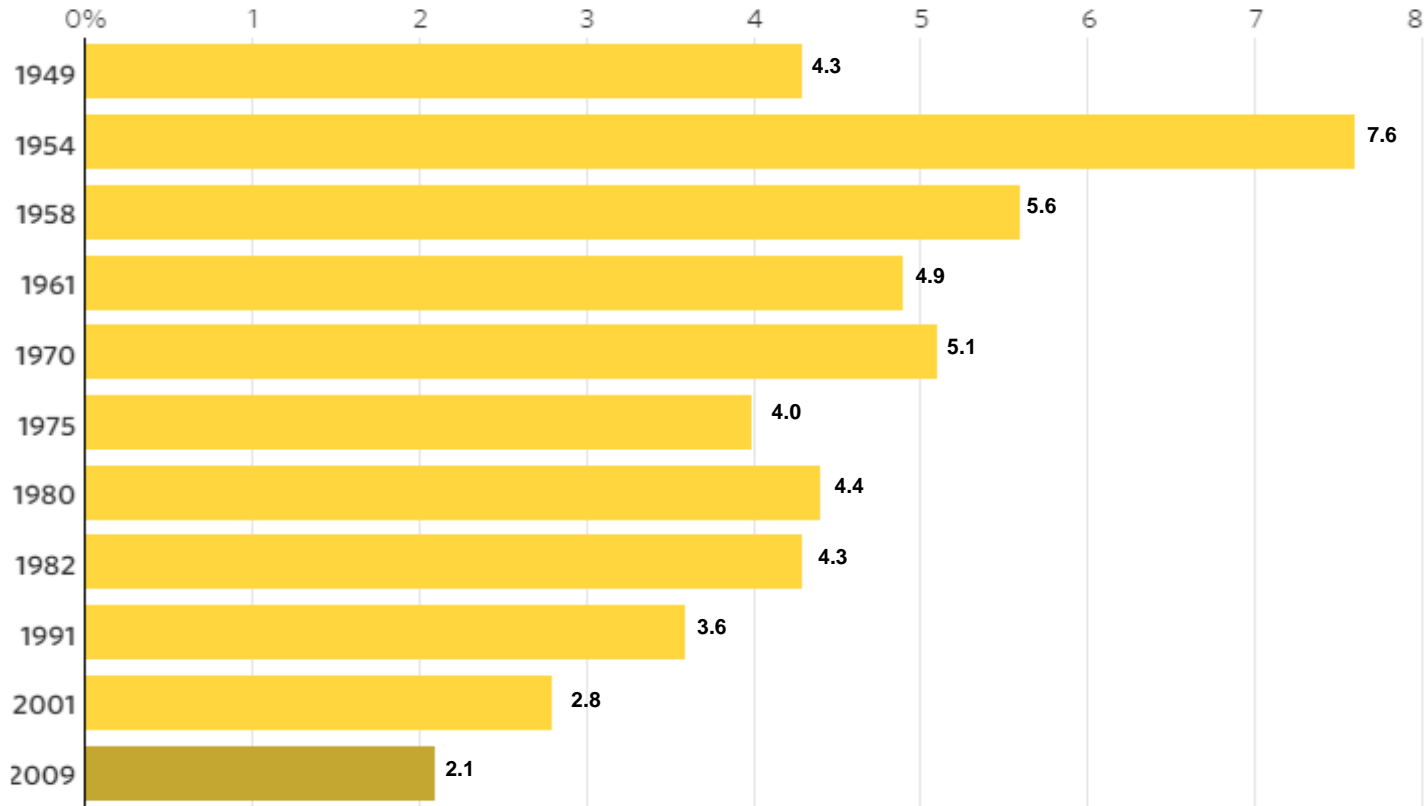
Source: National Bureau of Economic Research

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We are Due for a Recession

The Slowest Economic Expansions

Annualized GDP growth during recent economic expansions



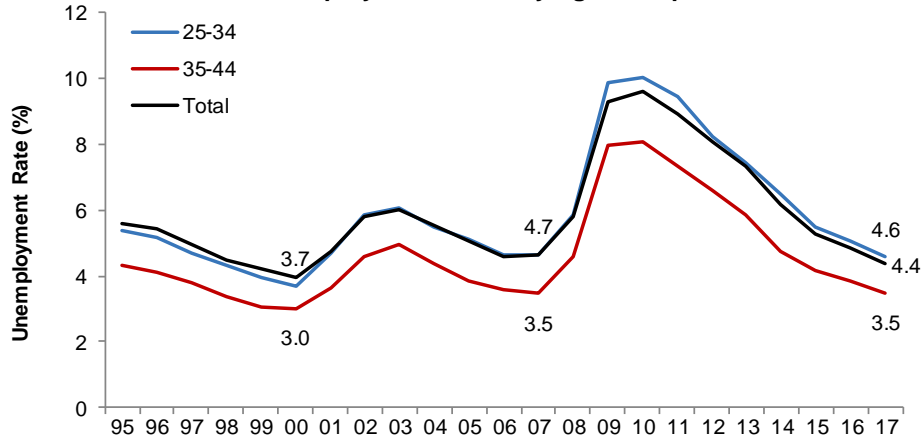
Note: Adjusted for inflation and seasonality.
Source: Commerce Department

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We can still grow

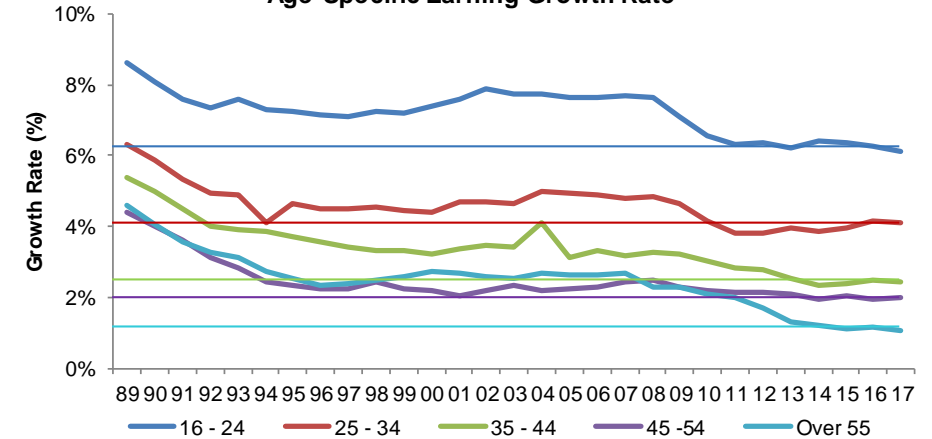
Economic Cycle

Unemployment Rate - by Age Group



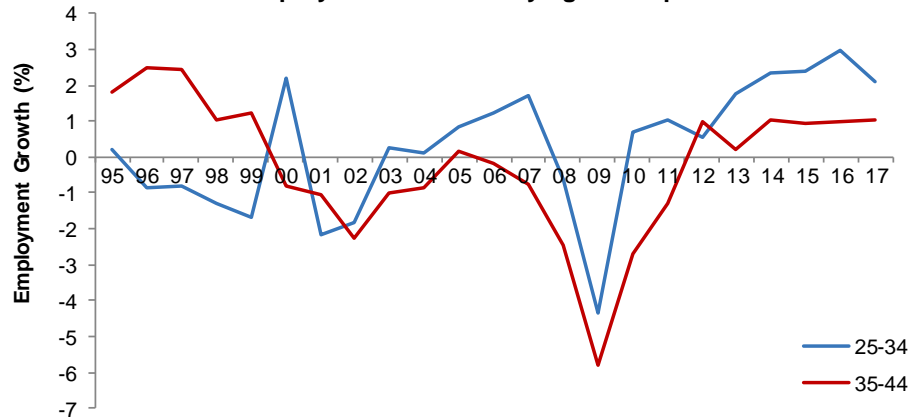
Source: Bureau of Labor Statistics

Age-Specific Earning Growth Rate



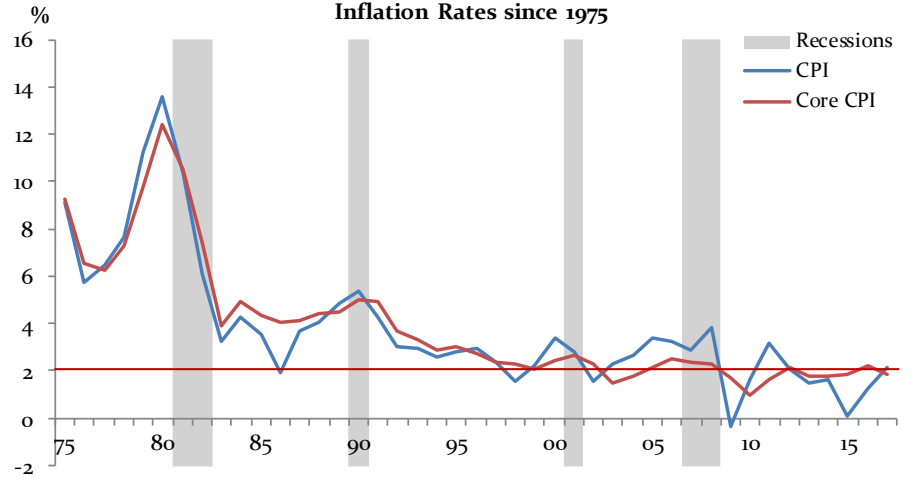
Source: Bureau of Labor Statistics

Employment Growth - by Age Group



Source: Bureau of Labor Statistics

Inflation Rates since 1975



What Will Drive Growth?



2018 OUTLOOK

Tax Cut

BOOST AFTER-TAX INCOME



Demographics

MILLENNIALS, BOOMERS



INTER-STATE MIGRATION



IMMIGRATION



Regulation

TRADE



Credit Expansion

MORTGAGE CREDIT



CONSUMER CREDIT



Monetary Policy

FED TIGHTENING



UNWINDING BALANCE SHEET



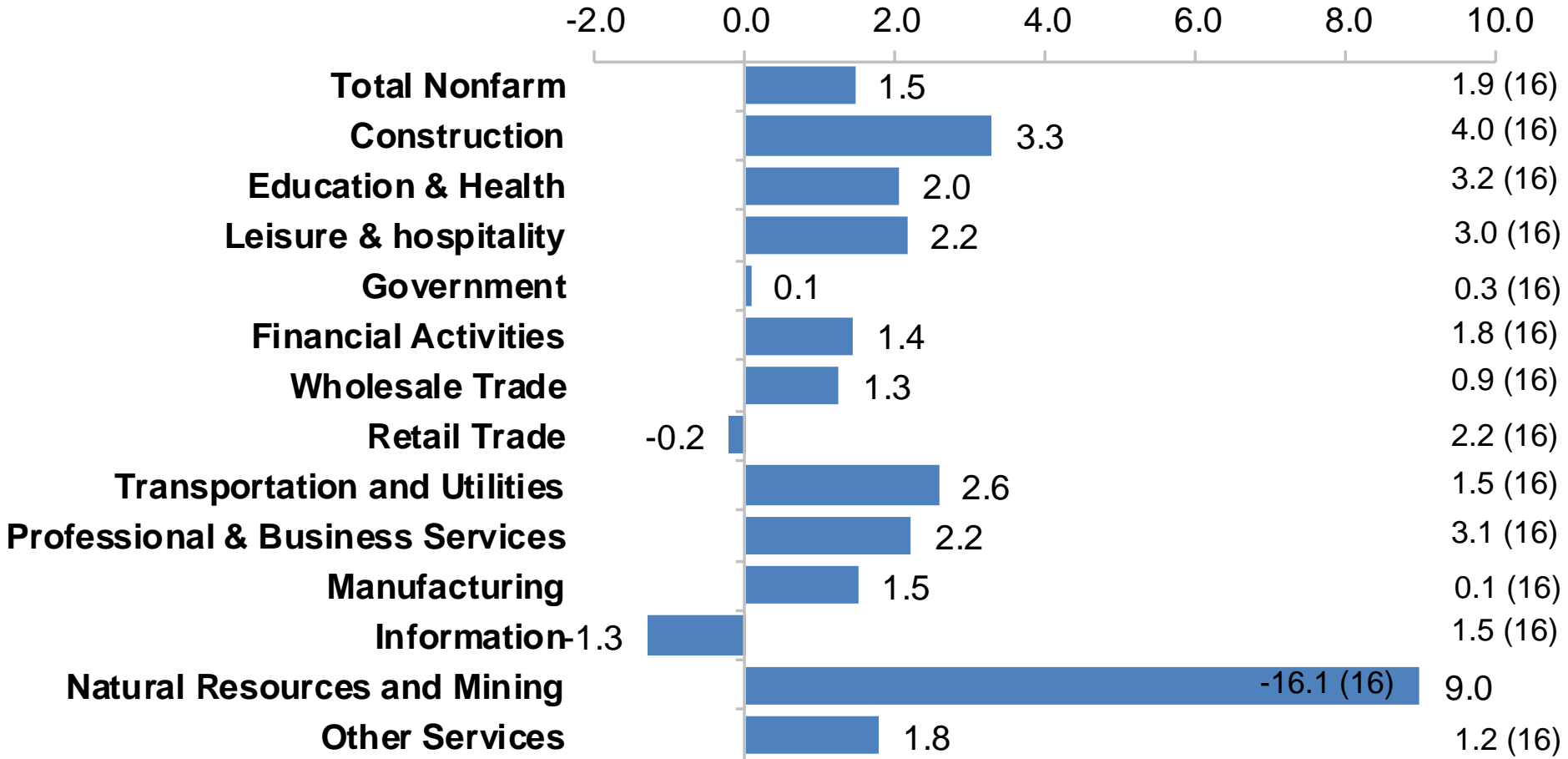
Technology

INCREASED INVESTMENT



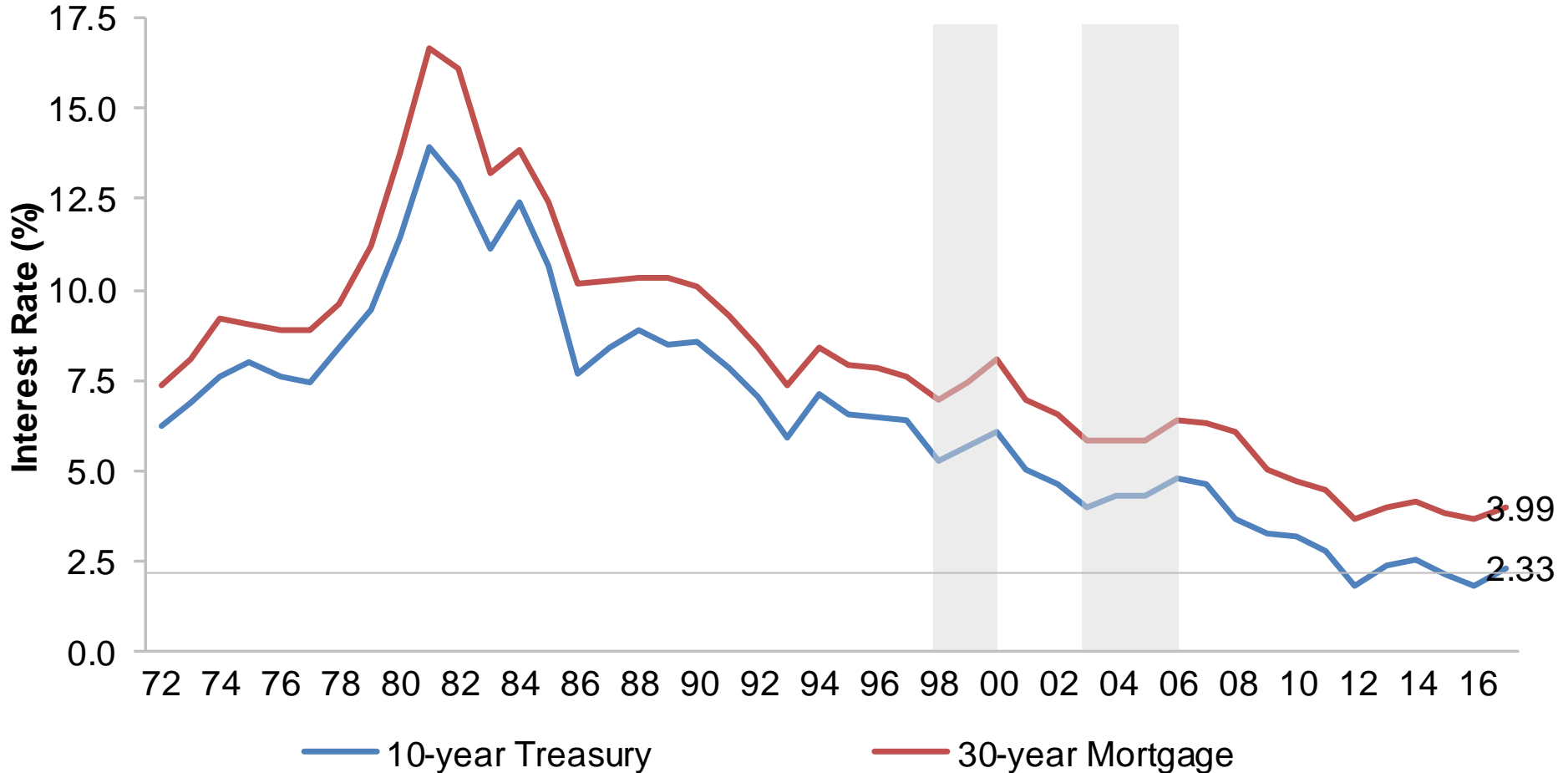
Job Market Reflects Economic Trends

Y/Y (%) Change in Employment: By Sector



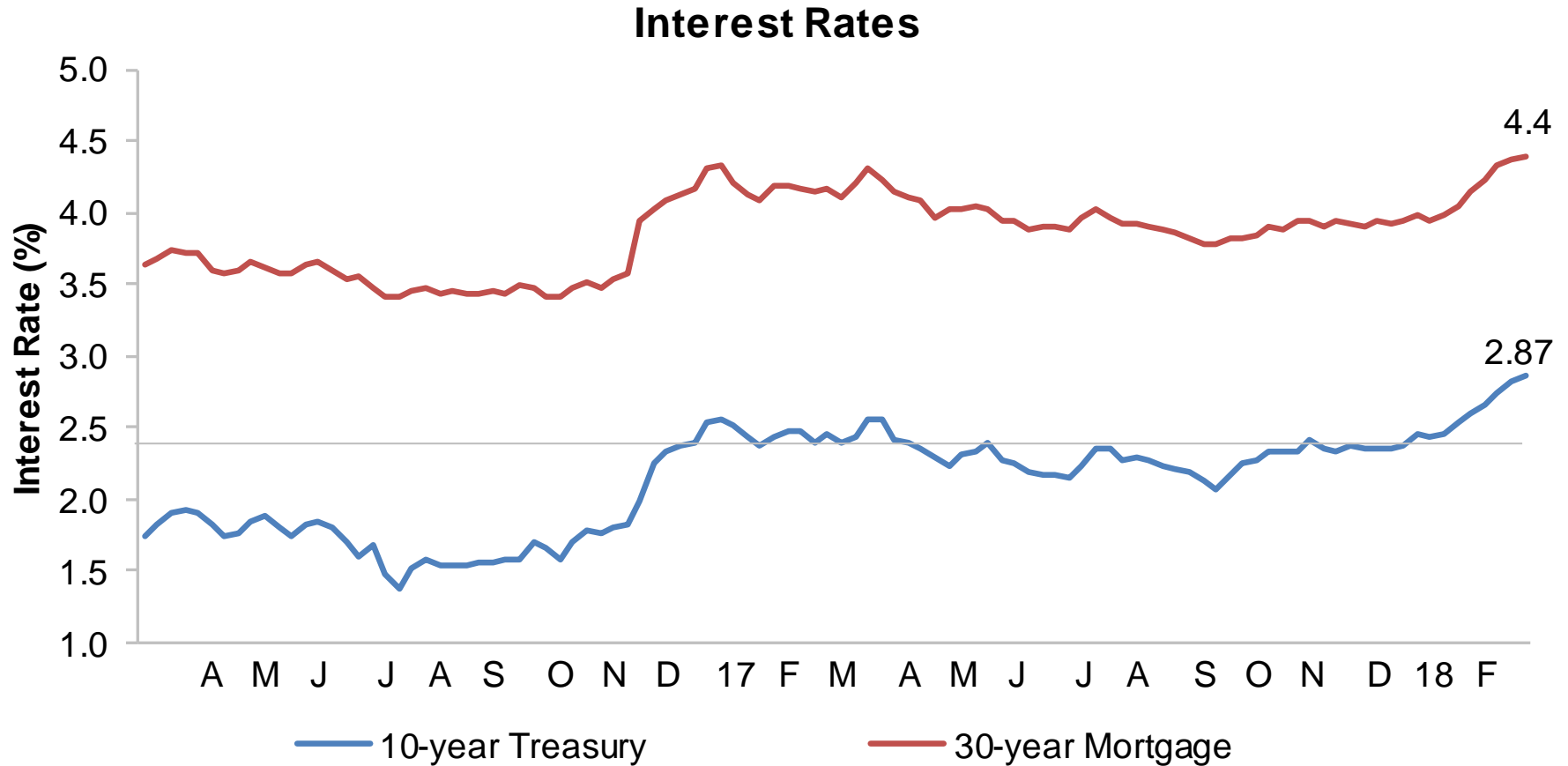
Source: Bureau of Labor Statistics

Low Interest Rates



Source: Federal Reserve Board, Freddie Mac

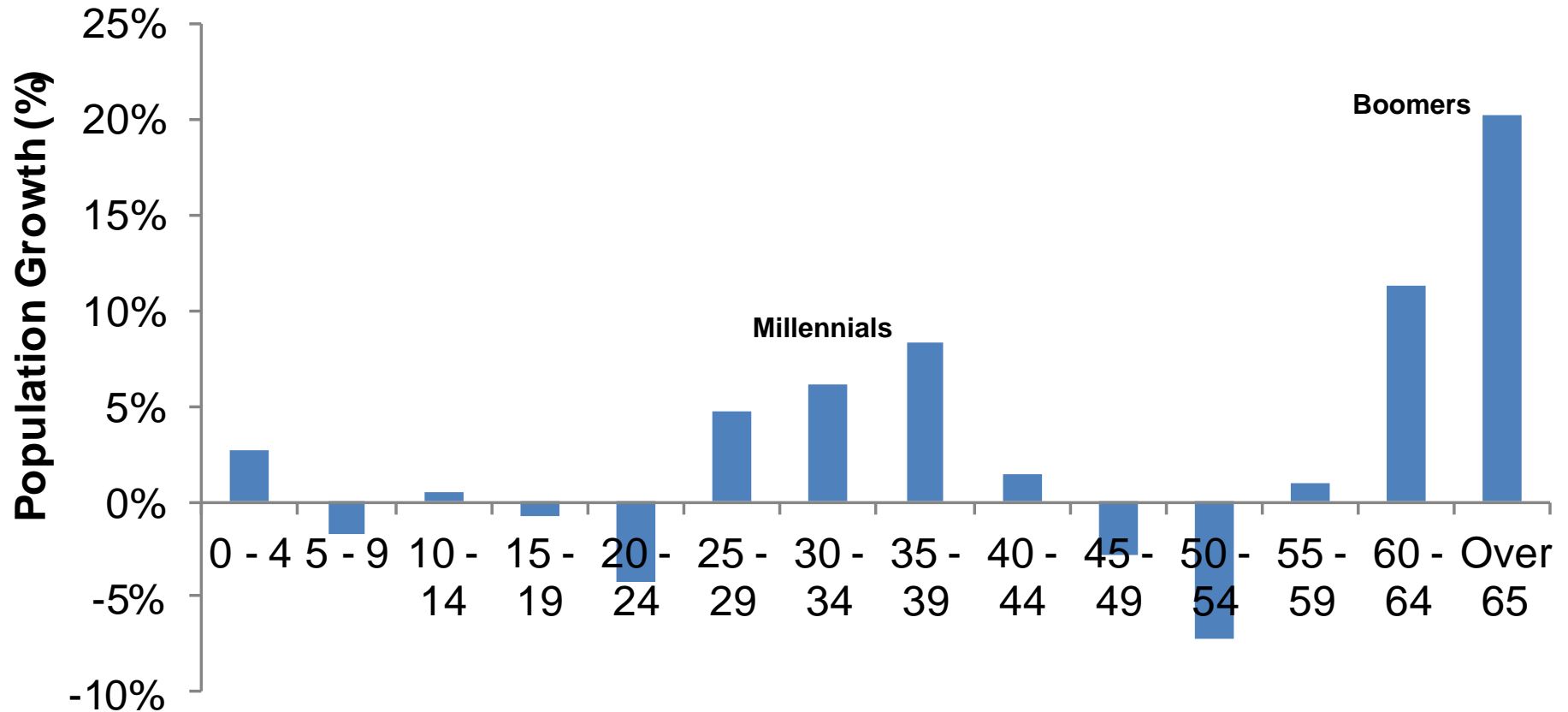
Interest Rates since 2015



Source: Federal Reserve Board, Freddie Mac

Two Demographic Drivers

Total Population Growth ~4% between 2015 and 2020



Source: Moody's Analytics

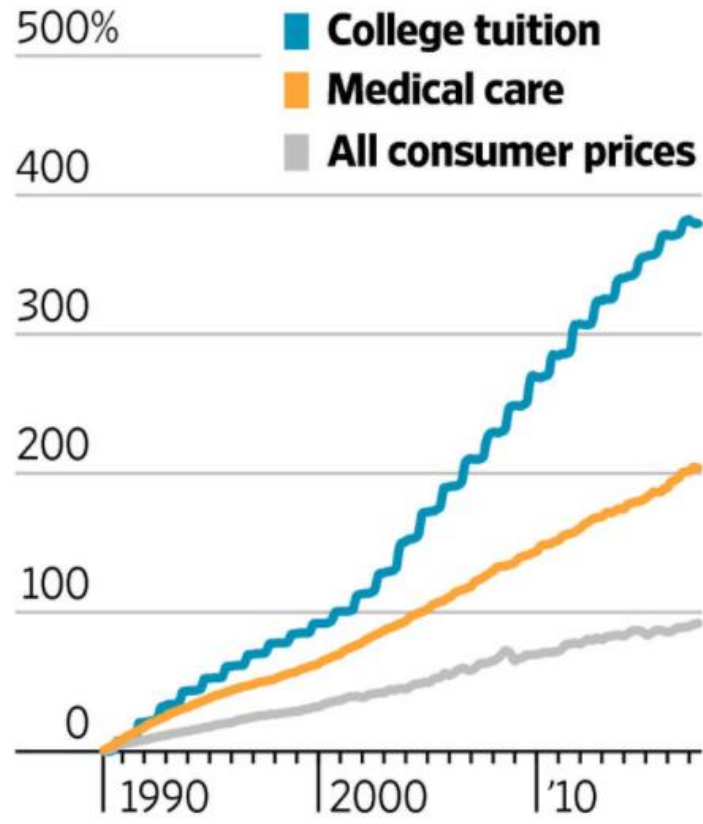
Signs of Influence

College tuition, change from a year earlier



Source: Labor Department

Prices, change since 1990



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Question 3:

**WHAT ARE THE LIKELY IMPACT OF THE
NEW TAX LAW?**

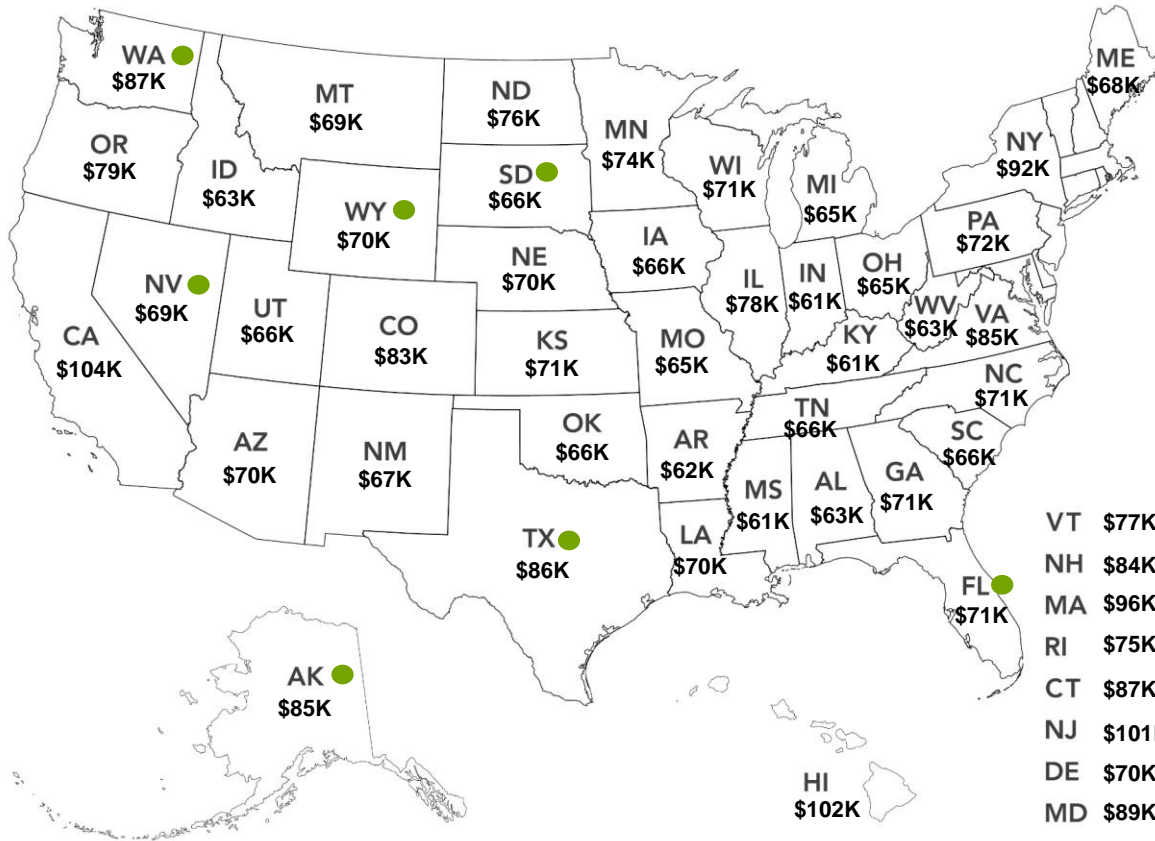
Higher After-Tax Income

	Changes	Implications – Housing Focus
Lower Tax Rates	Married Filing Joint (MFJ) \$19K - \$ 76K: 15% to 12% \$77K - \$153K: 25% to 22%	~\$1,300 per family in Tax Cut
Higher Standard Deduction	Doubled from \$12,700 to \$24,000	Lowers taxable income by ~\$9K per family, saving ~\$2,000 per family
Higher Child Tax Credit	\$1,000 to \$2,000 per child	~\$2,000 per family assuming 2 kids
Personal Exemption Repealed	\$4,150 to \$0	Increases taxable income by \$4,150 per person, and increases tax by \$3,500 per family

Fewer Deductions and Credits

	Changes	Implications – Housing Focus
Mortgage Interest Deduction	Limited to \$750K (down from \$1M) of mortgage debt for primary and secondary homes. Eliminated on new home equity loans.	Reduces tax benefits of high-end homes, and homes in high-cost areas Reduces tax benefits on second homes – putting landlord at a disadvantage Reduces tax benefits of low down payment mortgages to high-income borrowers Discourages jumbo mortgages
State and local tax deduction	Capped at \$10K for sales and state and local property taxes or sales and state and local income taxes	Impacts high-tax states and cities, accelerates out-migration.

Median Household Income



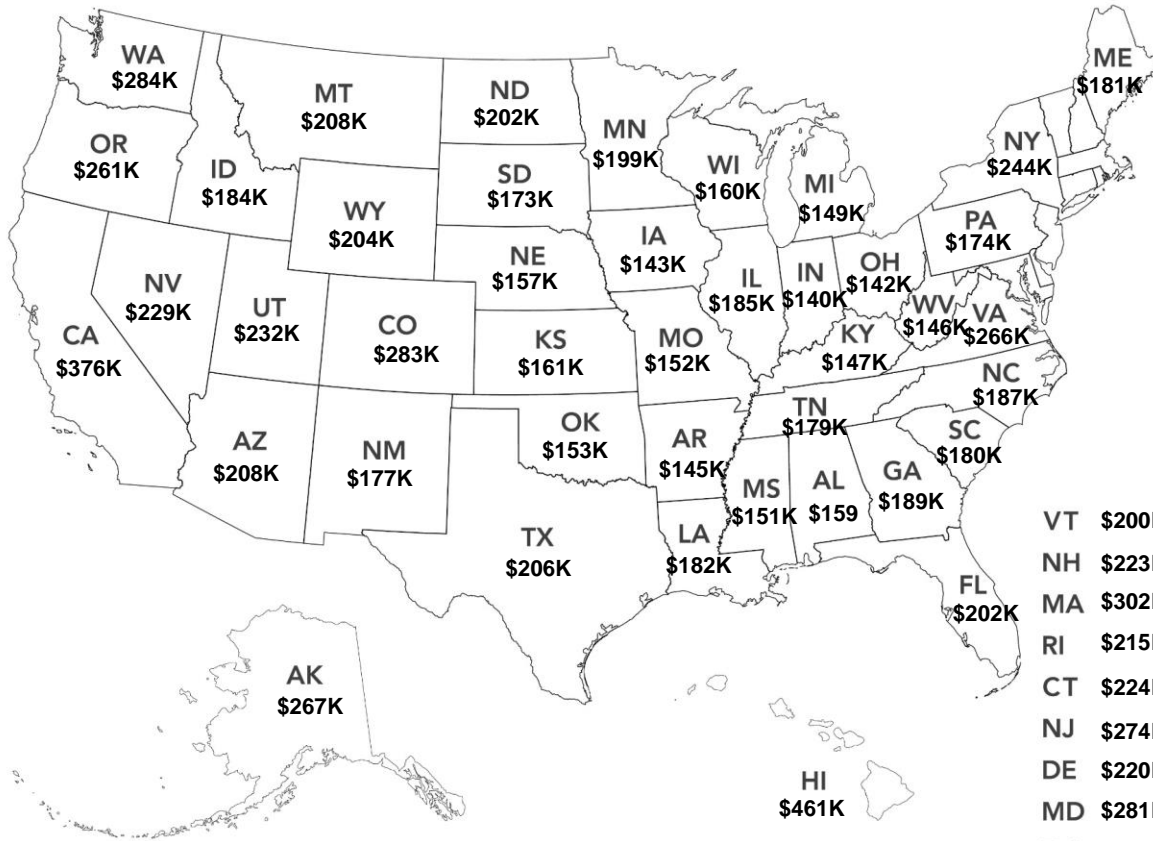
States with high SALT

1. DC: \$9,700
2. NY: \$8,000
3. CA: \$7,600
4. MD: \$6,200
5. CT: \$5,800

● State without state income tax

Source: 2016 HMDA

Median Loan Size



States with high MID

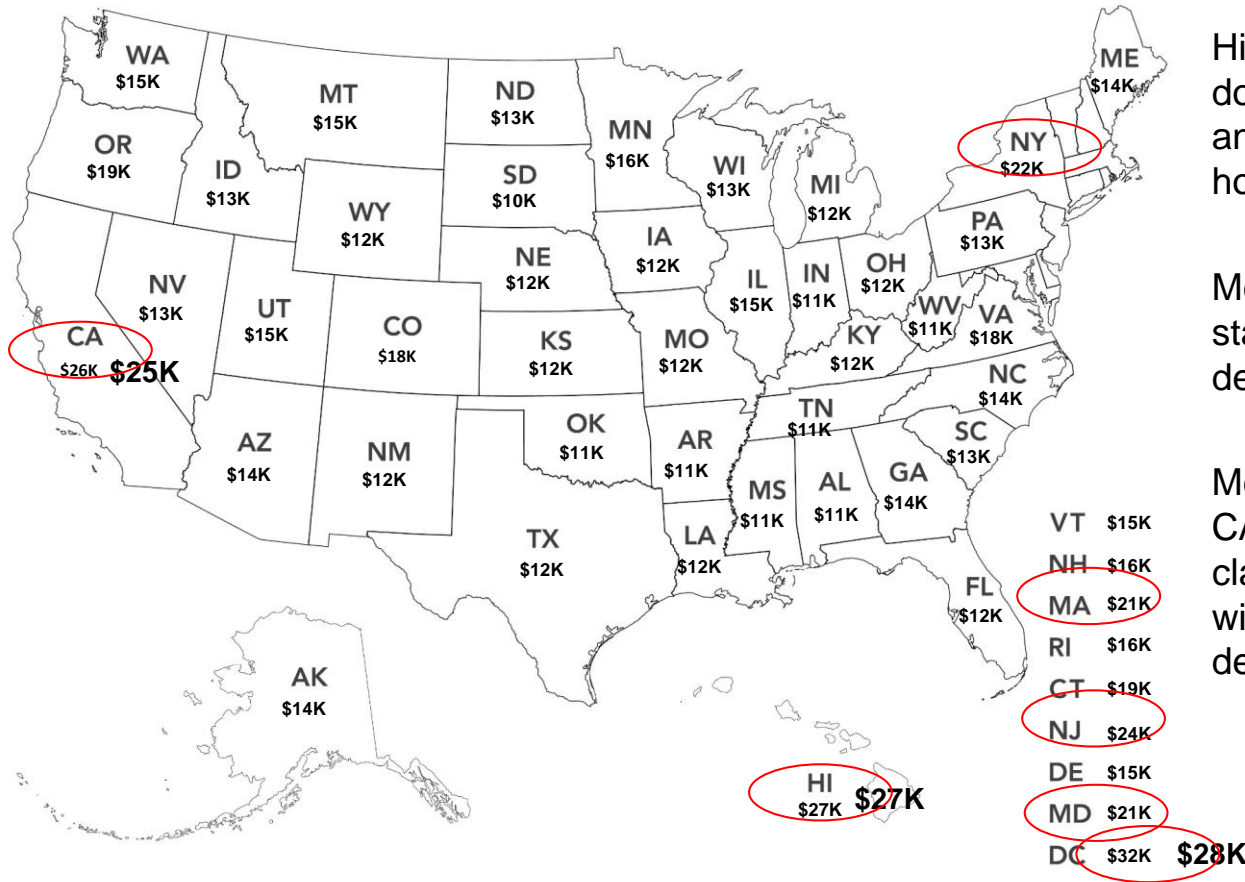
1. DC, HI: \$18K
2. CA: \$15K
3. MA: \$12K
4. CO, WA, VA, NJ, MD: \$11K
5. OR: \$10k

States with high prop tax

1. IL: \$5K
2. TX, VT, NY, MA, CT: \$4K

Source: 2016 HMDA

Deductions – SALT + Prop Tax + MID



Higher standard deduction will dominate new limitations on SALT and MID for most median homeowners.

Median homeowners from most states will switch to standard deduction under the new tax law.

Median homeowners from DC, HI, CA, NJ and higher-income middle class homeowners in MA, MD, NY will likely continue to elect itemized deduction.

Source: Genworth Mortgage Insurance

U.S. Housing Market

Demographics

- Large Millennial cohort reaching prime household formation age
- Baby boomers retiring and will have different housing needs

Cyclical Pent-Up Demand

- Home ownership rate at multi-decade low
- Foreclosure crisis over
- Large pool of renters ready to become homeowners
- Large number of young people ready to strike out

What Has Not Changed

- Desire to become homeowners

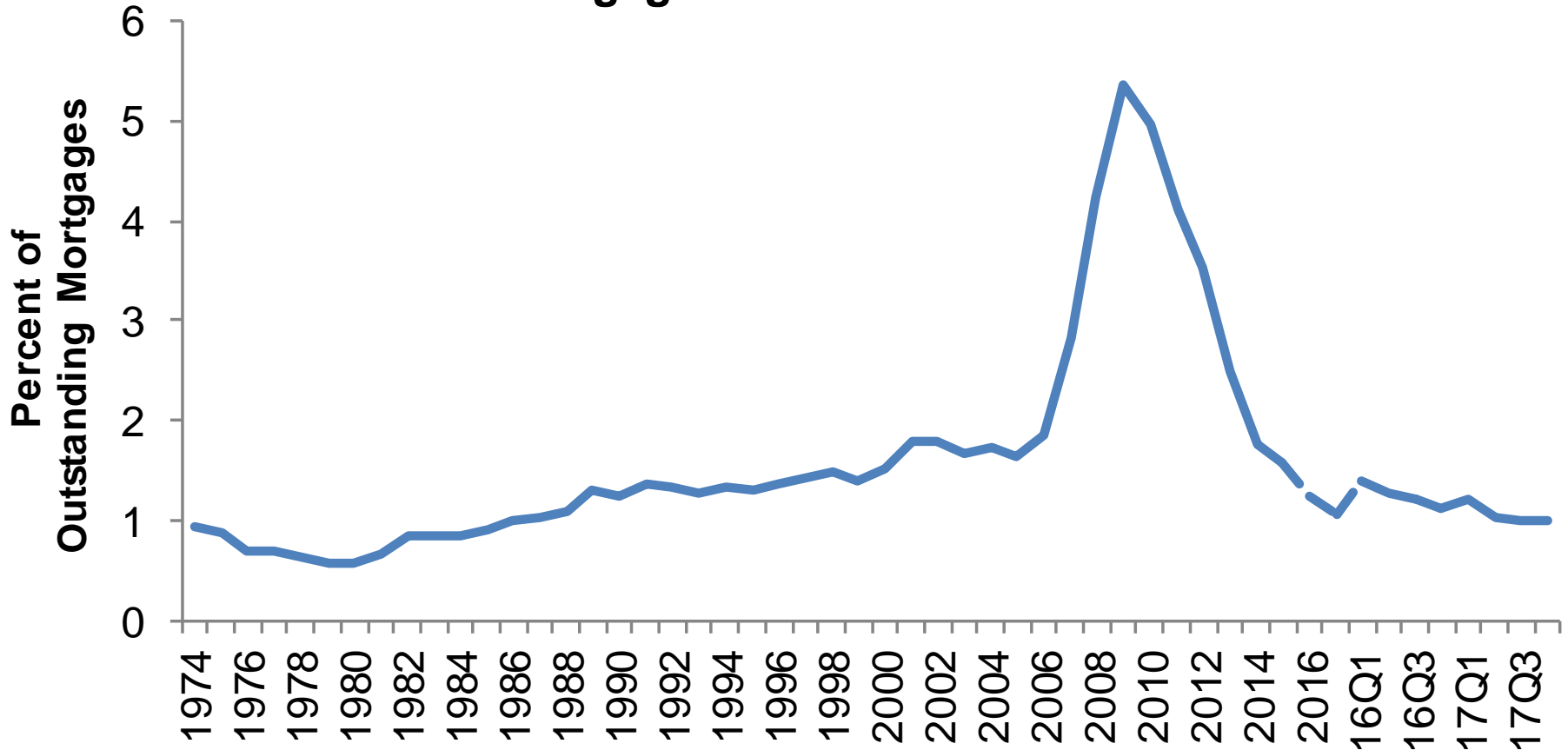
Hurdles to Home Ownership

- Down payment
- Debt
- Credit availability
- Lack of affordable housing inventory in both new and pre-owned market

We are Optimistic about Housing and Mortgage Market

Foreclosure Crisis Over

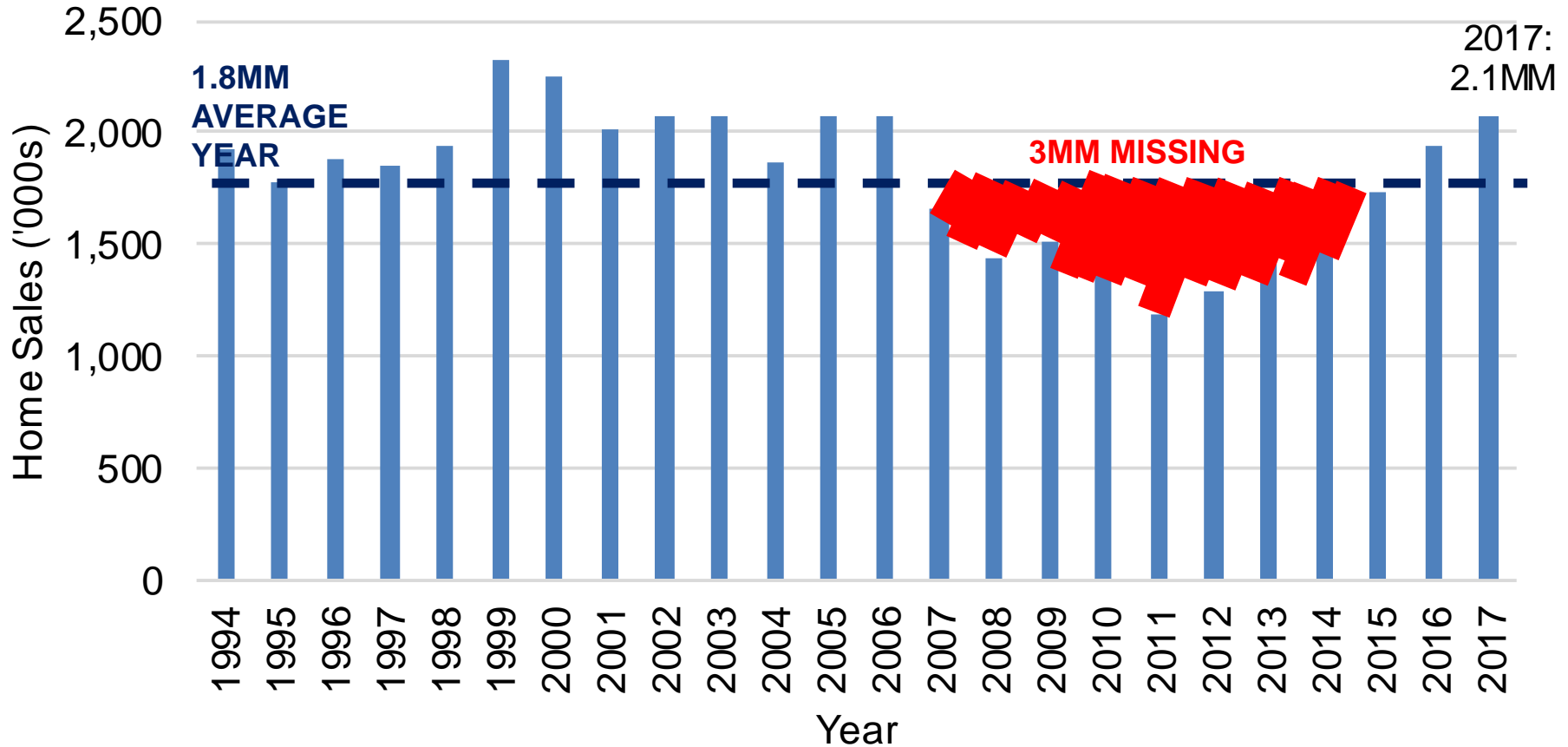
Mortgage Foreclosure Start Rate



Source: Mortgage Bankers Association National Delinquency Survey, Genworth Mortgage Insurance

FIRST-TIME HOMEBUYERS ARE BACK

Home Sales to First-Time Homebuyers



Source: Genworth Mortgage Insurance

Where are First-Time Homebuyers?

TOP-11 FIRST-TIME HOMEBUYER MARKET BY 2017 MARKET SIZE

	2017 Number	2017 Share	2017 vs 16	2017 vs 14
CA	187,000	9%	0%	26%
TX	175,000	8%	6%	29%
FL	160,000	8%	13%	68%
IL	86,000	4%	4%	26%
GA	77,000	4%	9%	65%
PA	75,000	4%	8%	36%
NY	74,000	4%	0%	25%
OH	72,000	3%	6%	38%
AZ	67,000	3%	13%	73%
MI	65,000	3%	5%	37%
NC	64,000	3%	12%	50%

Source: Genworth Mortgage Insurance

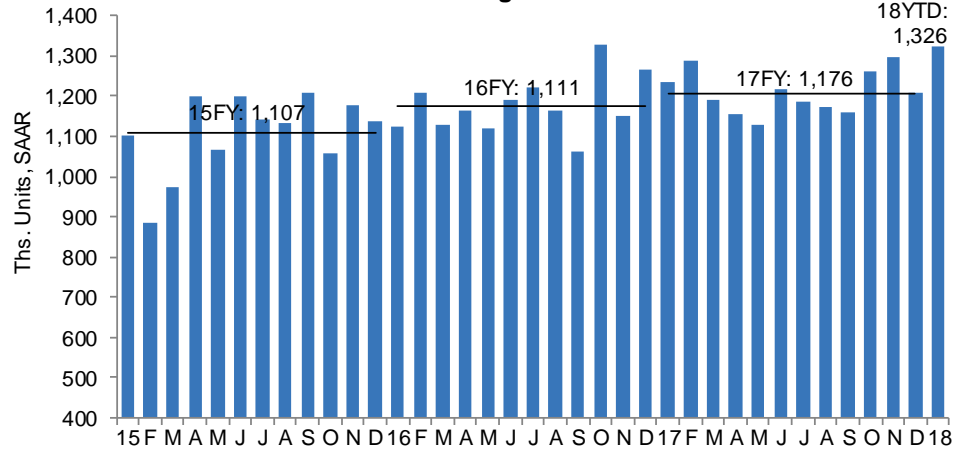
But Supply is Limited

Growth in New Home Sales by Sales Price				
	2017		2017Q4	
	<i>Growth Rate</i>	<i>('000 units)</i>	<i>Growth Rate</i>	<i>('000 units)</i>
\$150-200K	-18%	-14	-19%	-3
\$200-250K	16%	13	16%	3
\$250-300K	1%	1	17%	3
\$300-400K	9%	12	10%	3
\$400-500K	14%	13	6%	1
\$500-750K	21%	11	21%	3
Over 750K	35%	8	50%	3

Source: Census Bureau

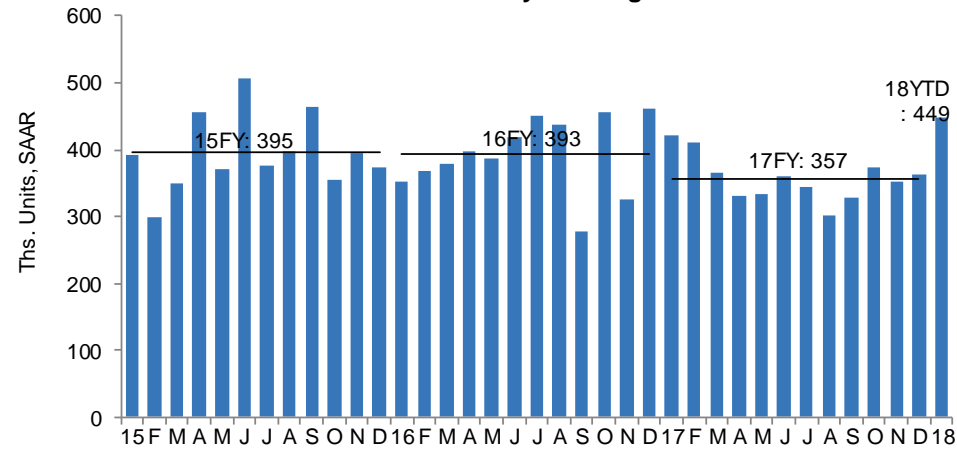
Housing Supply

Housing Starts



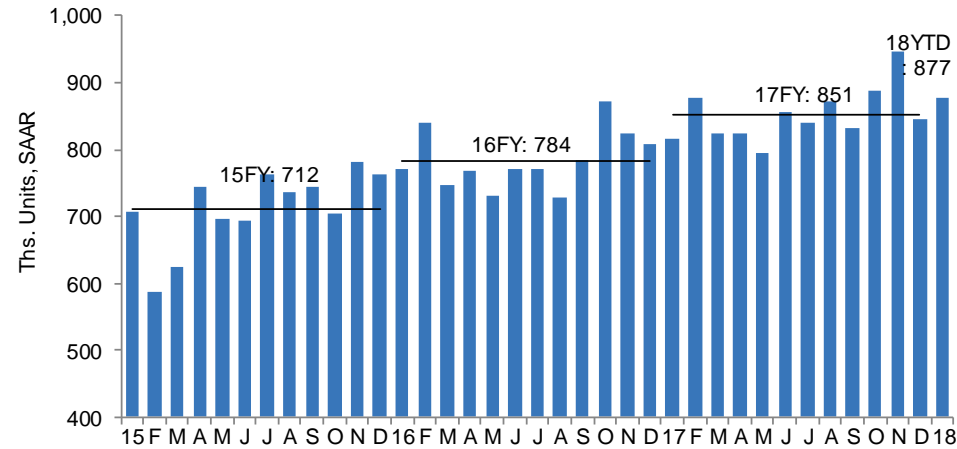
Source: Census Bureau

Multi-Family Housing Starts



Source: Census Bureau

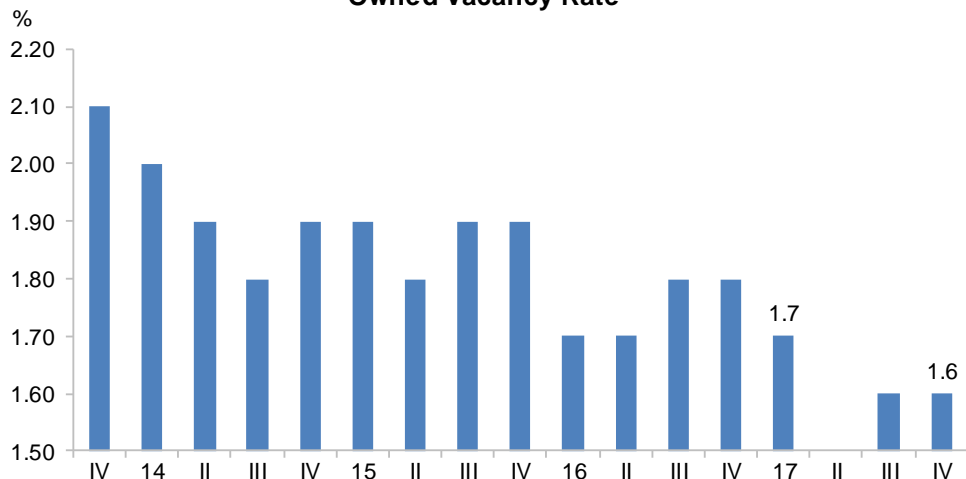
Single-Family Housing Starts



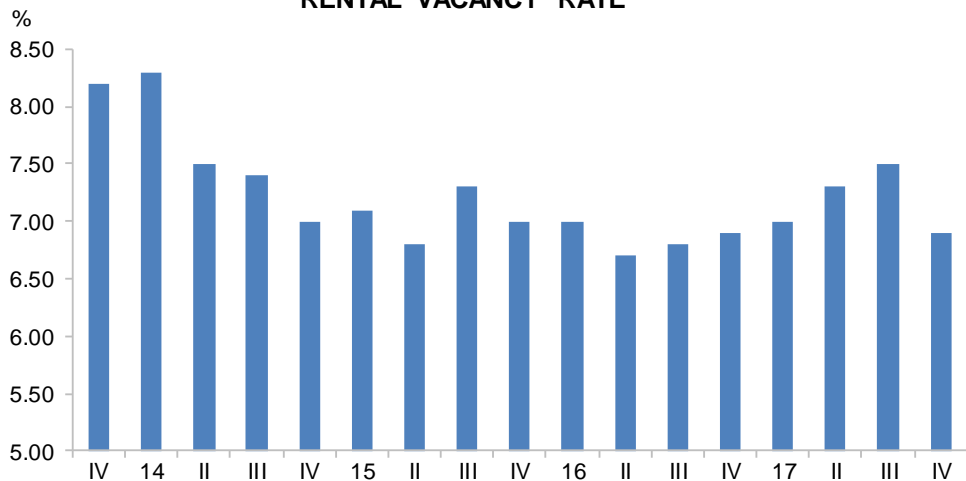
Source: Census Bureau

Housing Vacancy Levels

Owned Vacancy Rate

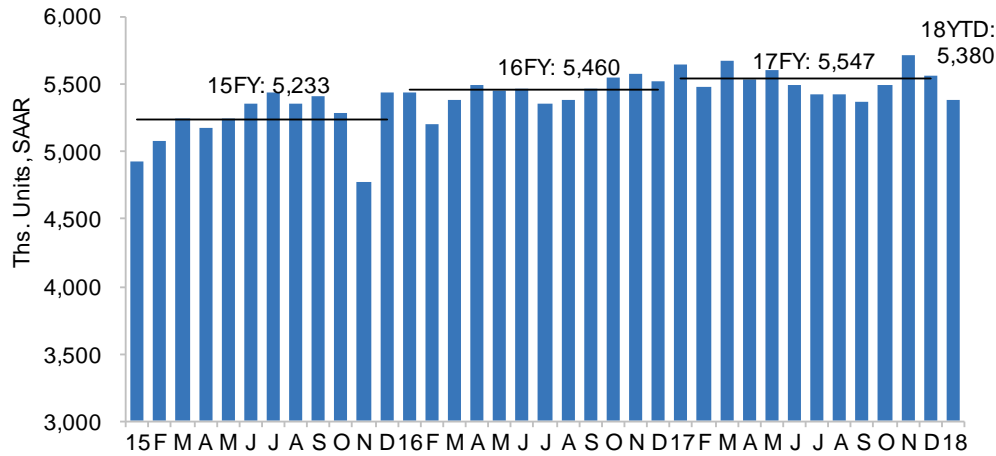


RENTAL VACANCY RATE



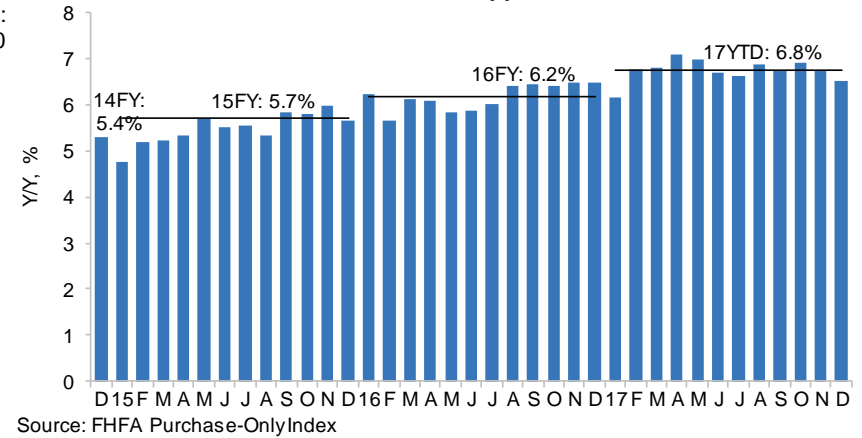
Home Sales

Existing Home Sales



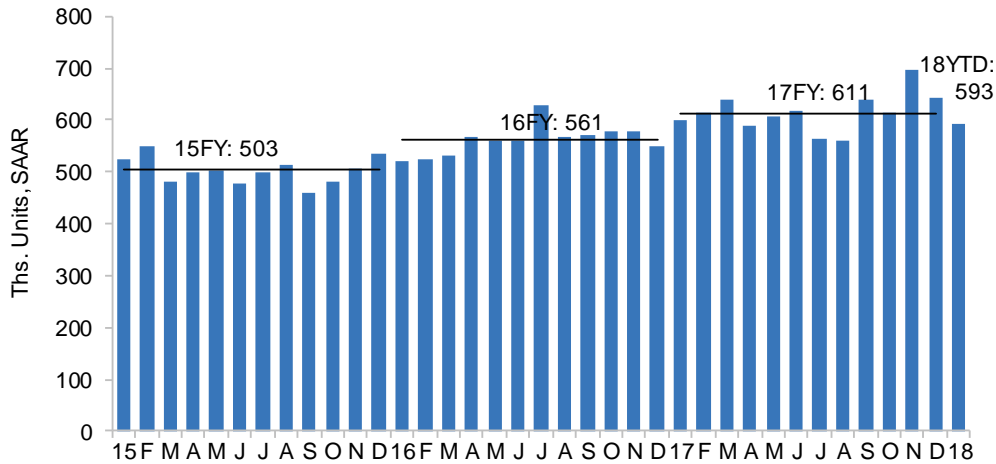
Source: National Association of Realtors

Home Price Appreciation



Source: FHFA Purchase-Only Index

New Home Sales



Source: Census Bureau

Implications for 2018

HOUSING INVENTORY

WILL REMAIN TIGHT

HOME PRICES

SIMILAR GROWTH TO 17

MORTGAGE DEBT

WILL BEGIN TO ACCUMULATE

MORTGAGE PRODUCT

LOW DOWN PAYMENT

CONSTRUCTION

CONTINUE TO LAG DEMAND

HOME EQUITY

**CONTINUE TO BUILD
MORE HOMEOWNERS TAP EQUITY**

INVESTOR

**HOUSING DEMAND SHIFTING TO OWN
AWAY FROM RENTING**

HOMEOWNERSHIP

CONTINUE TO RECOVER

Florida Economy

Florida Economy Out-Performing U.S.

- In-migration drives Faster Population Growth
- Leading Job Creating State
- Orlando a bright spot for job growth
- Labor market tightening with the U.S., despite faster growth in labor force

Economy Benefiting from Strong Tail-Wind:

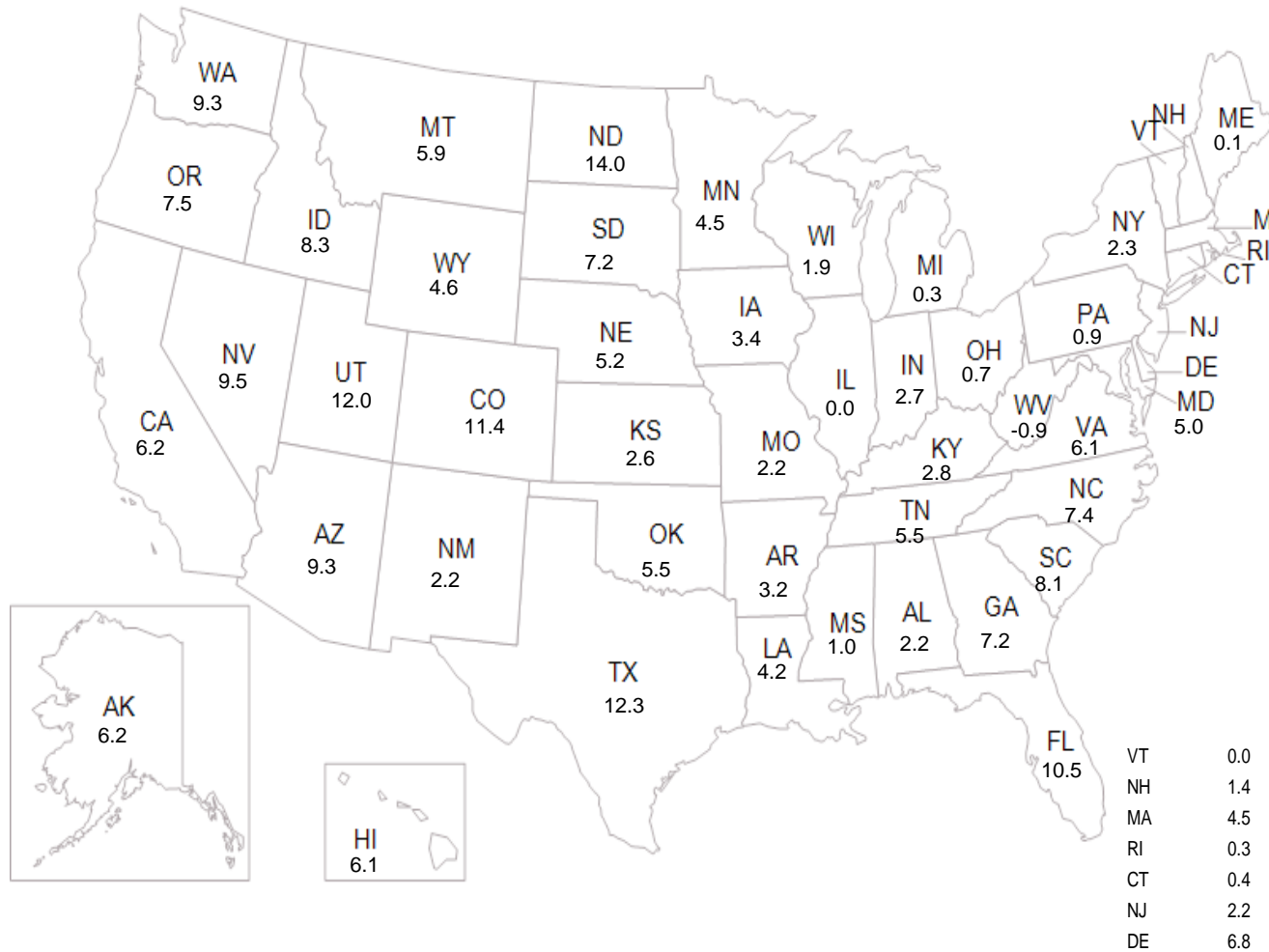
- Construction
- Leisure and Tourism
- Population Aging and Greater Demand for Health Care
- Professional and Business Services

Florida Housing Market

- Home Sales
- Housing Inventory
- Home Price Appreciation

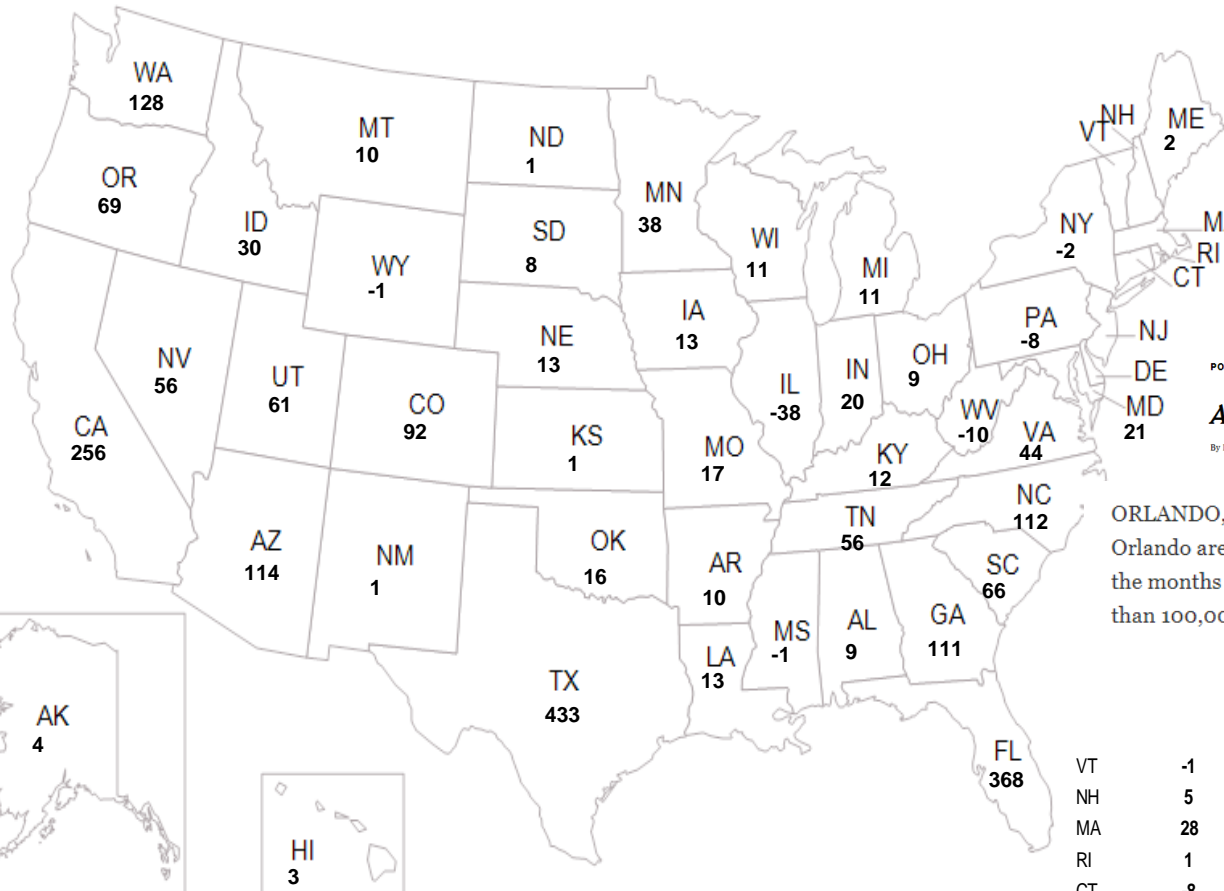
Population Growth (2009 – 2016)

US: 5.3%



Population Growth – 2016

US: 2,200K



The New York Times

POLITICS

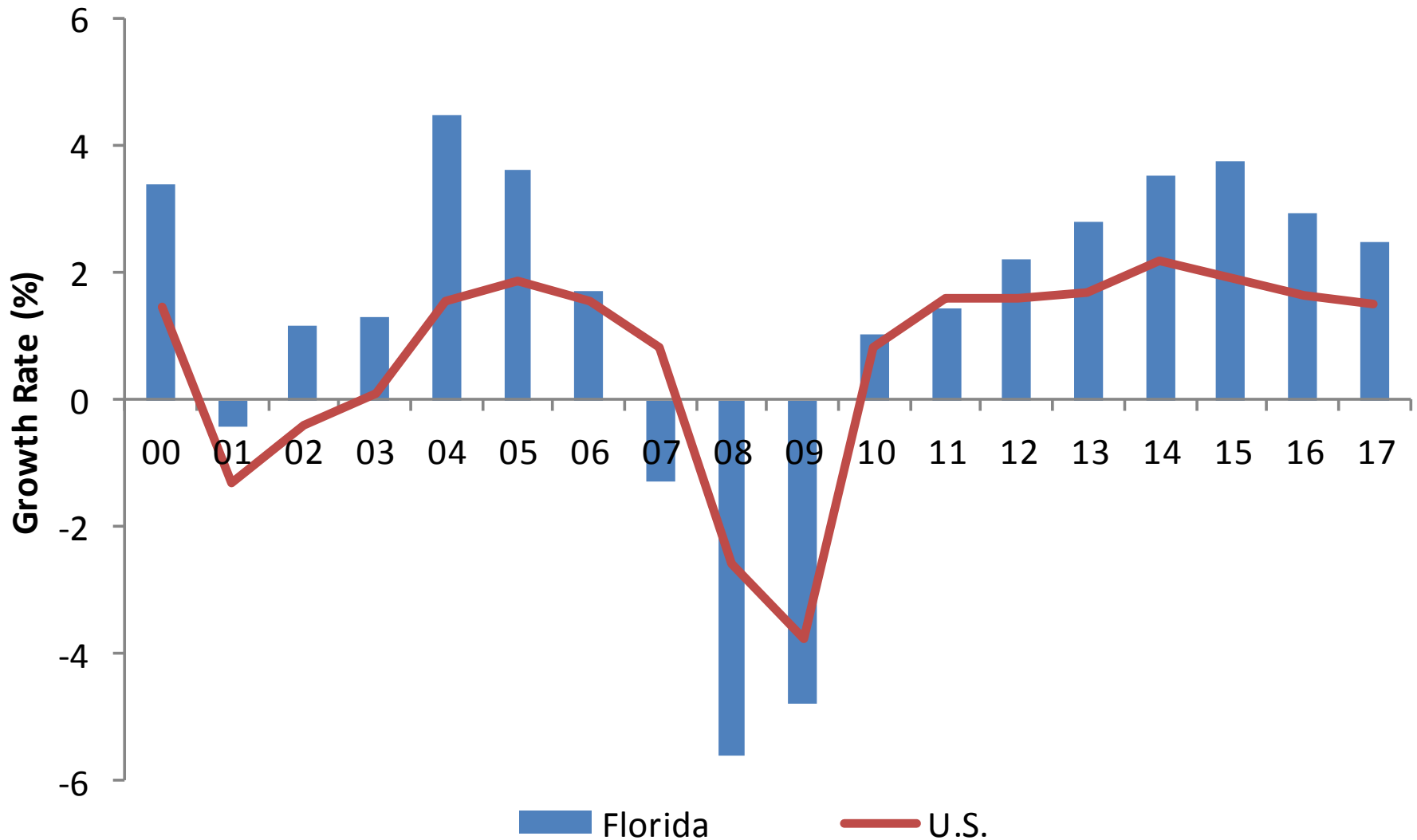
An Exodus From Puerto Rico Could Remake Florida Politics

By MICHAEL TACKETT OCT. 6, 2017

ORLANDO, Fla. — Every day dozens of Puerto Ricans straggle into the Orlando area, fleeing their homes and lives ravaged by Hurricane Maria. In the months to come, officials here said, that number could surge to more than 100,000.

VT	-1
NH	5
MA	28
RI	1
CT	-8
NJ	9
DE	8

Florida has Faster Job Growth

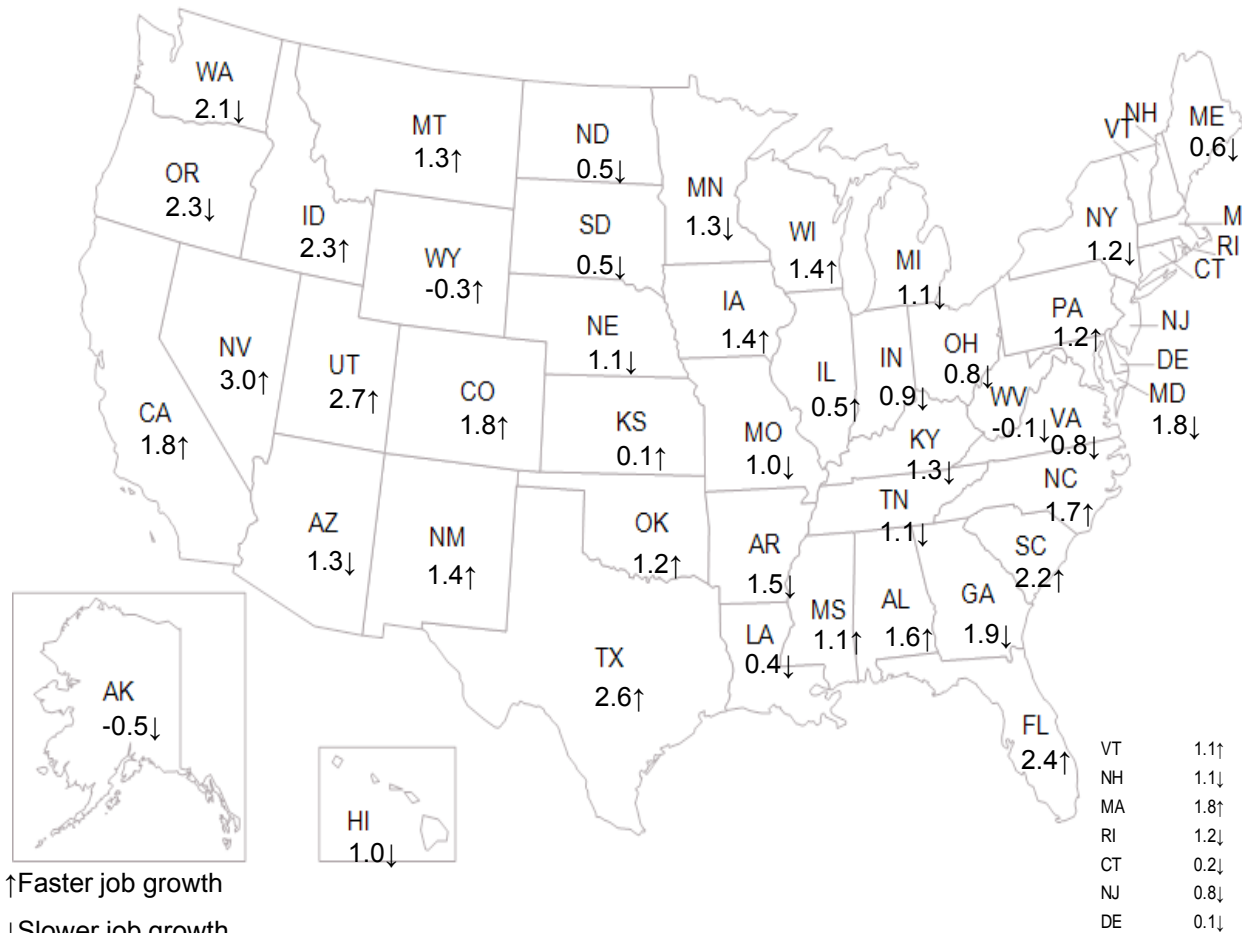


Source: Bureau of Labor Statistics

Second-Fastest Growing State for Jobs

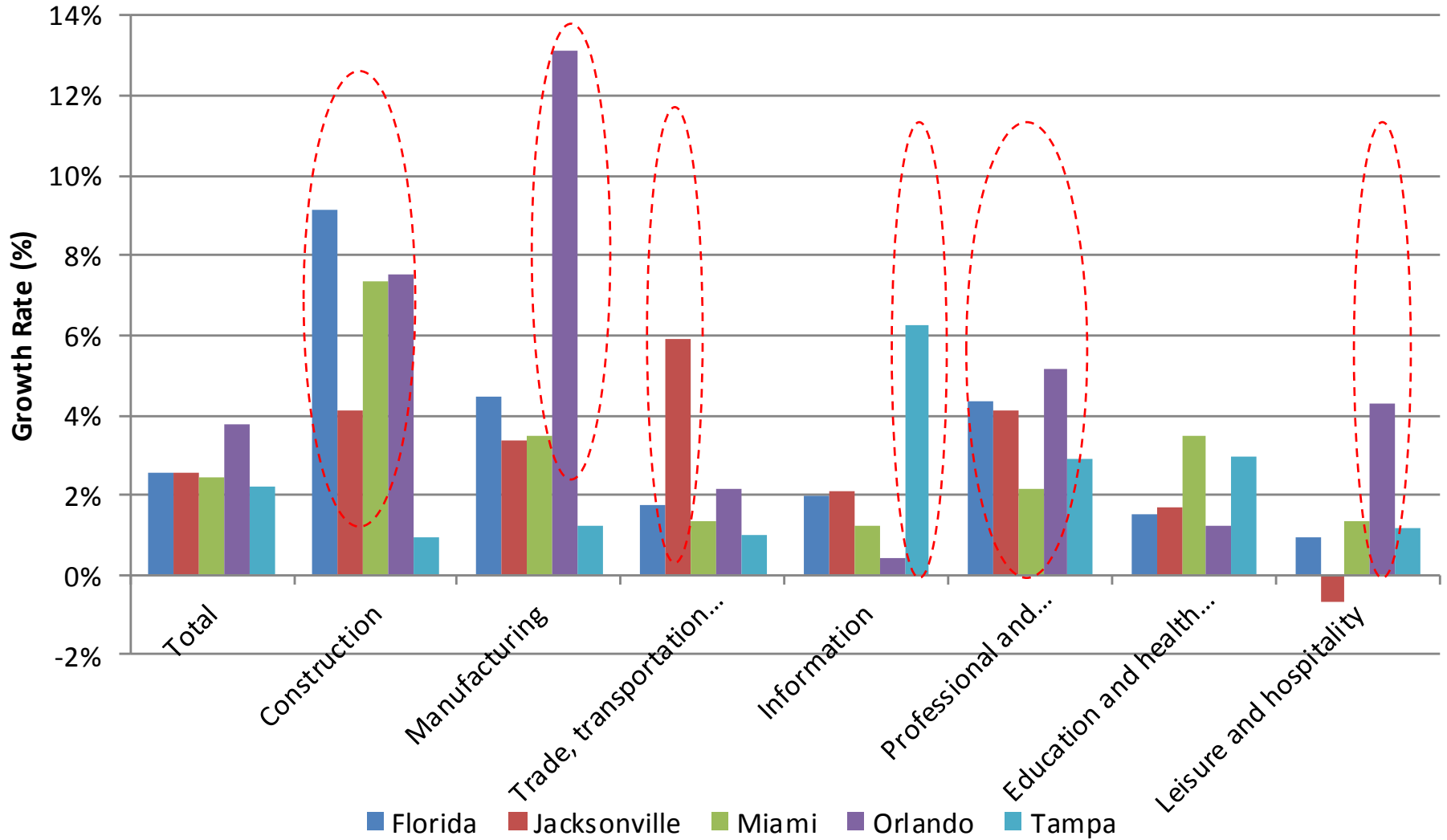
Job Growth 4Q2017

US: 1.5% (y/y %)



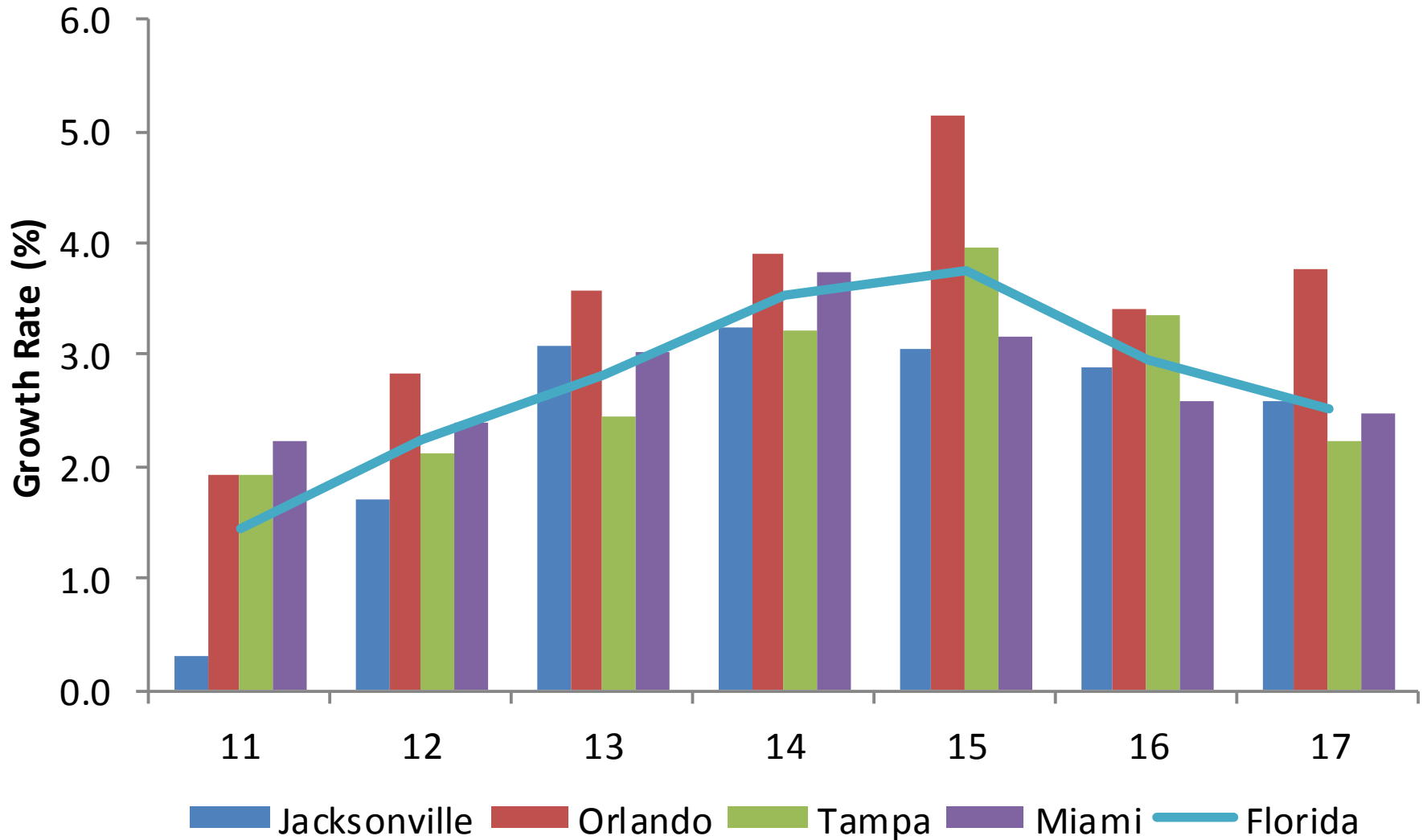
Source: Bureau of Labor Statistics

Florida Well Positioned – Dec 2017



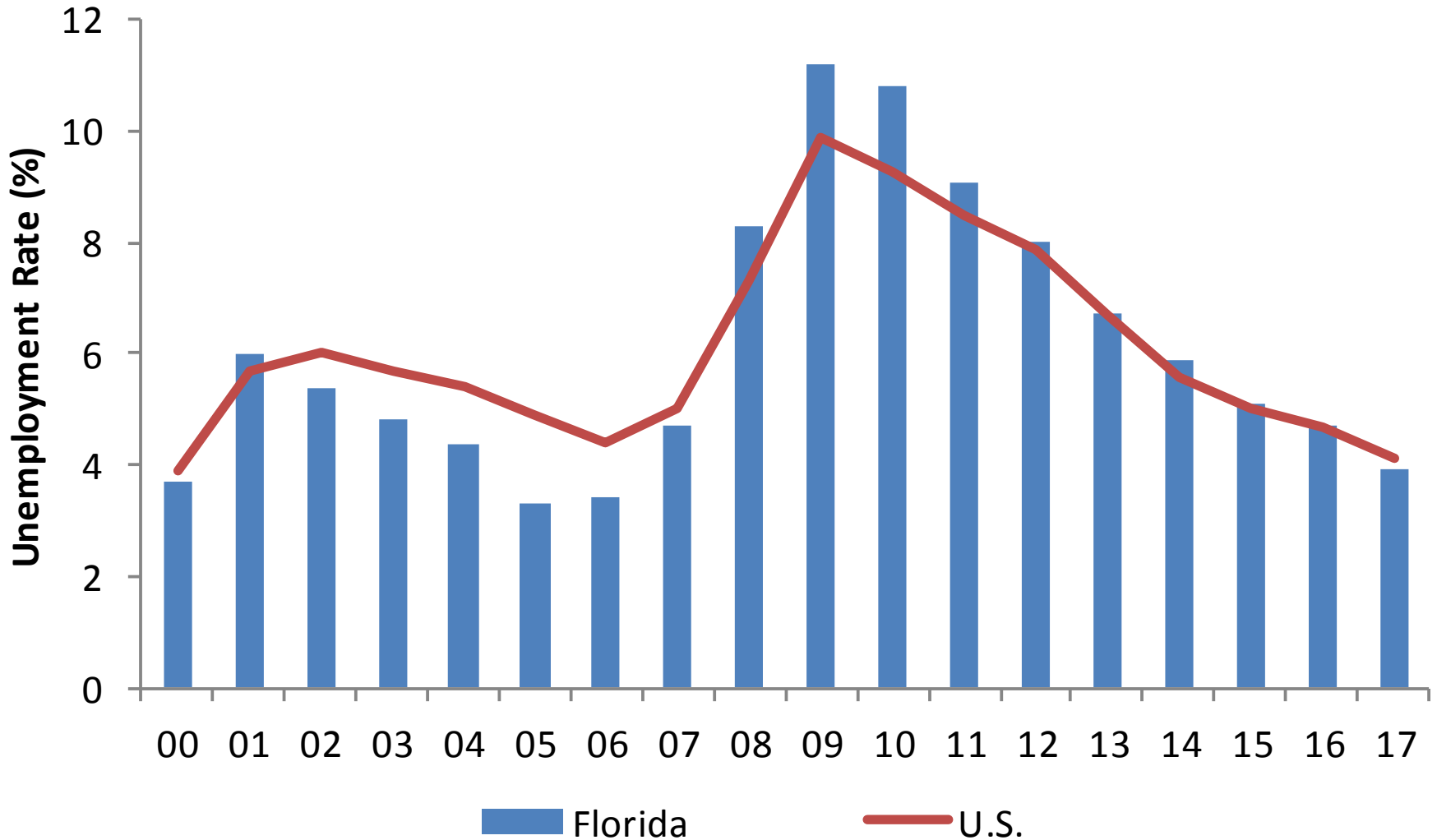
Source: Bureau of Labor Statistics

Job Growth in Florida has slowed down



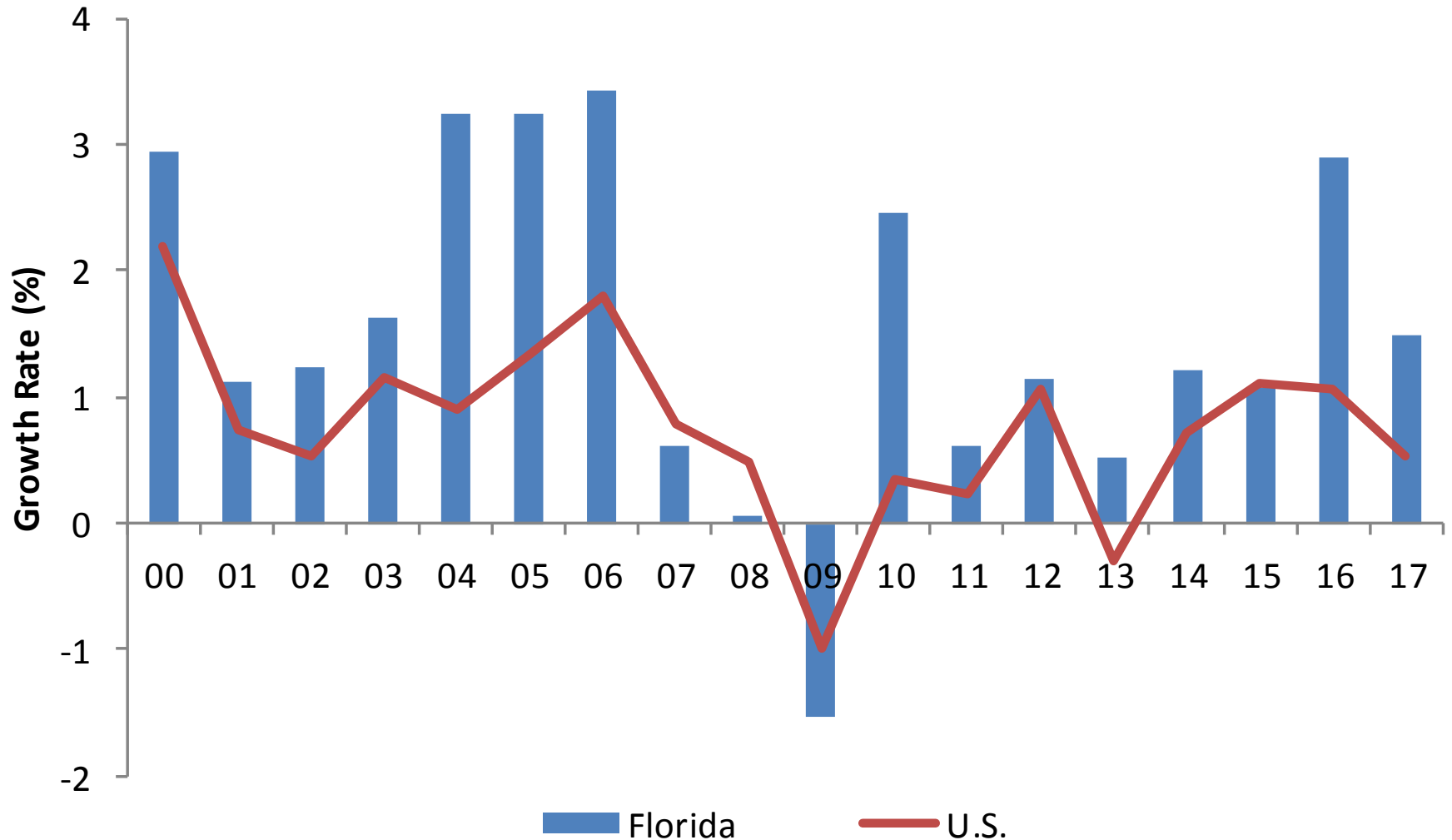
Source: Bureau of Labor Statistics

Florida Labor Market Tightening



Source: Bureau of Labor Statistics

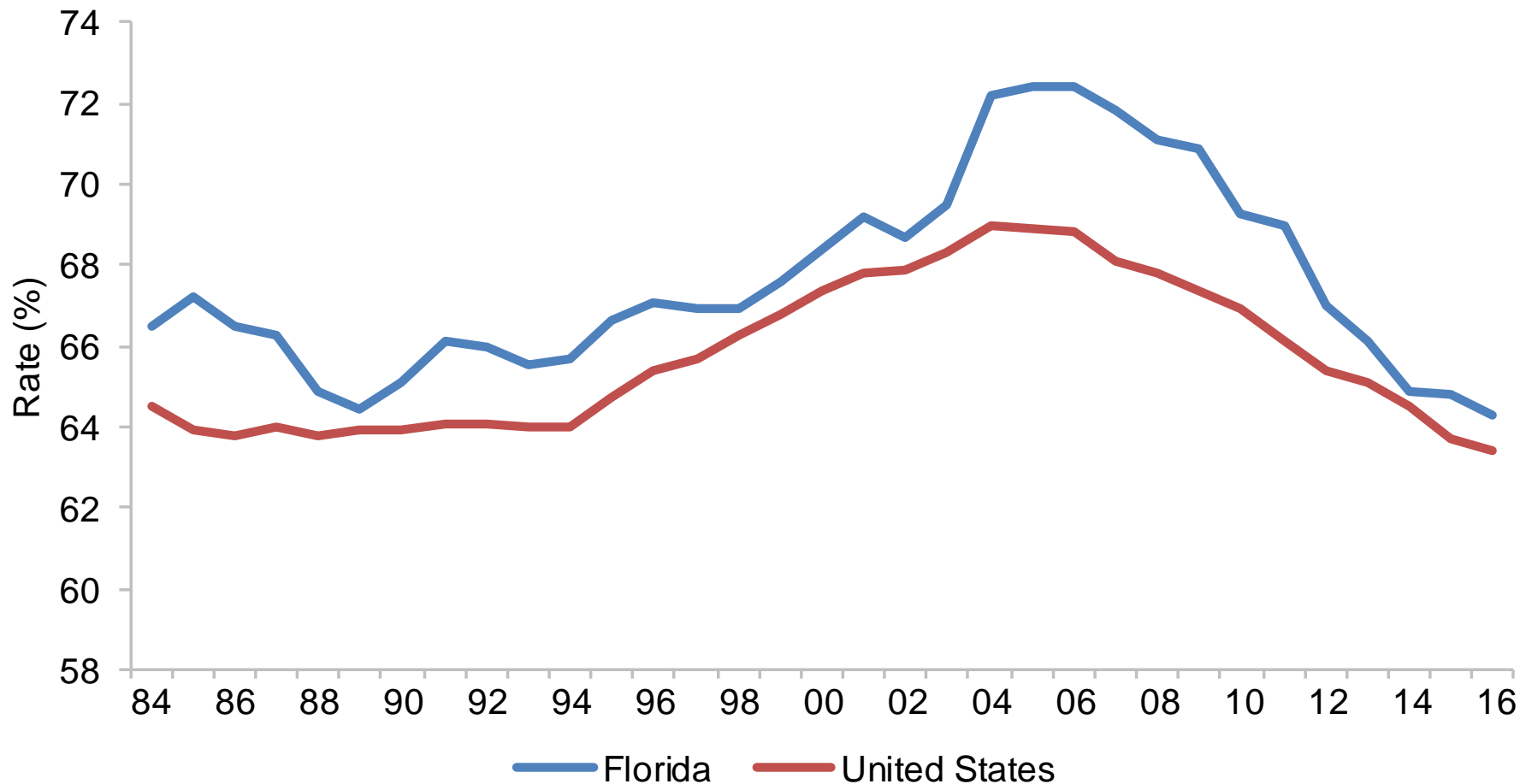
With Significant Growth in Labor Force



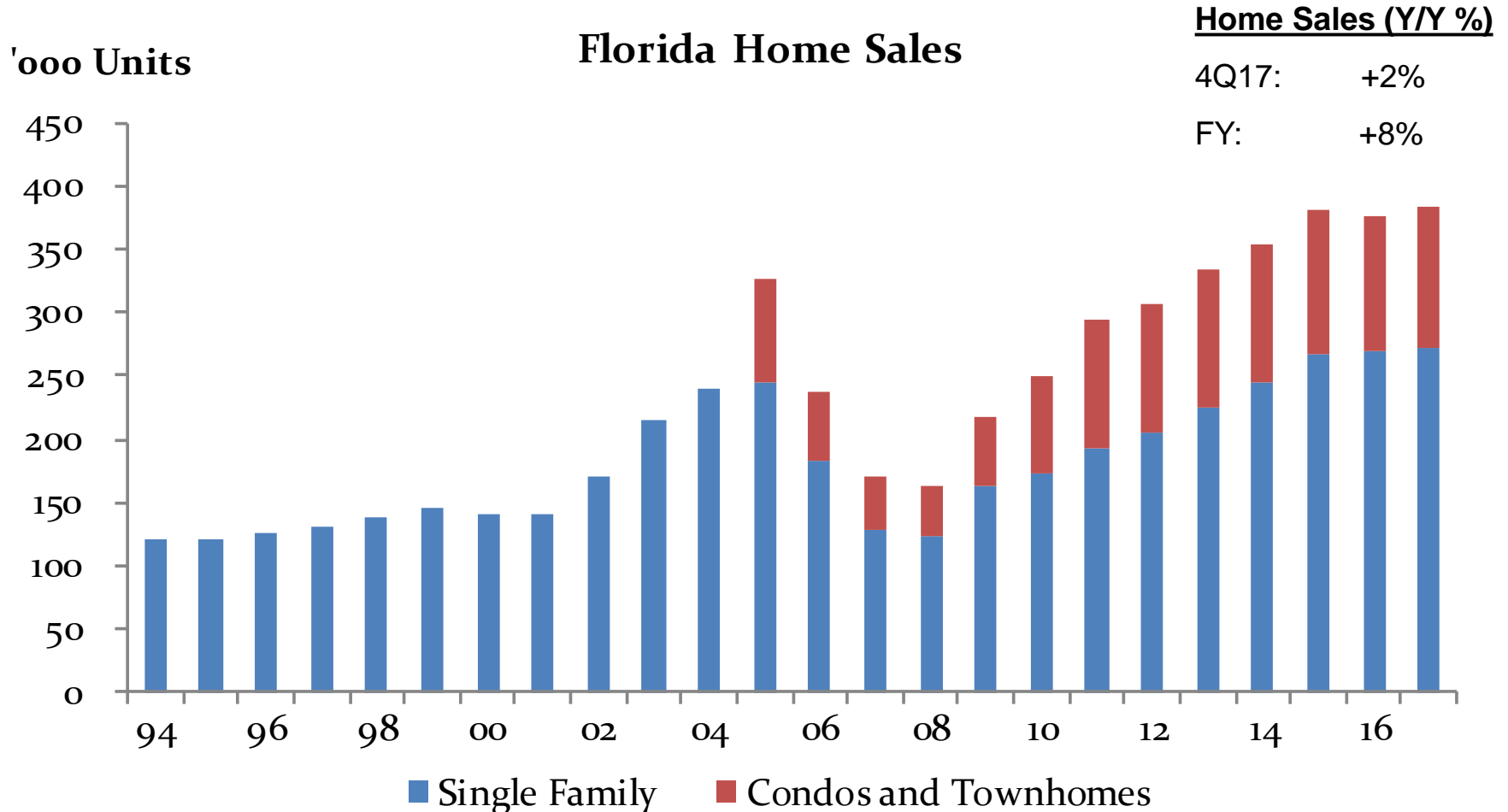
Source: Bureau of Labor Statistics

Home Ownership Gap Beginning to Improve

HOME OWNERSHIP RATE



Florida Home Sales



Source: Florida Association of Realtors

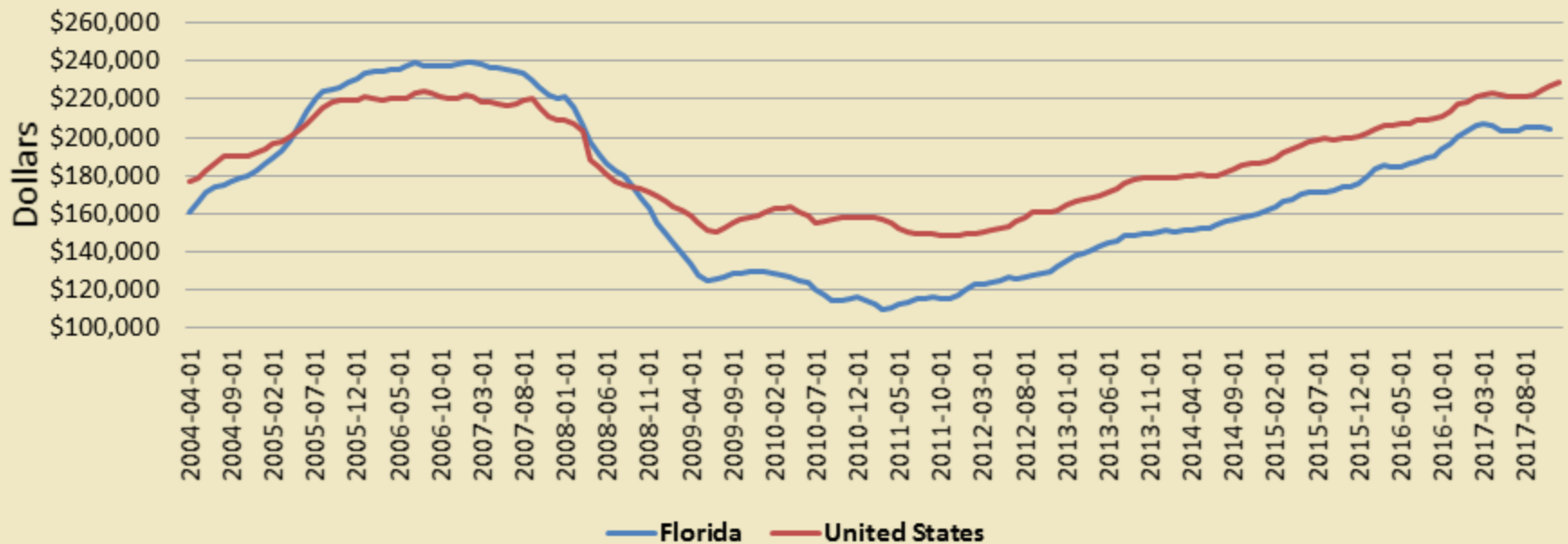
Home Sales - Details

Summary Statistics	Q4 2017	Q4 2016	Percent Change Year-over-Year
Closed Sales	63,436	62,192	2.0%
Paid in Cash	16,761	17,915	-6.4%
Median Sale Price	\$240,000	\$223,950	7.2%
Average Sale Price	\$315,048	\$291,122	8.2%
Dollar Volume	\$20.0 Billion	\$18.1 Billion	10.4%
Median Percent of Original List Price Received	96.3%	96.1%	0.2%
Median Time to Contract	43 Days	44 Days	-2.3%
Median Time to Sale	89 Days	92 Days	-3.3%
New Pending Sales	65,578	62,245	5.4%
New Listings	75,063	72,159	4.0%
Pending Inventory	28,795	30,928	-6.9%
Inventory (Active Listings)	82,179	88,422	-7.1%
Months Supply of Inventory	3.6	3.9	-7.7%

Summary Statistics	2017	2016	Percent Change Year-over-Year
Closed Sales	271,868	268,731	1.2%
Paid in Cash	73,803	80,084	-7.8%
Median Sale Price	\$237,500	\$219,900	8.0%
Average Sale Price	\$316,593	\$293,581	7.8%
Dollar Volume	\$86.1 Billion	\$78.9 Billion	9.1%
Median Percent of Original List Price Received	96.3%	96.0%	0.3%
Median Time to Contract	41 Days	45 Days	-8.9%
Median Time to Sale	87 Days	92 Days	-5.4%
New Pending Sales	302,846	302,556	0.1%
New Listings	342,498	342,977	-0.1%
Pending Inventory	28,795	30,928	-6.9%
Inventory (Active Listings)	82,179	88,422	-7.1%
Months Supply of Inventory	3.6	3.9	-7.7%

Home Price Still Recovering

MEDIAN SALES PRICE OF ALL HOMES



Source: Zillow

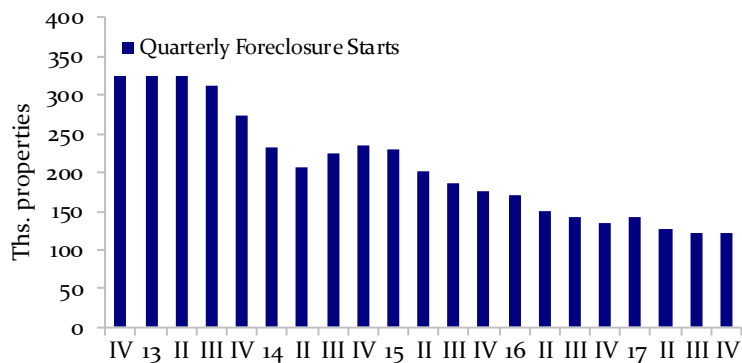
Current Data as of 2/09/2018

Source: Florida Bureau of Economic and Business Research

Pristine Underwriting

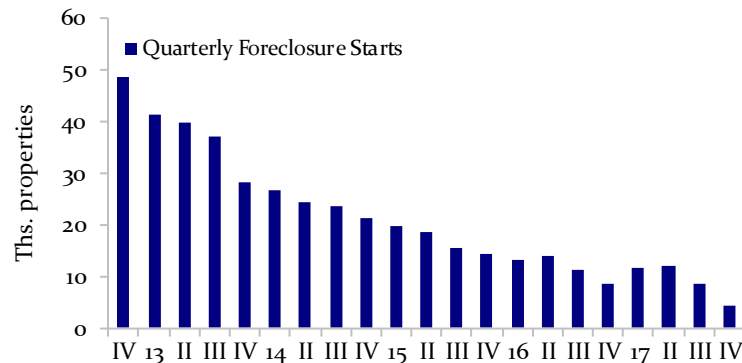
U.S.

Foreclosure Starts



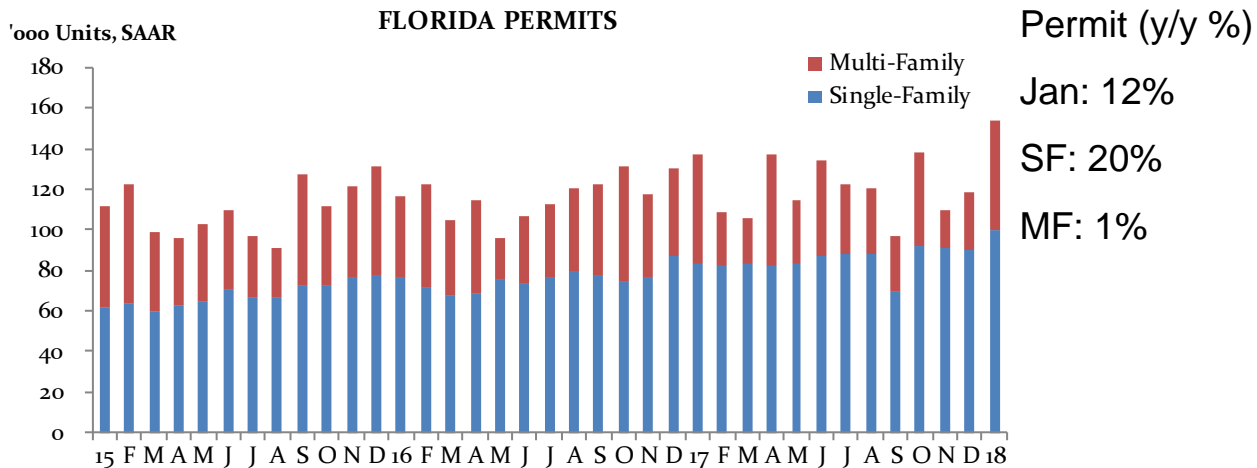
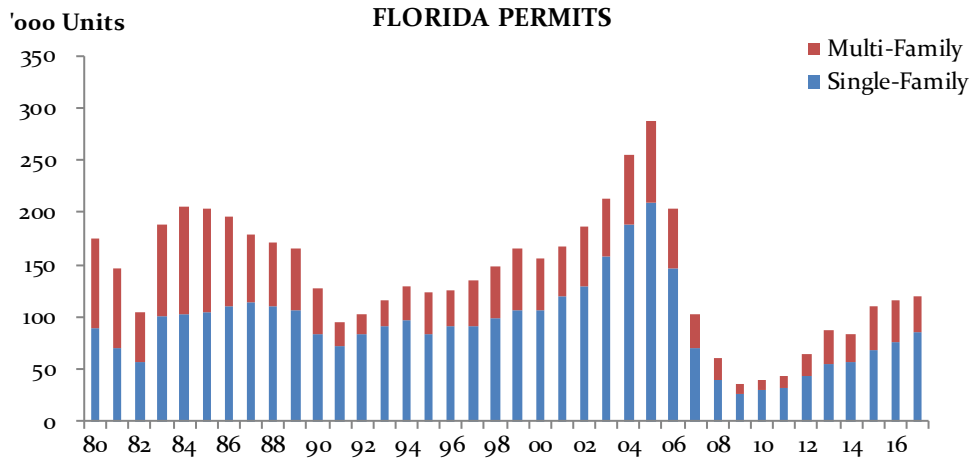
Florida

Foreclosure Starts



Source: Mortgage Bankers Association

New Construction On the Rise



Source: Census Bureau

Want More?

WEEKLY ECONOMIC REPORT Genworth 

KEY MARKET INDICATORS as of Jan 25, 2016

FEDERAL FUNDS RATE: 0.4%	GDP (3Q): 2.0%	NEW HOME SALES (YoY% Nov YTD): 13.4%
10-YEAR TREASURY: 2.1%	JOB CREATION (Dec) 292,000	EXISTING HOME SALES (YoY% Dec YTD): 6.5%
30-YEAR MORTGAGE RATE: 3.8%	UNEMPLOYMENT RATE (Dec): 5.0%	HOUSING STARTS (YoY% Dec YTD): 10.8%
CORE CPI (YoY% Dec): 2.1%		FHFA HOME PRICE* (YoY% Oct YTD): 5.7%

December Housing Starts, Existing Home Sales

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