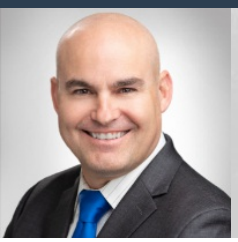

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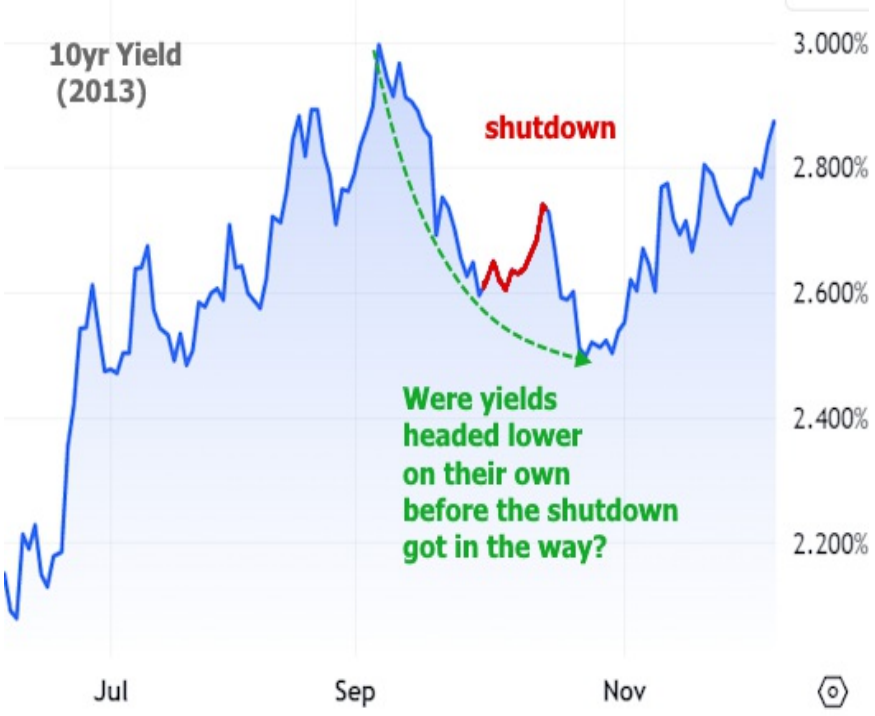
# How Will The Government Shutdown Affect The Mortgage and Housing Markets?

It's nearly impossible to consume any news these days without coming across the government shutdown. As of Friday afternoon, the shutdown looks like it will be a thing. Even if it's miraculously avoided in the 11th hour, we can still discuss some objective questions and conclusions about shutdowns in general. As always, we're not interested in the politics of the matter--just the question of whether or not the housing and mortgage market should care.

First off, it's extremely difficult if not impossible to predict a shutdown's impact on various sectors because we simply don't have a large body of evidence. There are really only two examples of extended shutdowns in the present century. Let's take a look at both through the lens of everyone's favorite interest rate benchmark, the 10yr Treasury yield.




## National Average Mortgage Rates

| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.35% | +0.02 | 0.00 |
| 15YR Fixed | 7.00% | -0.01 | 0.00 |
| 30YR FHA | 6.99% | +0.01 | 0.00 |
| 30YR Jumbo | 7.60% | 0.00 | 0.00 |
| 7/6 SOFR | 6.86% | +0.01 | 0.00 |
| 30YR VA | 7.00% | +0.01 | 0.00 |

Rates as of: 10/28

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.76 | +0.16 |
| 10 YR Treasury | 4.9788 | -0.0377 |
| 30 YR Treasury | 5.3178 | -0.0275 |

Pricing as of: 10/29 9:58AM EST

## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Oct 14 | 188.6 | -5.32% |
| Building Permits | Sep | 1.4M | +0.43% |
| Housing Starts | Sep | 1.22M | -4.24% |
| New Home Sales | Aug | 684K | +12.69% |
| Pending Home Sales | Aug | 71.2 | 0% |
| Existing Home Sales | Oct | 3.99M | +0.25% |
| Builder Confidence | Oct | 29 | -9.38% |

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In both cases, yields had recently reached long-term highs and had begun to move back down. In the 2013 example, the shutdown seemed to get in the way of that trend. In the 2018/19 example, the shutdown seemed to accelerate that trend. Ultimately, removing the red sections from each chart leaves the bigger picture narrative very much unchanged.

If there was only one thesis for the shutdown's impact on rates, it would be that they don't really matter--especially in the bigger picture. That may seem like a hasty conclusion based on two quick charts, but let's consider the following:

- The shutdown had the opposite impact in each chart
- The 2018 example occurred during a time of year that traditionally sees weird behavior in markets
- The most popular and plausible theories arrive at opposite conclusions

**Popular and plausible theory number 1: economic uncertainty for consumers, restricted growth, etc.**

This one is pretty simple. A shutdown restricts economic activity to some extent. Masses of government employees are delayed in receiving paychecks and thus cannot go out and spend money in the economy. Non-government employees whose work or play depends on government agencies are also on hold during the shutdown. With a slower economy generally being correlated with lower rates, this theory is that the shutdown is good for rates.

**Popular and plausible theory number 2: economic uncertainty for investors, restricted revenue, increased Federal borrowing, etc.**

This one is definitely more complex. In this case, we're not as worried about the slower economic growth because it is thought to be offset by other factors that push rates higher. First off, lower consumption relating to government employees and closed agencies is technically delayed as those employees will eventually be paid. Moreover, furloughed employees are able to seek part time employment during a shutdown which means they'd have more income than normal by the time the shutdown ended.

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On an even more objective level, this theory also focuses on tax revenue. Depending on the size of the shutdown, revenue can drop by billions of dollars. This is important to rates because lost revenue is generally recouped via increased Treasury borrowing. Higher "supply" of Treasuries means that Treasury prices are lower and rates are higher, all other things being equal. Notably, this dynamic would take quite a while to come out in the wash, and it could certainly be offset by factors from "theory 1," but Treasury supply is one of the most objective factors we can measure surrounding a shutdown.

**Impact on government mortgage loans**

There could be some headaches and delays in the processing of some FHA/VA loans, but as far as we know today, the core functions of these government housing programs will not be shut down. The delays would not be a factor for the average FHA/VA loan.

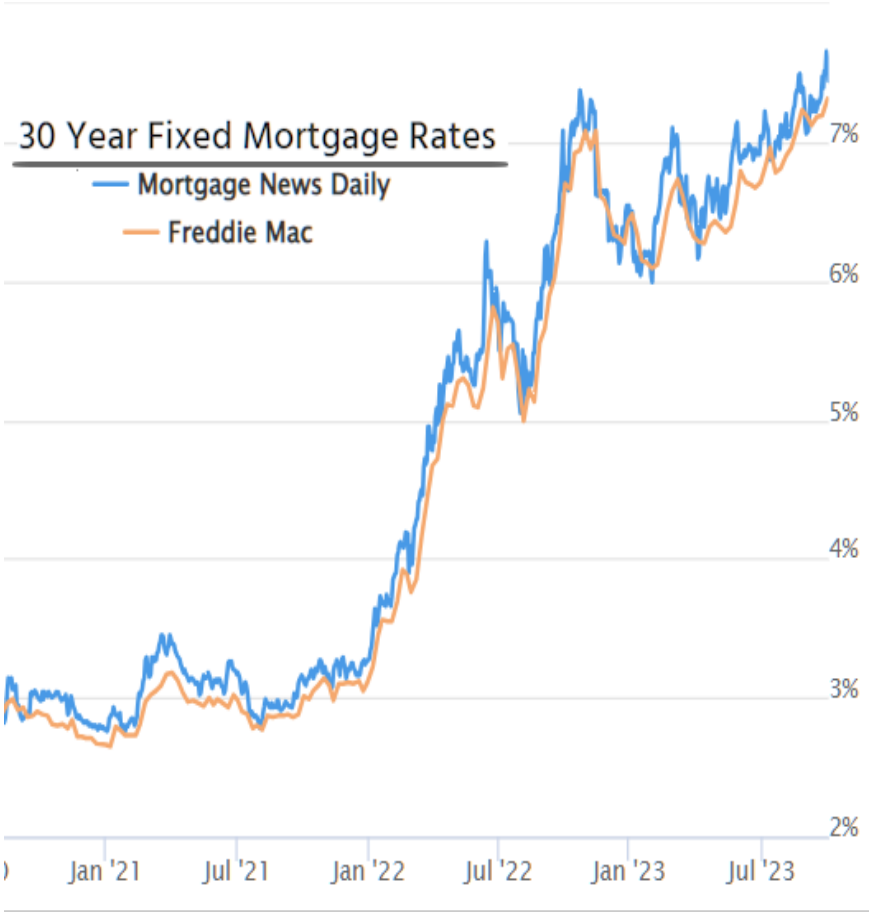
**The one and only obvious impact for financial markets and rates: UNCERTAINTY**

For rates and markets, there are far bigger motivations for movement than the presence of the government shutdown. Ironically, the shutdown means that those motivations are on radio silence.

We're talking about the major economic reports that come out each month--things like the Consumer Price Index (CPI) and the big jobs report (officially referred to as "The Employment Situation").

Several of these big ticket reports are due out in the coming week. It has already been decided that the reports will not be released if there is a shutdown. Moreover, data collection efforts for future reports would also be impacted.

This couldn't come at a worse time for rates. Resilient economic data paved the way for mortgage rates to hit multi-decade highs this week.

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And now the shutdown means we can't even hope to see slightly less resilient data in the coming week. Moreover, after the shutdown, the subsequent data might be taken with a grain of salt due to constraints on the data collection process.

There are still several economic reports that are well regarded, but not dependent on government data collection. That's either a blessing or a curse depending on the outcome of the data. Either way, the impact could be magnified due to the absence of the government data. If the remaining reports continue conveying resilience or strength, rates could continue to face upward pressure.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Tuesday, Sep 26** | | | | |
| 9:00AM | Jul Case Shiller Home Prices-20 y/y (% ) | 0.1% | -0.3% | -1.2% |
| 9:00AM | Jul FHFA Home Prices y/y (%) | 4.6% | | 3.1% |
| 9:00AM | Jul FHFA Home Price Index m/m (%) | 0.8% | 0.5% | 0.3% |
| 10:00AM | Aug New Home Sales (ml) | 0.675M | 0.7M | 0.714M |
| 10:00AM | Sep CB Consumer Confidence (%) | 103 | 105.5 | 106.1 |
| **Wednesday, Sep 27** | | | | |
| 7:00AM | Sep/22 MBA Refi Index | 411.7 | | 415.4 |
| 7:00AM | Sep/22 MBA Purchase Index | 144.8 | | 147 |
| **Thursday, Sep 28** | | | | |
| 8:30AM | Sep/23 Jobless Claims (k) | 204K | 215K | 201K |
| 8:30AM | Q2 GDP (%) | 2.1% | 2.1% | 2% |
| 10:00AM | Aug Pending Home Sales (%) | -7.1% | -0.8% | 0.9% |
| **Friday, Sep 29** | | | | |
| 8:30AM | Aug Core PCE Inflation (y/y) (%) | 3.9% | 3.9% | 4.2% |
| 8:30AM | Aug Core PCE (m/m) (%) | 0.1% | 0.2% | 0.2% |
| 9:45AM | Sep Chicago PMI | 44.1 | 47.6 | 48.7 |
| 10:00AM | Sep Consumer Sentiment (ip) | 68.1 | 67.7 | 69.5 |
| **Monday, Oct 02** | | | | |
| 10:00AM | Sep ISM Manufacturing PMI | 49 | 47.8 | 47.6 |
| **Tuesday, Oct 03** | | | | |
| 10:00AM | Aug USA JOLTS Job Openings | 9.61M | 8.8M | 8.827M |
| 10:00AM | Oct IBD economic optimism | 36.3 | 41.6 | 43.2 |
| **Wednesday, Oct 04** | | | | |
| 7:00AM | Sep/29 MBA Purchase Index | 136.6 | | 144.8 |
| 7:00AM | Sep/29 MBA Refi Index | 384.6 | | 411.7 |
| 8:15AM | Sep ADP jobs (k) | 89K | 153K | 177K |
| 9:45AM | Sep S&P Global Services PMI | 50.1 | 50.2 | 50.5 |
| 10:00AM | Aug Factory orders mm (%) | 1.2% | 0.2% | -2.1% |

## Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important
★★ Very Important

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| 10:00AM | Sep ISM N-Mfg PMI | 53.6 | 53.6 | 54.5 |
| **Thursday, Oct 05** | | | | |
| 7:30AM | Sep Challenger layoffs (k) | 47.457K | | 75.151K |
| 8:30AM | Sep/23 Continued Claims (ml) | 1664K | 1675K | 1670K |
| **Friday, Oct 06** | | | | |
| 8:30AM | Sep Non Farm Payrolls | 336K | 170K | 187K |
| 8:30AM | Sep Unemployment rate mm (%) | 3.8% | 3.7% | 3.8% |


## White Glove Red Carpet Service

When you're working with me it's all about access and affordability. I have the most up to date products and access to the best lenders. This is your journey, my team and I are here for you! This may be your first home , second / vacation home, investment property. Or you may even be helping someone out :)

For business owners we have access to alternative qualification products that have different options such as bank statements, profit and loss statements and sometimes other options. Tax returns are not needed for these particlar loans, so if you are reinvesting in your business this is a great option!

Whether you are buying or refinancing it's best to contact me early in the process.

For first timers, it's truly important to get a picture of income, credit and debt. Let's work together to make your dreams a reality!

**Shane Braninburg**

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