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Is Housing Turning a Corner or Just Taking a Break?

Last week's **biggest housing news** was that Wells Fargo is ending its marketing agreements with Realtors and builders. While several lenders had already made such a move, Wells is a much bigger deal. Given the bank's prominent role in all aspects of the mortgage market, it's safe to assume other lenders will follow the leader.

Last week also saw **mortgage rates** move back to the **lowest levels in 2 months** as recent economic data casts increasing doubt on the economic outlook. Interest rates tend to react to changes in economic data. If the economy is weakening or if inflation is slipping, it makes sense for investors seek the safety and the predictability of the bond market. More demand for bonds (which includes those that underlie the mortgage market) causes rates to fall.

Doubts about the housing market are among those contributing to broader economic uncertainty. It's interesting to consider the financial market's circle of life here. For instance, doubts about the housing market are part of the reason rates moved down, and lower rates benefit the housing market, all things being equal.

This week's absence of major reports on home sales has given markets a chance to reflect on the recent trend. Redfin provided a good assessment of the current shift in the housing market. The conclusions are **sobering, but by no means dire**. Long story short, things may be leveling off, but without the same causes for concern that were present in 2005-2006.

Some of this week's other housing news speaks directly to the factors cited by Redfin. For instance, CoreLogic notes an ongoing decrease in distressed sales in conjunction with the fact that distressed sales correlate with price appreciation potential. In other words, the higher the share of distressed sales, the **more potential price appreciation** there is in the market (because distressed properties typically sell at a discount). Some home price reports attempt to filter out the effects of distressed sales, but that can never truly be accomplished because those reports can't account for the decreased demand that occurs when a buyer chooses a distressed vs non-distressed property. Bottom line, **price appreciation accelerates** as distressed inventory is whittled down. If distressed inventory is leveling off, price appreciation would also level-off, all things being equal.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.33%	-0.12	0.00
15YR Fixed	6.89%	-0.10	0.00
30YR FHA	6.95%	-0.10	0.00
30YR Jumbo	7.44%	-0.06	0.00
7/6 SOFR	6.81%	-0.19	0.00
30YR VA	6.97%	-0.10	0.00

Rates as of: 11/20

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.51	+0.41
10 YR Treasury	4.9403	-0.1033
30 YR Treasury	5.3324	-0.0738

Pricing as of: 11/20 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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It's important to note that CoreLogic is not saying that values will fall as distressed inventory bottoms out. It's merely one of the inputs contributing to values leveling off. CoreLogic themselves note that other factors, such as tight inventory, continue to exert the opposite effect on prices.

There are **growing questions** as to whether or not this will be sustainable in the face of generally rising rates, and stagnant wages. The economic data will be very important in determining how the rate environment will contribute to affordability.

In particular, **Friday's jobs report** has the potential to cause a **significant move higher or lower**, relative to the average day-to-day change in rates. In the bigger picture, it could be a key ingredient in solidifying the Fed's intent to hike rates in 2015. If it's weak enough to give the Fed pause, rates could continue to fall. As always, keep in mind that the Fed does not set mortgage rates, but changes in the Fed Funds Rate tend to coincide with the broader movements in mortgage rates over time. The simple reason for this is that the Fed is essentially setting the cost of money. Banks need it so they can lend it to mortgage borrowers. If it gets more expensive for banks, those costs are passed along in the form of higher rates.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Aug 03				
8:30AM	Jun Core PCE price index mm (%)	+0.1	0.1	0.1
8:30AM	Jun PCE price index mm (%)	+0.2		0.3
10:00AM	Jun Construction spending (%)	+0.1	0.6	0.8
10:00AM	Jul ISM Manufacturing PMI	52.7	53.5	53.5
Tuesday, Aug 04				
9:45AM	Jul ISM-New York index	699.7		690.2
Wednesday, Aug 05				
7:00AM	w/e Mortgage Refinance Index	1488.8		1406.3
7:00AM	w/e MBA Purchase Index	204.6		198.1
8:15AM	Jul ADP National Employment (k)	185.0	215	237
10:00AM	Jul ISM N-Mfg PMI	60.3	56.2	56.0
Thursday, Aug 06				
8:30AM	w/e Initial Jobless Claims (k)	270	270	267
Friday, Aug 07				
8:30AM	Jul Non-farm payrolls (k)	+215	223	223
8:30AM	Jul Unemployment rate mm (%)	5.3	5.3	5.3
8:30AM	Jul Private Payrolls (k)	+210	215	223
3:00PM	Jun Consumer credit (bl)	+20.74	17.00	16.09
Thursday, Aug 13				
8:30AM	Jul Retail sales mm (%)	+0.6	0.5	-0.3
8:30AM	Jul Import prices mm (%)	-0.9	-1.1	-0.1
8:30AM	Jul Export prices mm (%)	-0.2	-0.3	-0.2
Wednesday, Oct 07				

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
1:00PM	10-yr Note Auction (bl)	21		
Thursday, Oct 08				
1:00PM	30-Yr Bond Auction (bl)	13		

Lending Done Right

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Jeff Statz 

EQUAL HOUSING OPPORTUNITY

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