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Is Rate Recovery Enough to Keep Housing Healthy?

It was a fraught week for rates and housing, with plenty of movement in financial markets and plenty of **contradictions** in economic data.

There are ample talking points for optimists and pessimists when it comes to the current state of the housing market. Let's start with the **good news**.

The week's first major economic report was New Home Sales for the month of August. This one was worth watching because July's report was so strong that many economists chalked it up to the report's typically high margin of error. Indeed, this often results in "big gains" turning into "big losses" by the time revisions come in.

That was **not the case** this time around. Not only were July's numbers vetted, but August's were also stronger than expected. Next to July, it was the **2nd best report in more than 8 years**. Housing pessimists might try to call attention to the fact that sales still aren't halfway back to their pre-meltdown peak, but even they'd have to concede the unsustainability of 2005's levels of new construction.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00

Rates as of: 11/16

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.71	+0.01
10 YR Treasury	5.1266	-0.0076
30 YR Treasury	5.4731	-0.0027

Pricing as of: 11/16 7:20PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
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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Housing skeptics have more room to talk when it comes to the issues of **price plateaus, affordability and inventory**. Virtually every other housing-related report released this week (and there were a lot!) addresses these topics in some way.

Black Knight's Home Price Index, one of several mainstream price indices, showed a **distinct slowdown** in price appreciation over the past few months. Another highly-regarding index, Case-Shiller, was more equivocal on the the month-over-month trend in appreciation. Instead, it called attention to the logical **unsustainability** of price appreciation (running over 5 percent, according to most measures) relative to core inflation, which remains near 2 percent.

In that same vein, ATTOM (previously RealtyTrac) released a report focused specifically on **affordability**. It noted that 24 percent of the counties in its study were less affordable than their historical average, compared to 22 percent in the 2nd quarter and 19 percent last year.

In **slightly more upbeat** news, 2 reports from CoreLogic spoke to decreasing levels of distress in housing markets. The first showed that **distressed sales** themselves only increased in 8 states and had fallen 2.2 percent year-over year. The second was more of an indirect comment on "distress," noting that **all-cash sales** dipped below 30 percent in June--the first time that's happened since 2007.

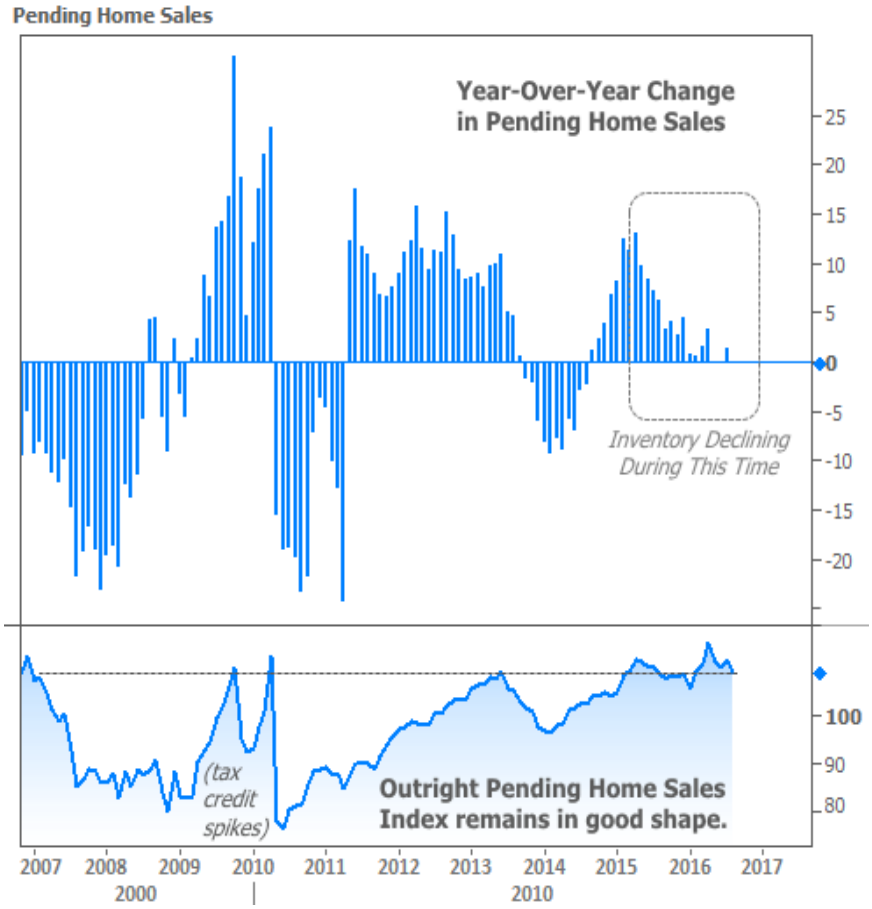
All of the above dovetails into what the National Association of Realtors considers the **core issue facing housing** at the moment: **INVENTORY!** This has been a constant battle cry for the NAR, and one that seems to explain the juxtaposition of unsustainable price gains and relatively stagnant wage/inflation growth.

Inventory is increasingly being used to explain declining momentum in Pending Home Sales, a leading indicator of purchase contract activity. The NAR notes that inventory has contracted in **15 straight months**. This exactly matches the decline in year-over-year growth in Pending Sales, seen in the chart below.

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One fairly constant source of **positivity** for housing markets is the interest rate environment. Although mortgage rates aren't officially at all-time lows at the moment, they've been spending more time **NEAR all-time lows** than at any other time in history.

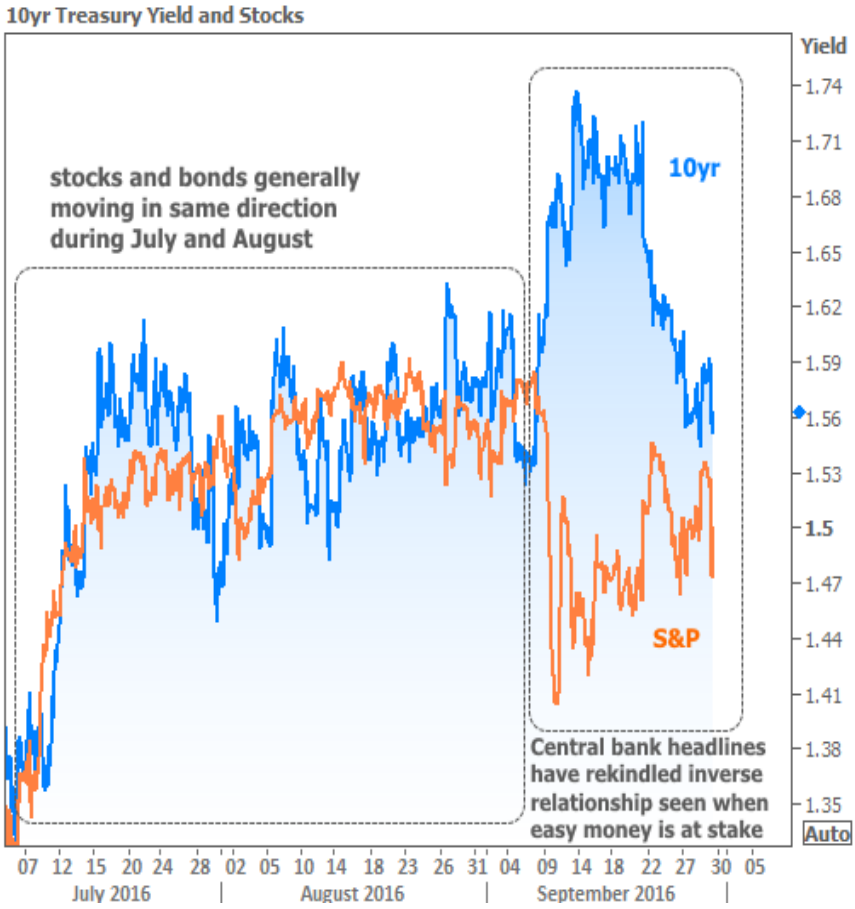
Whether that continues to be the case depends largely on central bank policies. Recent rate volatility began after the European Central Bank hinted that it might be a little less generous with easy money policies in the near future. Last week's Fed Announcement helped rates (and stocks) find their footing, and that **recovery continued this week**.

One classic sign that markets are reacting to central bank's easy money outlook is the **divergence** of stock prices and bond yields (aka "rates"). Over most short-term time horizons, rates tend to move the same direction as stocks, but when markets see the proverbial "punch-bowl" of easy money at stake, stocks and bonds usually lose ground **together** (meaning rates move higher while stock prices move lower, and vice versa).

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Sep 26				
10:00AM	Aug New home sales-units mm (ml)	0.609	0.600	0.654
1:00PM	2-Yr Note Auction (bl)	26		
Tuesday, Sep 27				
9:00AM	Jul CaseShiller 20 yy (%)	+5.0	5.1	5.1
10:00AM	Sep Consumer confidence	104.1	99.0	101.1
1:00PM	5-Yr Note Auction (bl)	34		
Wednesday, Sep 28				
7:00AM	w/e Mortgage Market Index	527.1		530.8
8:30AM	Aug Durable goods (%)	0.0	-1.4	4.4
10:55AM	Yellen Congressional Testimony			
1:00PM	7-Yr Note Auction (bl)	28		
Thursday, Sep 29				
8:30AM	Q2 GDP Final (%)	+1.4	1.3	1.1
8:30AM	w/e Initial Jobless Claims (k)	254	257	252

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
10:00AM	Aug Pending homes index	108.5		111.3
Friday, Sep 30				
8:30AM	Aug PCE price index mm (%)	+0.1		0.0
8:30AM	Aug Core PCE price index mm (%)	+0.2	0.2	0.1
9:45AM	Sep Chicago PMI	54.2	52.0	51.5
Monday, Oct 03				
10:00AM	Sep ISM Mfg Prices Paid	53.0	52.9	53.0
10:00AM	Aug Construction spending (%)	-0.7	0.2	0.0
10:00AM	Sep ISM Manufacturing PMI	51.5	50.3	49.4
Tuesday, Oct 04				
9:45AM	Sep ISM-New York index	719.7		719.9
Wednesday, Oct 05				
8:15AM	Sep ADP National Employment (k)	154.0	166	177
8:30AM	Aug International trade mm $ (bl)	-40.73	-39.3	-39.5
10:00AM	Aug Factory orders mm (%)	+0.2	-0.1	1.9
10:00AM	Sep ISM N-Mfg PMI	57.1	53.0	51.4
10:00AM	Sep ISM N-Mfg Bus Act	60.3	52.2	51.8
Friday, Oct 07				
8:30AM	Sep Non-farm payrolls (k)	+156	175	151
8:30AM	Sep Private Payrolls (k)	+167	170	126
8:30AM	Sep Unemployment rate mm (%)	5.0	4.9	4.9
10:00AM	Aug Wholesale inventories mm (%)	-0.2	-0.1	-0.1

Responsive service, experienced expertise

I've dedicated my 26 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

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