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Highest Rates in Years Raise Questions About Housing in 2017

Just this week, Freddie Mac referred to 2016 as the **best year for housing in a decade** before going on to say that 2017 is up in the air. With rates having risen rapidly to the highest levels in more than 2 years, "up in the air" is an understatement. In fact, forget housing... 2017 is up in the air across the board.

The apex of the financial crisis was the last time the political and economic climate of the country was so fraught with uncertainty. Love him or hate him, market movement suggests **high hopes** for Trump's fiscal policies. Whether or not those policies can possibly justify the growth and inflation suddenly predicted by financial markets will be the **biggest story** of the coming year.

If financial markets could actually be certain of a best-case scenario, rates would already be rising at the **fastest pace in history**. As it stands, the rate spike is merely "one of the fastest" in history. Reason being: the only certainty so far is that 2017's fiscal environment will generally be less friendly for bonds (read: higher rates) and more friendly for stocks. Investors have responded to that certainty as you'd expect them to:

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	98.70	+0.00
10 YR Treasury	5.1260	-0.0082
30 YR Treasury	5.4741	-0.0017

Pricing as of: 11/16 7:31PM EST

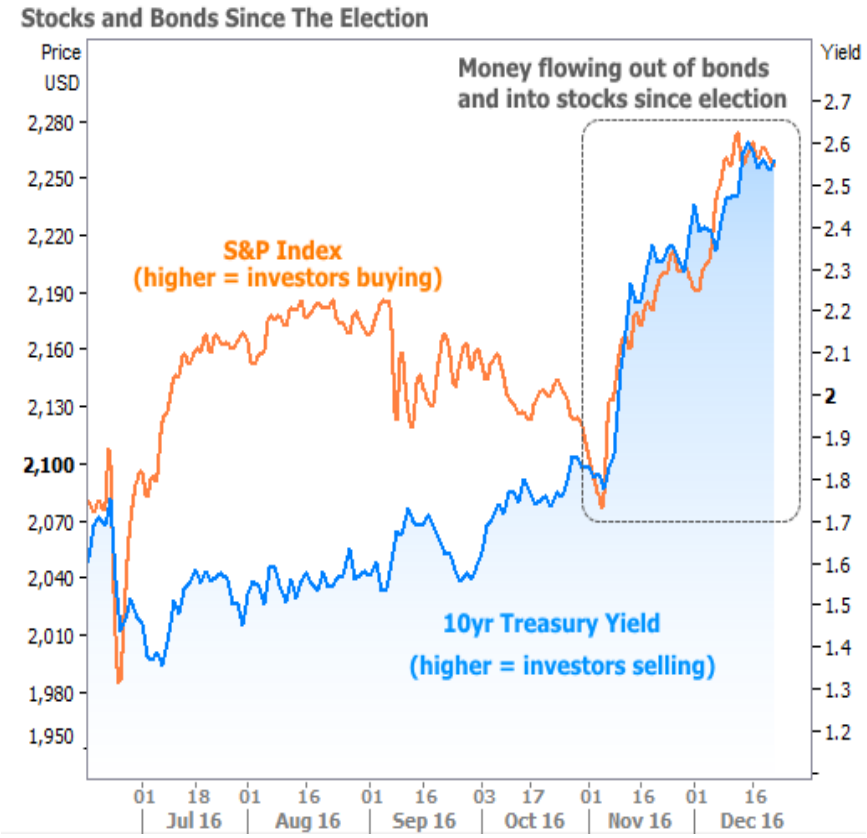
Recent Housing Data

		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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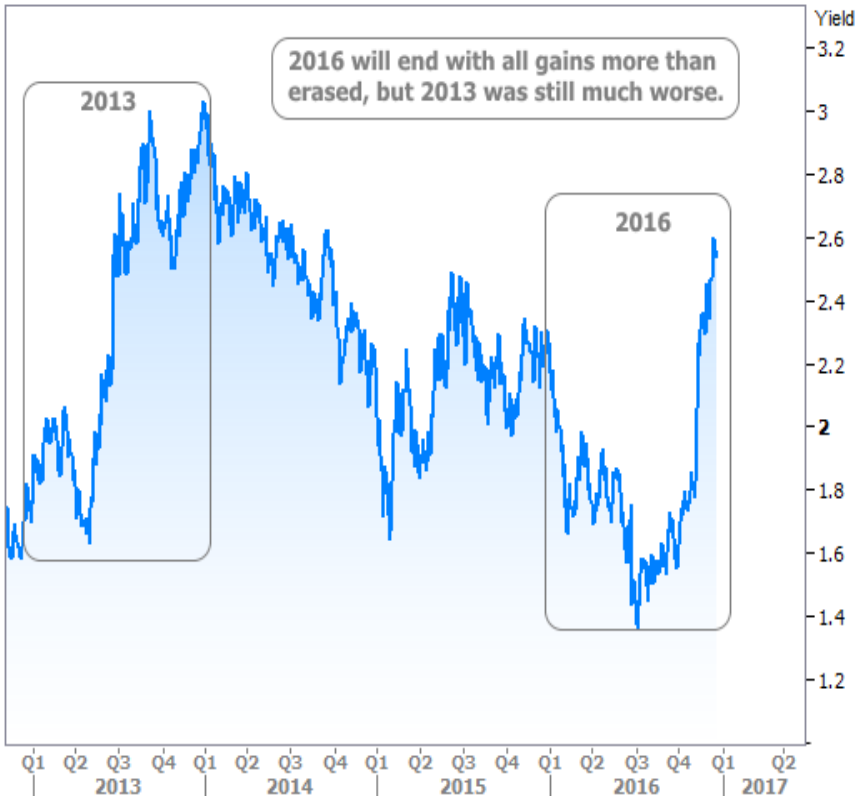
The quick, post-election reallocation between stocks and bonds now looks to have **run its course**. At the very least, it's calming down heading into the end of the year. The net effect for rates is similar to 2013, but with slightly lower outright levels. (NOTE: 10yr Treasury yields are the favored benchmark for longer-term rates like mortgages.)

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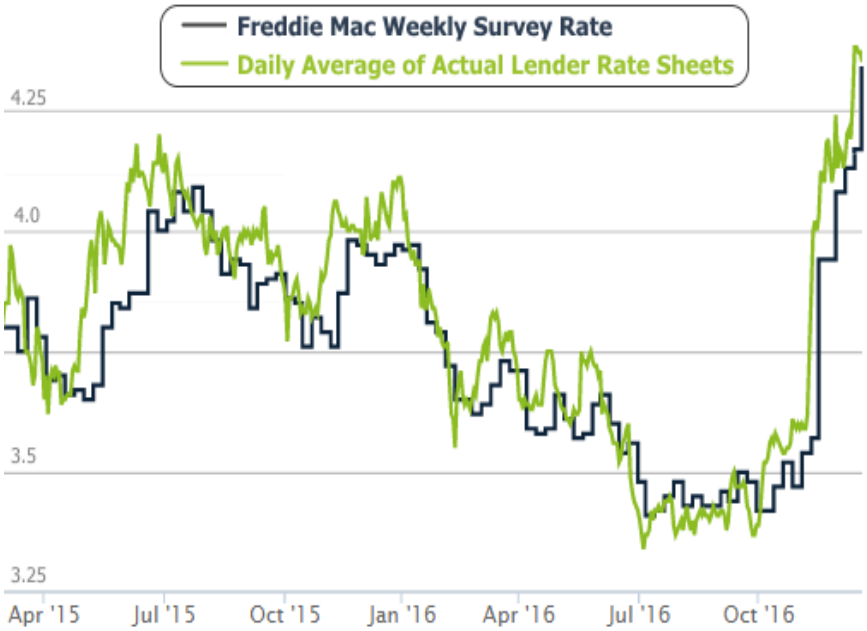


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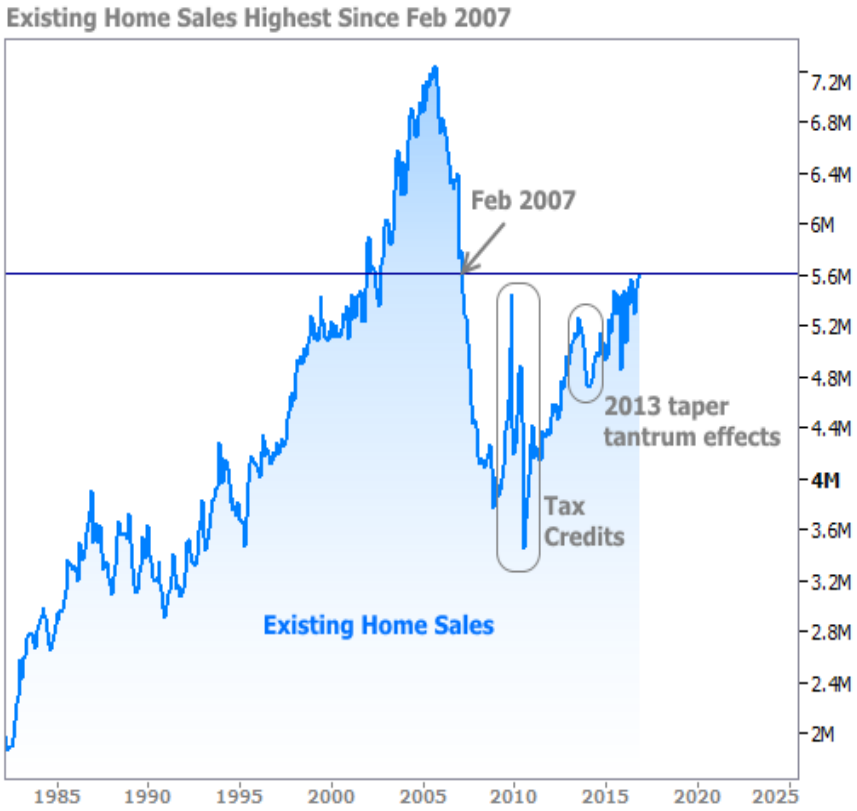
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It will take a while for the effects of this rate spike to be widely understood. Case in point, just this week, the nation's most widely-cited source of mortgage rate movement (Freddie Mac's Primary Mortgage Market Survey) finally caught up to reality. This isn't a knock on Freddie--simply evidence that **it takes time** for big developments on the front lines to be reflected in higher-level data.



The scary thing is that Freddie's weekly rate survey is in an **EARLY indicator** compared to the housing data that will ultimately speak to the effects of rising rates. For example, this week's Existing Home Sales data--which covered November--was unfazed, rising to the highest levels **in nearly a decade**.



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At the very least, it would be fair to expect some deterioration in housing based on 2013's example. By the time we consider that sales were only ever higher during **history's greatest housing bubble** (not to mention more esoteric considerations like the maturity of the economic cycle or waning central bank stimulus), we'd be well within our right to wonder if things will be even worse this time around.

It's **not all doom and gloom** though. Cases could be made that the current labor market leaves the average American in a better position to weather a storm of rising rates than they were in 2013. The point is that until we see how the higher-level data evolves in the coming months, uncertainty over the housing/mortgage market outlook will be a major theme in 2017.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Dec 21				
7:00AM	w/e Mortgage Market Index	407.3		397.5
7:00AM	w/e Mortgage Refinance Index	1449.4		1407.0
7:00AM	w/e MBA Purchase Index	232.9		226.7
10:00AM	Nov Existing home sales (ml)	5.61	5.50	5.60
Thursday, Dec 22				
8:30AM	Nov Nondefense ex-air (%)	+0.9	0.3	0.2
8:30AM	Nov Durable goods (%)	-4.6	-4.7	4.6
8:30AM	Q3 GDP Final (%)	+3.5	3.3	3.2
8:30AM	w/e Initial Jobless Claims (k)	275	265	254
8:30AM	w/e Continued jobless claims (ml)	2.036	2.035	2.018
9:00AM	Oct Monthly Home Price yy (%)	+6.2		6.1
10:00AM	Nov Consumption, adjusted mm (%)	+0.2	0.3	0.3
10:00AM	Nov Personal income mm (%)	0.0	0.3	0.6
10:00AM	Nov Core PCE price index yy (%)	+1.6		1.7
Friday, Dec 23				
10:00AM	Nov New home sales-units mm (ml)	0.592	0.575	0.563
Tuesday, Dec 27				
9:00AM	Oct CaseShiller 20 mm SA (%)	+0.6	0.5	0.4
10:00AM	Dec Consumer confidence	113.7	109.0	107.1
Wednesday, Dec 28				
10:00AM	Nov Pending homes index	107.3		110.0
Friday, Dec 30				
9:45AM	Dec Chicago PMI	54.6	57.0	57.6

Event Importance:

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

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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.

Ted Rood 

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