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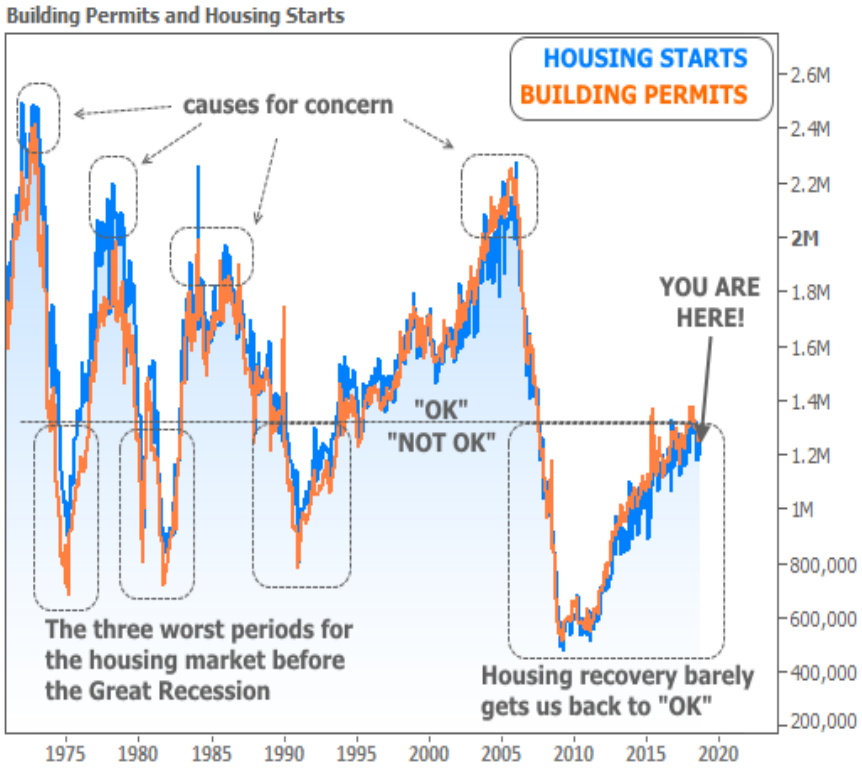
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A Few Great Reasons Not to Lose Hope in Housing and Rates

Times are tougher than they have been for the housing and mortgage markets. Rates are at 7 year highs, and home sales/prices are noticeably cooling. 2008's mortgage meltdown taught us to fear the worst at times like this, but there are some good reasons you probably shouldn't.

Yes, housing is cooling and prices are no longer rising at **unsustainable** levels. There's the first piece of good news, actually! It would have been a concern to see prices continue to rise at more than double the pace of incomes. That was one of the ingredients leading up to the meltdown.

Another cause for concern leading up to the meltdown was the fact that home construction numbers (as measured by "housing starts" or building permits) were surging past previous peaks. Those peaks can be seen in the following chart, as well as a line in the sand that separates the 3 worst periods for the housing market from everything else. Notably, our entire current housing recovery has taken place BELOW that line. The point is that housing may be cooling, but it was far from overheated.



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	98.68	-0.01
10 YR Treasury	5.1281	-0.0061
30 YR Treasury	5.4763	+0.0005

Pricing as of: 11/16 7:51PM EST

Recent Housing Data

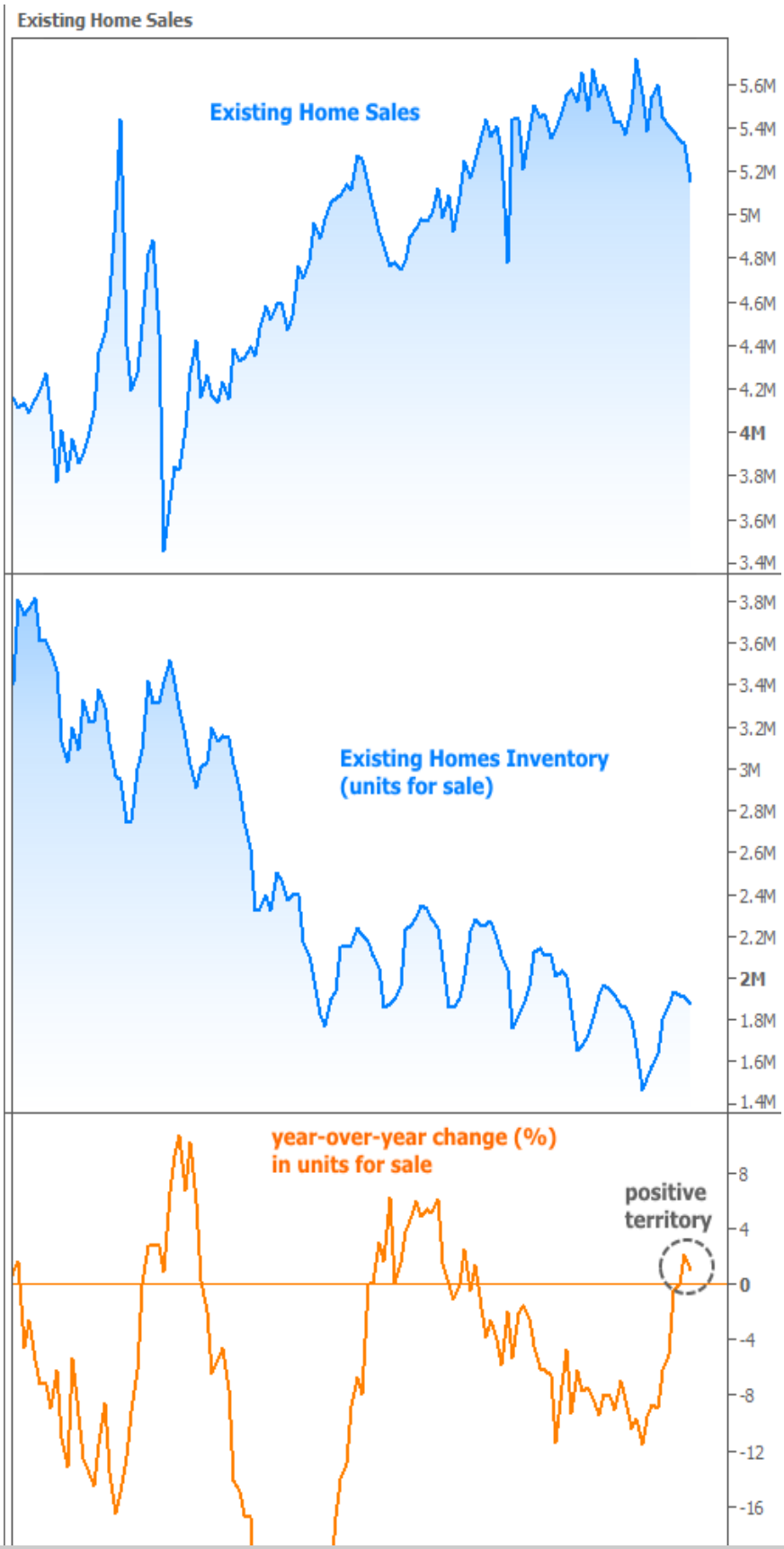
		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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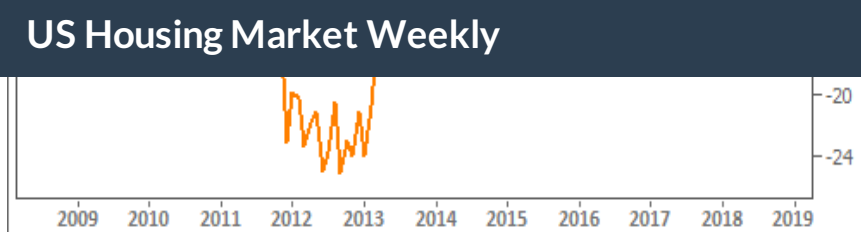
Another unsustainable trend in the housing market until just recently had been the **unprecedented inventory draw-down**. The following chart shows existing home sales, inventory levels (homes for sale), and the annual change in inventory.



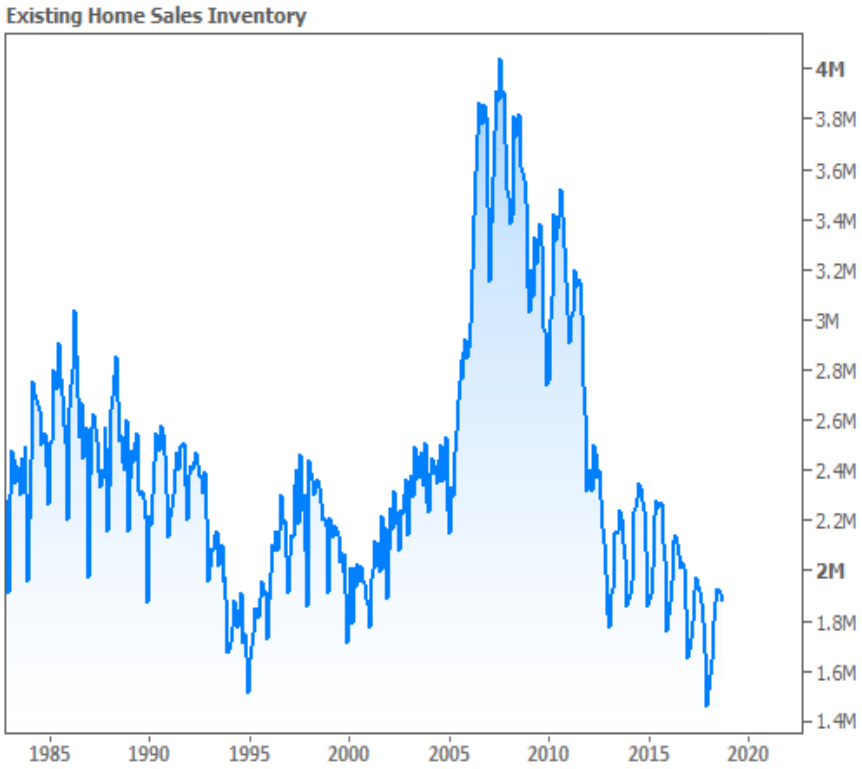
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The bottom of the chart makes 2012 look **alarming**, but consider that orange line is dependent on inventory levels from 12 months prior. The crisis left us with a mountain of inventory to work through. 2012 was merely on the lower side of normal levels in terms of units, but its rate of change was extreme relative to the mountain.



2016-2017 was **more of a concern** because we were losing more and more inventory from levels that were already depressed. Even now, inventory remains low, but by moving back into positive territory, it's **paving the way for a more active housing market**, provided other factors fall into place.

What are the other factors? Cases could be made for several (wages, student loans, geographical mobility, foreign investment balance), but no one could debate the importance of interest rates.

Rates won't make or break a strong housing market, but as we clearly saw in 2013 and again in 2018, they can certainly make a dent. The toughest times are those when rates are spiking and homebuyers are waiting for the top. After rates stabilize, we tend to see activity start to pick up. That means the higher rates go, the **closer we're getting to the starting line** for the next leg up in housing.

At present, daydreaming about a top in rates might seem fairly hopeless. Indeed, it could take months before it finally happens, but odds increase significantly in 2019. This has to do with the timing of the typical cycle in longer-term rates versus the Fed Funds Rate.

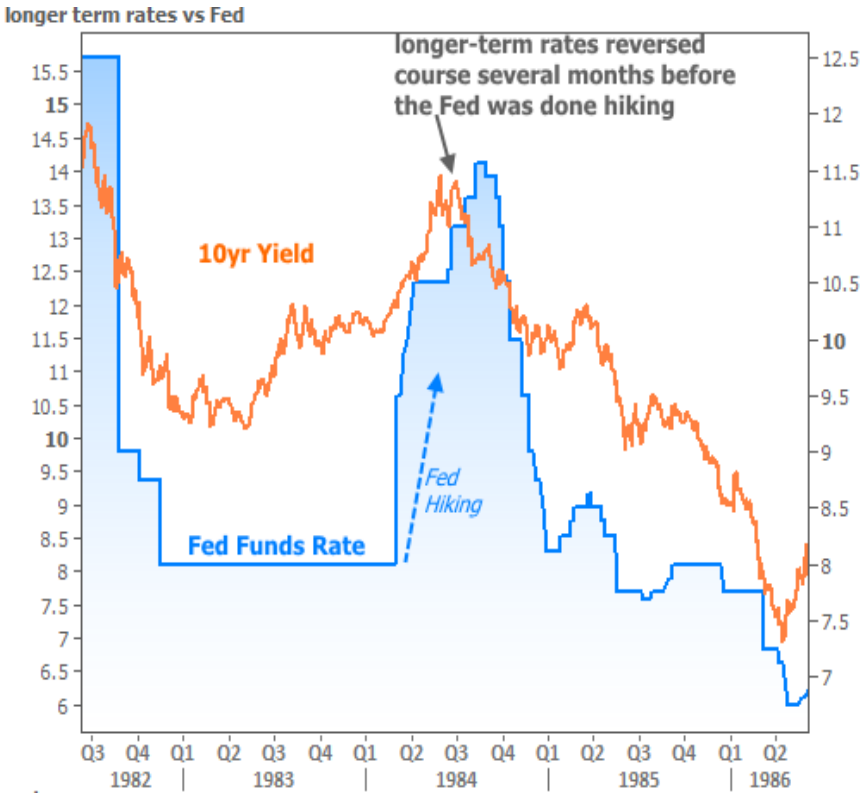
The Fed controls overnight rates. Mortgages share most of their DNA with longer-term rates like 10yr Treasury yields. The charts below show every past example of a distinct Fed rate **hike** cycle (like the one we're in now) followed by the subsequent rate **cut** cycle going back to the 80's.

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The blue line is the Fed Funds Rate (the Fed is beginning a rate **cut** cycle when the blue line moves **lower** for more than a few months). The orange line is the 10yr Treasury yield (a stand-in for mortgage rates in this case).



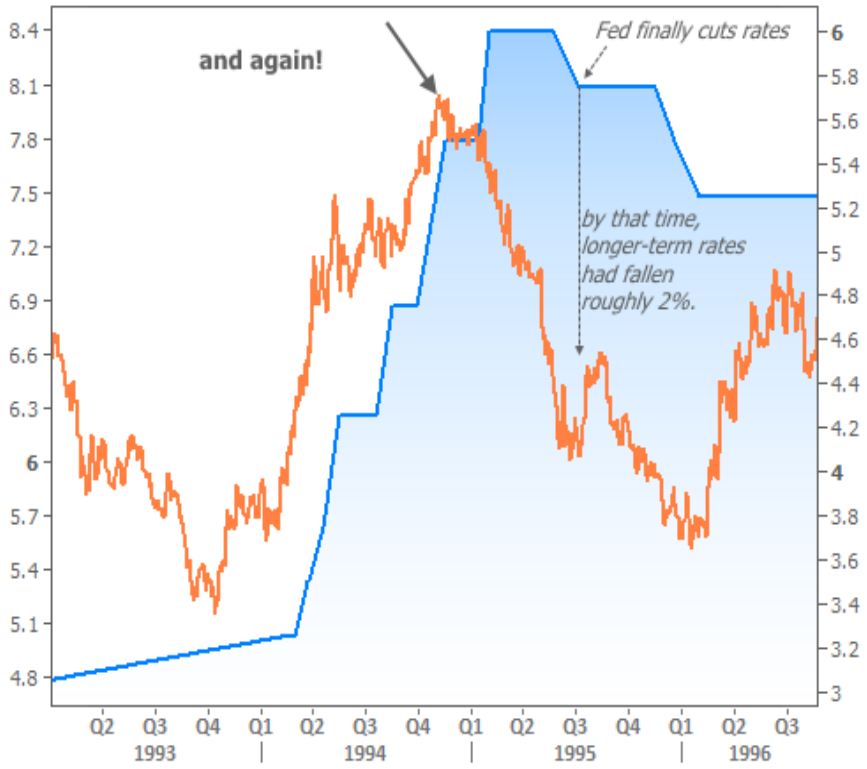
The y-axis is different in each chart, so some of the movement is bigger/smaller than it looks at first glance, but we're only interested in **how** and WHEN the orange line moves relative to the blue line. You'll definitely notice a theme...

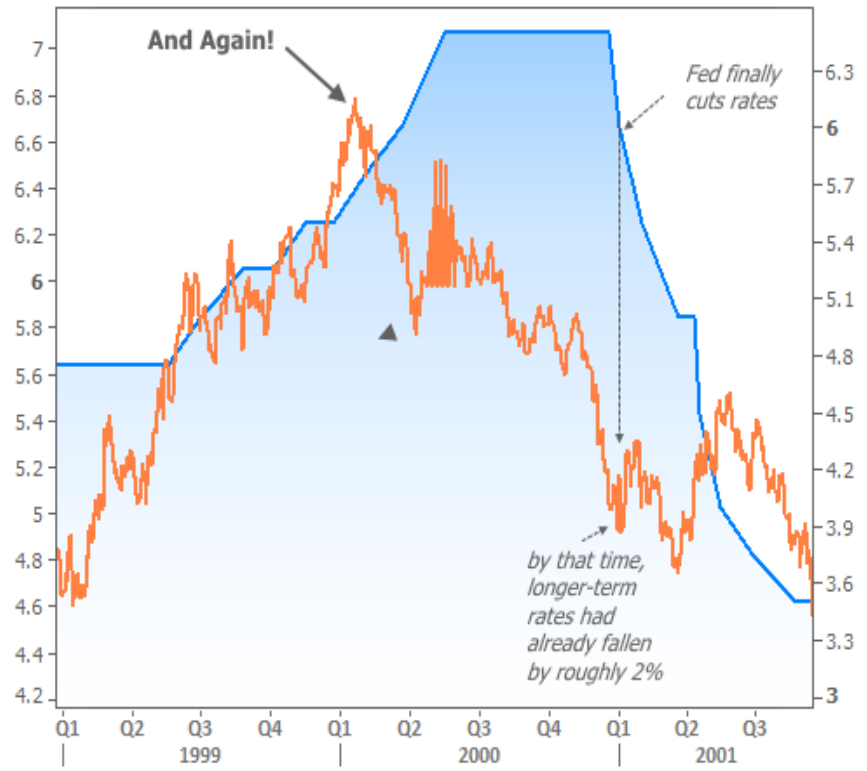


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So **what's the point of all this?** Simply put, the Fed will be the first to tell you that it will be close to the end of the current rate hike cycle by the middle of next year. Unless the economy and inflation are just screaming higher, that means we'll have already seen longer-term rates top out, just as they did in every single past example in the charts above.

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Bottom line: I can't promise you that a big, friendly bounce in rates will happen at any specific time, but I can tell you it will eventually happen, and that we're getting close enough to talk about it.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Oct 15				
8:30AM	Sep Retail Sales (%)	0.1	0.6	0.1
8:30AM	Oct NY Fed Manufacturing	21.10	19.00	19.00
10:00AM	Aug Business Inventories (%)	0.5	0.5	0.6
Tuesday, Oct 16				
9:15AM	Sep Capacity Utilization (%)	78.1	78.2	78.1
9:15AM	Sep Industrial Production (%)	0.3	0.2	0.4
10:00AM	Oct NAHB housing market indx	68	67	67
Wednesday, Oct 17				
8:30AM	Sep Building permits: number (ml)	1.241	1.278	1.249
8:30AM	Sep House starts mm: change (%)	-5.3		9.2
8:30AM	Sep Housing starts number mm (ml)	1.201	1.220	1.282
8:30AM	Sep Build permits: change mm (%)	-0.6		-4.1
Thursday, Oct 18				
8:30AM	Oct Philly Fed Business Index	22.2	20.0	22.9
10:00AM	Sep Leading index chg mm (%)	0.5	0.5	0.4
Friday, Oct 19				
10:00AM	Sep Exist. home sales % chg (%)	-3.4	-0.7	0.0
10:00AM	Sep Existing home sales (ml)	5.15	5.30	5.34

Event Importance:

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

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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