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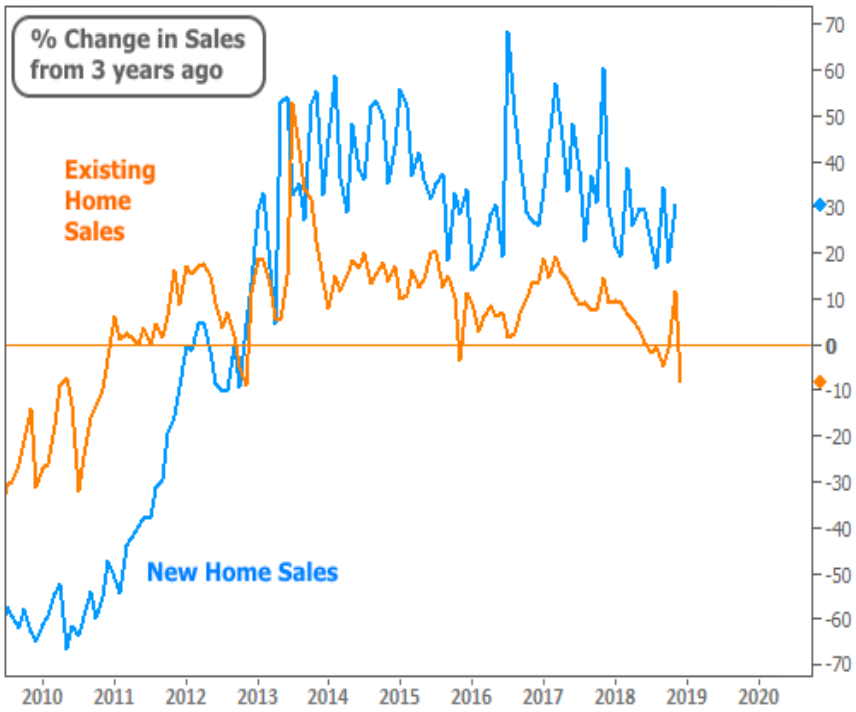
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Why 2019 Could Actually be Great For Housing and Mortgage Markets

By some measures, housing and mortgage markets took a turn for the worse in 2018. Some of the weakness can be thought of in a positive light (i.e. housing "catching its breath" after a strong run). But the rest of the weakness raised questions as to how deep the housing and mortgage market corrections might go.

It's worth mentioning that different metrics suggest different conclusions. For example, compared to 3 years ago, Existing Homes Sales are nearly 10% **lower** at last check, but New Home Sales are 30% **higher**.



But this actually **isn't** the best way to make a case for the housing market at the moment. New Homes represent only a small piece of the pie. They fell harder during the Financial Crisis and have thus been able to bounce back more stably.

An optimistic viewpoint is better-served by considering the reasons behind housing's shift in 2018 and then asking ourselves **"what's next?"** Opinions vary as to what did the most damage to housing, but there is broad agreement that higher rates had an impact.

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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You may be thinking to yourself "wait! There's not broad agreement, because when people want to buy a house, rates don't matter." It's true that rates don't matter to a great many would-be buyers, but some buyers on the margins of qualifying for the most affordable homes suddenly find themselves unable to buy. On the other end of the spectrum, a certain percentage of potential move-up buyers simply decide it makes more sense to **stay in place** if the new mortgage payment would be too high.

With all of the above in mind, it's no surprise to see how sales responded to the **two biggest rate spikes** in recent memory (highlighted in the chart below). Notably, housing would likely already be bouncing back from the 2018 spike, but the stock crash and government shutdown caused confidence issues for some homebuyers (and paycheck issues for others!).



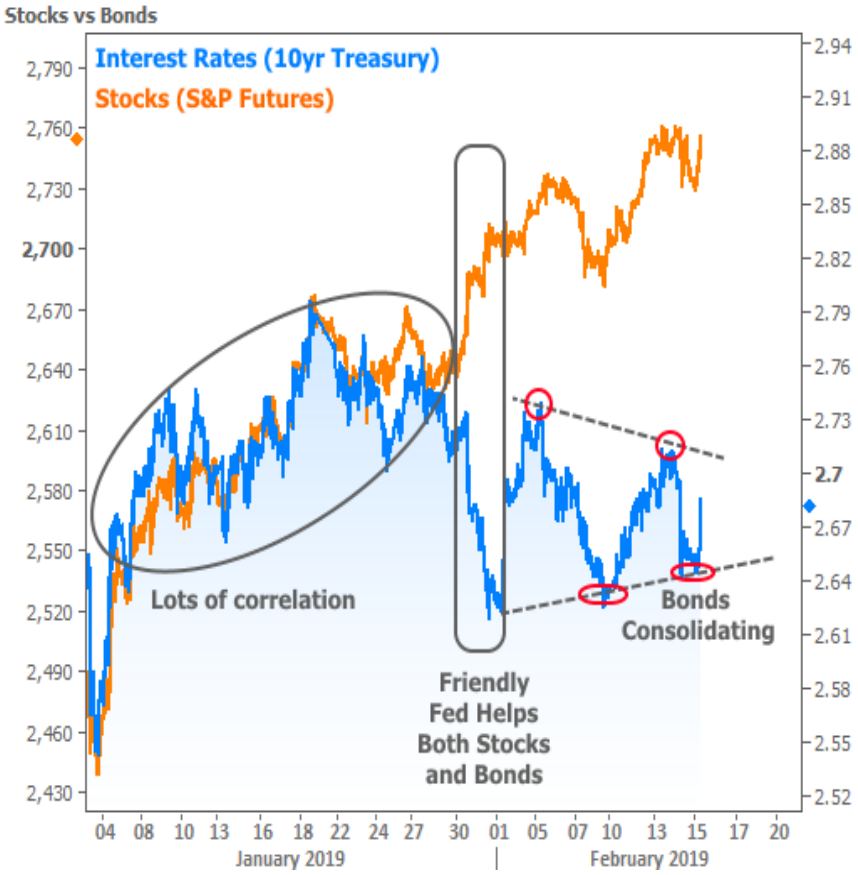
But now, rates are near their **lowest** levels in a year. As of this week, it looks like we've averted another government shutdown. And stocks have clearly been able to recapture much of the ground they'd lost.

Whereas we might worry that a strong stock market could pull interest rates higher, the recent shift in tone from the Federal Reserve has allowed rates to stay near their lows **even as stocks advance**. The following chart shows how well correlated stocks and rates were heading into the Fed Announcement at the end of January, and how quickly they diverged afterward.

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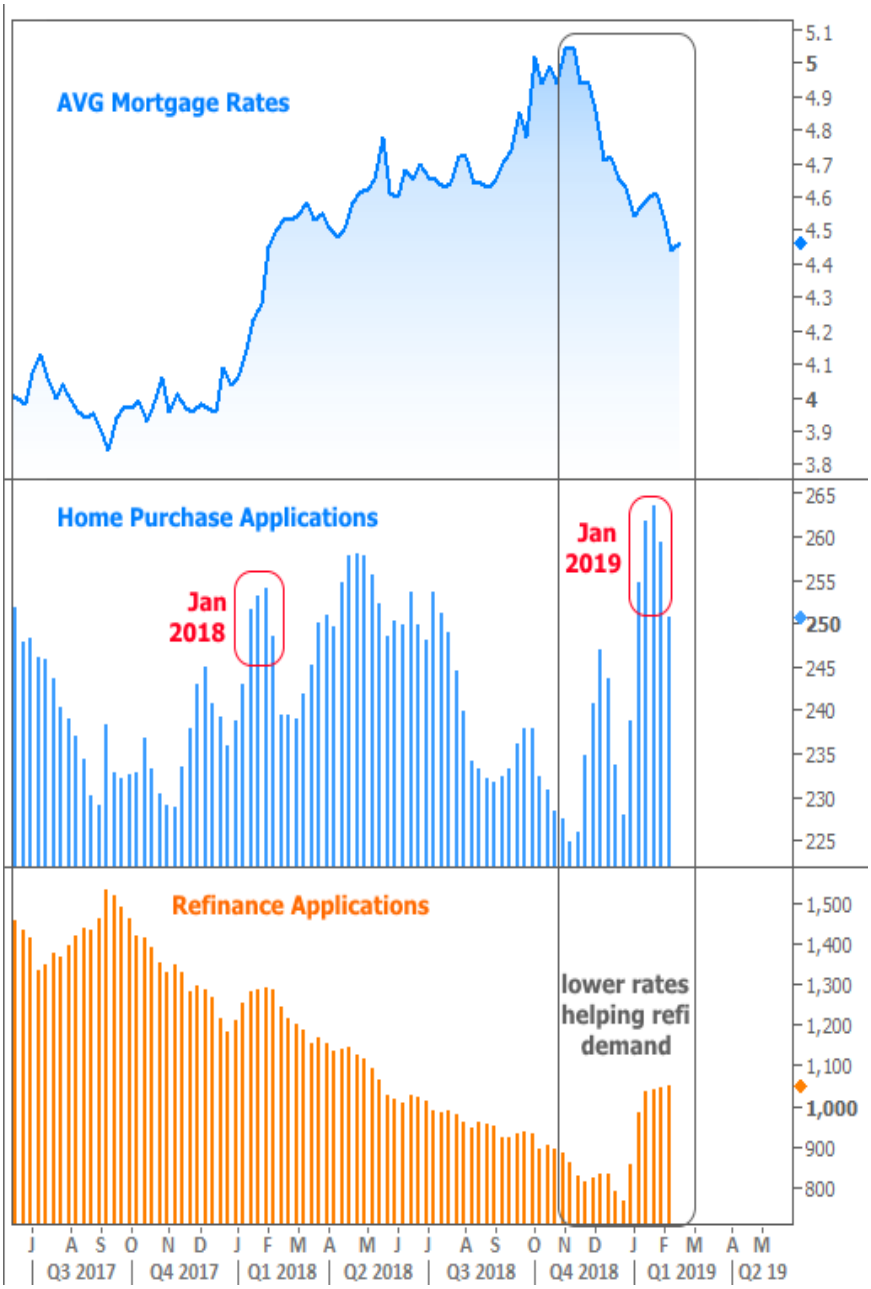


Crossing over to the mortgage side of the housing market, we find **even more reason to be optimistic**. When it comes to homebuyers seeking mortgages, this January has actually been better than last. Lower rates have also helped refi demand increase.

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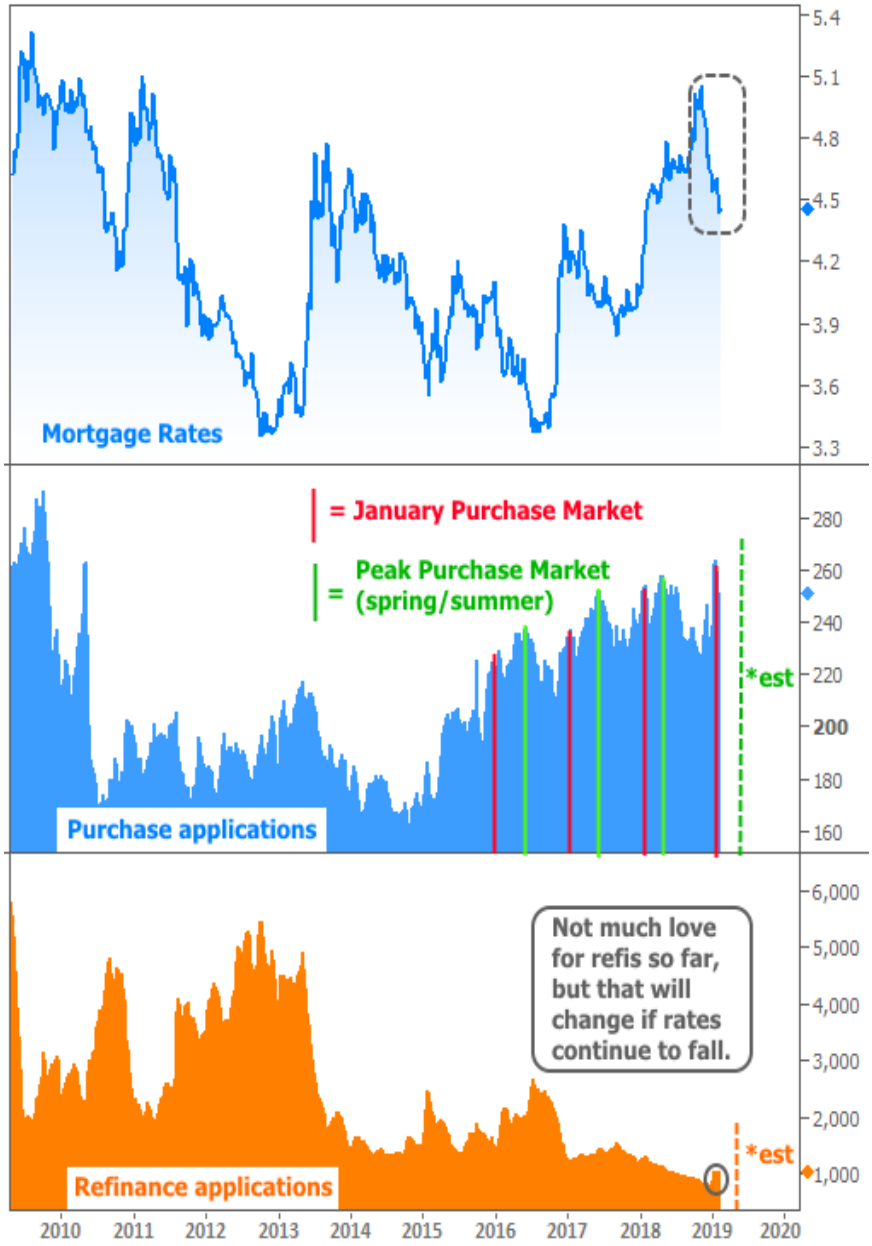


Zooming out to a wider view is even better for purchase applications. There we see a consistent trend of strength in January followed by a bigger surge as home sales hit their seasonal peak in Spring/Summer.

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The bigger picture is not kind to the refi market, but very few homeowners have had an incentive to refi since rates fell in the middle of 2017. That said, rates are now on the verge of falling to levels that **would make refinancing attractive** to a majority of homeowners who bought their homes any time after the beginning of 2018.

As far as keeping track of the housing-related developments, next week brings another installment of the monthly Existing Home Sales report. It's **important to remember** that Existing Sales tend to follow Pending Sales, and we'll likely need to see a bigger bounce there before Existing Sales follow suit. Pending Sales will be released the following Tuesday, Feb 27th. If we see a noticeable improvement, it will add to the case for the housing market being on its way to a strong 2019.

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Recent Economic Data

Event Importance:

No Stars = Insignificant

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Date	Event	Actual	Forecast	Prior
Wednesday, Feb 13				
7:00AM	w/e MBA Purchase Index	237.7		253.1
7:00AM	w/e Mortgage Refinance Index	1052.4		1053.4
8:30AM	Jan CPI mm, sa (%)	0.0	0.1	-0.1
8:30AM	Jan Core CPI Year/Year (%)	+2.2	2.1	2.2
Thursday, Feb 14				
8:30AM	Jan Producer Prices (%)	-0.1	0.1	-0.2
8:30AM	Jan Core Producer Prices YY (%)	+2.6	2.5	2.7
8:30AM	Dec Retail Sales (%)	-1.2	0.2	0.2
8:30AM	w/e Jobless Claims (k)	239	225	234
10:00AM	Nov Business Inventories (%)	-0.1	0.3	0.6
Friday, Feb 15				
8:30AM	Jan Import prices mm (%)	-0.5	-0.1	-1.0
8:30AM	Jan Export prices mm (%)	-0.6	-0.1	-0.6
8:30AM	Feb NY Fed Manufacturing	8.8	7.00	3.90
9:15AM	Jan Industrial Production (%)	-0.6	0.1	0.3
9:15AM	Jan Capacity Utilization (%)	78.2	78.7	78.7
10:00AM	Feb 5yr Inflation Outlook (%)	2.3		2.6
10:00AM	Feb Consumer Sentiment	95.5	93.0	91.2
10:00AM	Feb 1yr Inflation Outlook (%)	2.5		2.7
Tuesday, Feb 19				
10:00AM	Feb NAHB housing market indx	62	59	58
Wednesday, Feb 20				
7:00AM	w/e MBA Purchase Index	232.7		237.7
7:00AM	w/e Mortgage Refinance Index	1084.4		1052.4
Thursday, Feb 21				
8:30AM	Feb Philly Fed Business Index	-4.1	14.0	17.0
8:30AM	Dec Durable goods (%)	1.2	1.5	0.7
8:30AM	Dec Nondefense ex-air (%)	-0.7	0.2	-0.6
8:30AM	w/e Jobless Claims (k)	216	220	239
10:00AM	Jan Exist. home sales % chg (%)	-1.2	0.8	-6.4
10:00AM	Jan Existing home sales (ml)	4.94	5.00	4.99
10:00AM	Jan Leading index chg mm (%)	-0.1	0.1	-0.1

☆ 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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