US Housing Market Weekly

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Housing Data Stays Strong, but Massive Market Volatility Steals the Show

There are **3 general groups of people** when it comes to financial markets: those who actively participate (traders/analysts/reporters), those who do a pretty good job of keeping in touch with the relevant developments, and those who only encounter market news when it's dramatic enough to circulate in non-financial circles. For instance, if you didn't know the **Dow was down more than 1000 points** during the course of the day on Monday until the nice old part-time grocery store clerk asked if you'd heard, you're in group 3.

This has been one of those weeks where almost everybody in group 3 at least heard about the **wild ride** in the stock market. It was made all the more dramatic by the fact that it followed 3 days of heavy losses in their own right last week. The market volatility completely overshadowed the rest of the week's data and events, even spilling over into the world of mortgage rates.

It's no big secret that **interest rates are an interconnected cog** in the overall financial market machine. In fact, the concept is often taken too far by overly-simplistic explanations for market movement. All too often, pundits will suggest that rates move lower when stock prices move lower. "Sell stocks, buy bonds!" is the cliché (bond buying results in rates moving lower).

Indeed, there CAN BE a good amount of truth to this relationship. Often times, investors will actually be changing asset allocations by decreasing their holdings of stocks and increasing holdings of bonds. But it's important to know it's **not even remotely close** to being guaranteed, or even probable on any given day. It's more the sort of thing that works really well as an explanation in hindsight, but that leaves all but the most dedicated market participants scratching their heads when the correlation breaks down.

To understand how badly and how often it can break down, just look at the last few years of stocks vs bonds. In early 2015, stocks were making new all-time highs while bonds were returning to the same levels seen back in 2012, when the Dow was more than 3000 points lower.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00

Rates as of: 8/30

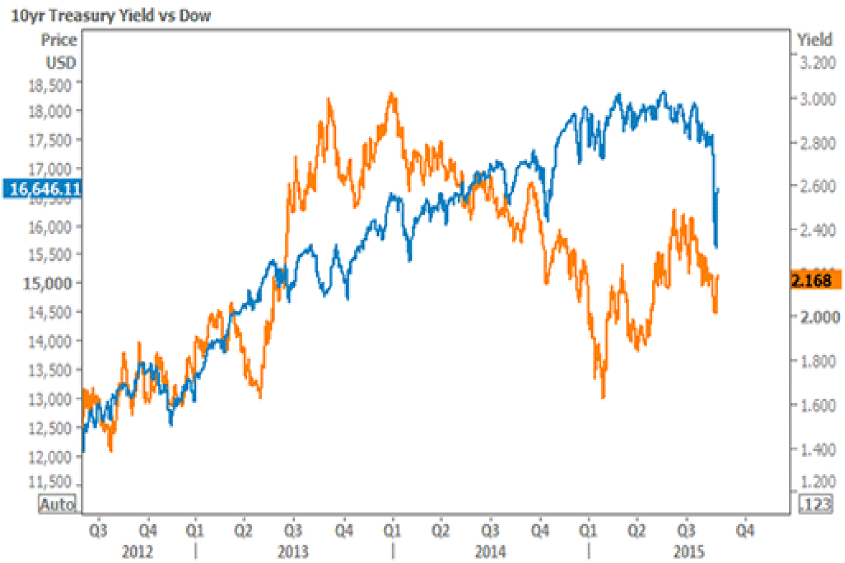
Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.37	+0.02
MBS GNMA 5.0	99.93	+0.02
10 YR Treasury	3.9068	+0.0029
30 YR Treasury	4.1960	+0.0028

Pricing as of: 9/1 7:34PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



What does all this have to do with **Housing and Mortgage markets**? That depends on how deeply you wish to consider the implications and how much you want to speculate on the future. Some of the speculators reckon that global financial markets are taking a turn for the worse—or at least for a turn toward slower growth—and that this week was warning shot. If that happens, it would be positive for interest rates and potentially negative for housing.

Interest rates had already **been falling for more than a month** by the start of this week (their longest rally of the year). In fact, they were looking like they very much wanted to bounce back up and consolidate those gains. 'Consolidation' or in more extreme cases 'correction' is a natural byproduct of any strong, sustained movement in financial markets. The stronger and more sustained the move, the greater the need to consolidate. Given the fact that rates were only pulled modestly lower by Monday's massive panic in other markets, it's no surprise that rates bounced back higher as soon as the panic began to subside.

This remains a **tentative situation** though, and one that market participants will be watching closely. Even if slowing global growth were to bring interest rates down, a weaker economy can hurt housing demand, especially at the lower end of the price/income spectrum where affordability problems are the most prevalent.

We'll cross that bridge if we come to it. For now, the most recent **housing data** remains stable to stronger. New Home Sales regained momentum in July after losing ground in June. And several reports on home prices showed steady improvements. Truth be told, the housing market suffers from a bit of data overload at the moment. There are multiple accounts of the same general themes. So to make things simple, those themes are as follows:

- **Price appreciation** is steady, with some metro areas at new peaks. Others continue to close the gap on pre-crash price levels. Most reports aren't adjusted for inflation, and adding that adjustment shows a wider gap between current prices and those from before the Financial Crisis (this is actually a good thing because it provides a counter-argument against a new housing bubble).

- **Sales figures** are consistently near post-crisis highs or making new post-crisis highs. That said, none of the major sales reports are anywhere close to pre-crisis levels. (Here too, this is probably for the best. Think: 'slow and steady wins the race.')

- **Cash Sales/delinquencies/foreclosures** are all generally declining. All of these are signs of distress in housing. Most of these distress-related metrics have farther to go before returning to more normal levels.

On a final, qualitative note, there is no sense of irrational exuberance regarding housing at the moment. It's strong, but any exuberance exists in smaller, crazier pockets of geography. In many cases, the home buying environment varies tremendously even between neighborhoods in the same city. Current lending guidelines are so much more thorough than the pre-crisis era that we know we're dealing with organic demand from buyers as opposed to the get-rich-quick bandwagon that helped fuel the housing crisis.

Bottom line, things are good, but not so good that we should be concerned. Concern can come from other factors though. With that in mind, we'll be carefully watching the global growth story unfold. Interest rates can only do so much to help sustain strength in housing. Alone, low rates couldn't do enough to offset a large-scale shift in growth.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Aug 24				
8:30AM	Jul National Activity Index	+0.34		0.08
Tuesday, Aug 25				
9:00AM	Jun CaseShiller 20 yy (%)	+5.0	5.1	4.9
9:00AM	Jun CaseShiller 20 mm nsa (%)	+1.0		1.1
9:00AM	Jun CaseShiller 20 mm SA (%)	-0.1	0.1	-0.2
9:00AM	Jun Monthly Home Price mm (%)	0.2		0.4
10:00AM	Aug Consumer confidence	101.5	93.4	90.9
10:00AM	Jul New home sales chg mm (%)	+5.4	5.8	-6.8
10:00AM	Jul New home sales-units mm (ml)	0.507	0.510	0.482
1:00PM	5-Yr Note Auction (bl)	26		
Wednesday, Aug 26				
7:00AM	w/e MBA Purchase Index	198.7		195.3
7:00AM	w/e Mortgage Refinance Index	1629.3		1646.0
8:30AM	Jul Durable goods (%)	+2.0	-0.4	3.4
8:30AM	Jul Nondefense ex-air (%)	+2.2	0.4	0.7
Thursday, Aug 27				
8:30AM	w/e Continued jobless claims (ml)	2.269	2.255	2.254
8:30AM	w/e Initial Jobless Claims (k)	271	274	277
8:30AM	Q2 GDP Prelim (%)	+3.7	3.2	2.3
10:00AM	Jul Pending homes index	110.9		110.3
10:00AM	Jul Pending sales change mm (%)	+0.5	1.0	-1.8
Friday, Aug 28				
8:30AM	Jul PCE price index mm (%)	+0.1		0.2
8:30AM	Jul Core PCE price index mm (%)	+0.1	0.1	0.1
8:30AM	Jul Consumption, adjusted mm (%)	+0.3	0.4	0.2
8:30AM	Jul Personal consump real mm (%)	+0.2		0.0

Event Importance:

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

Date	Event	Actual	Forecast	Prior
Monday, Aug 31				
9:45AM	Aug Chicago PMI	54.4	54.7	54.7
Tuesday, Sep 01				
10:00AM	Aug ISM Mfg Prices Paid	39.0	42.5	44.0
10:00AM	Jul Construction spending (%)	+0.7	0.6	0.1
10:00AM	Aug ISM Manufacturing PMI	51.1	52.6	52.7
Wednesday, Sep 02				
8:15AM	Aug ADP National Employment (k)	190.0	201	185
9:45AM	Aug ISM-New York index	700.2		699.7
10:00AM	Jul Factory ex-transp mm (%)	-0.6		0.5
Thursday, Sep 03				
8:30AM	Jul International trade mm $ (bl)	-41.86	-42.4	-43.8
10:00AM	Aug ISM N-Mfg Bus Act	63.9	61.0	64.9
10:00AM	Aug ISM N-Mfg PMI	59.0	58.1	60.3
Friday, Sep 04				
8:30AM	Aug Manufacturing payrolls (k)	-17	5	15
8:30AM	Aug Unemployment rate mm (%)	5.1	5.2	5.3
8:30AM	Aug Private Payrolls (k)	+140	215	210
8:30AM	Aug Non-farm payrolls (k)	+173	220	215
8:30AM	Aug Average workweek hrs (hr)	34.6	34.5	34.6

Service oriented, responsive, competitive rates and an in depth knowledge of todays mortgage market

After completing my degree in finance at the University of Connecticut, I started in the mortgage business right out of college in 2004. With 15+ years of experience and a primary objective of thoroughly explaining all available loan options to my clients with what is typically the largest investment in their lives, I strive to always make myself available. I constantly educate myself with respect to the mortgage industry and underwriting guidelines for FHA, VA, conventional and jumbo financing. I deliver on the expectations discussed up front and provide the service level my clients deserve from day one. I will remain in touch throughout the process and continue to follow up with you after closing. My goal is to wow you and turn you into clients for life. I want you to be so impressed that throughout and after the process you share my information with your friends, family, neighbors and co-workers who may value from my services.

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