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4 Great Reasons Housing Has Room to Run

Rates have been doing more rising than falling recently. Home sales have leveled-off by some counts, and we're entering the slower time of year. If you wanted to be pessimistic about the housing market, you could certainly make a case. But hidden in this week's data and events are 4 pieces of evidence for a solid **opposing** argument. Let's hear them!

The first piece of evidence was hidden in plain sight in the form of Friday's Consumer Price Index (CPI). This important inflation report has had a big impact on interest rates in 2017.

Inflation data matters most when it shows prices departing from expectations. If the data suggests the Fed needs to hike rates faster or slower, bond markets will **quickly** adjust to account for the shift in expectations. This was arguably the case in 2015 when inflation first began to lift-off from an extended stay below 2%.

As you'd expect, rising inflation coincided with rising rates throughout 2015. The Fed increasingly toughened its stance and ultimately hiked rates for the first time in **nearly a decade** at the end of that year. From there, inflation flat-lined, and so did Fed rate hikes.

At the end of 2016, the Fed felt there were other reasons to continue hiking rates (strong labor market, potentially inflationary policies associated with the new administration, etc.) even without an uptick in **measured** inflation. The relative increase in the pace of rate hikes is easily seen in the following chart of the Fed Funds Rate.

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

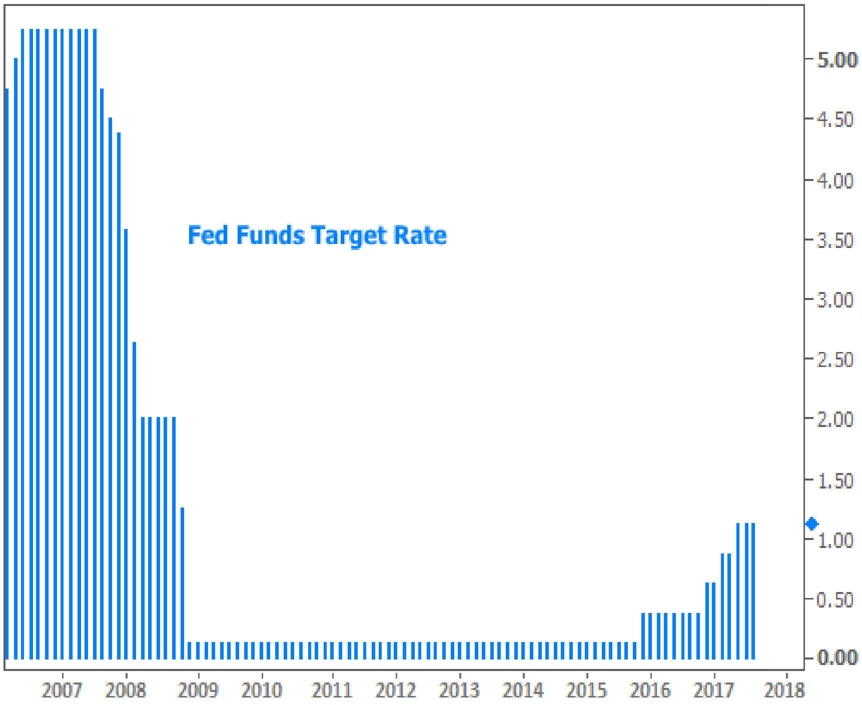
Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.35	-0.16
MBS GNMA 5.0	99.91	-0.04
10 YR Treasury	3.9039	+0.0424
30 YR Treasury	4.1932	+0.0468

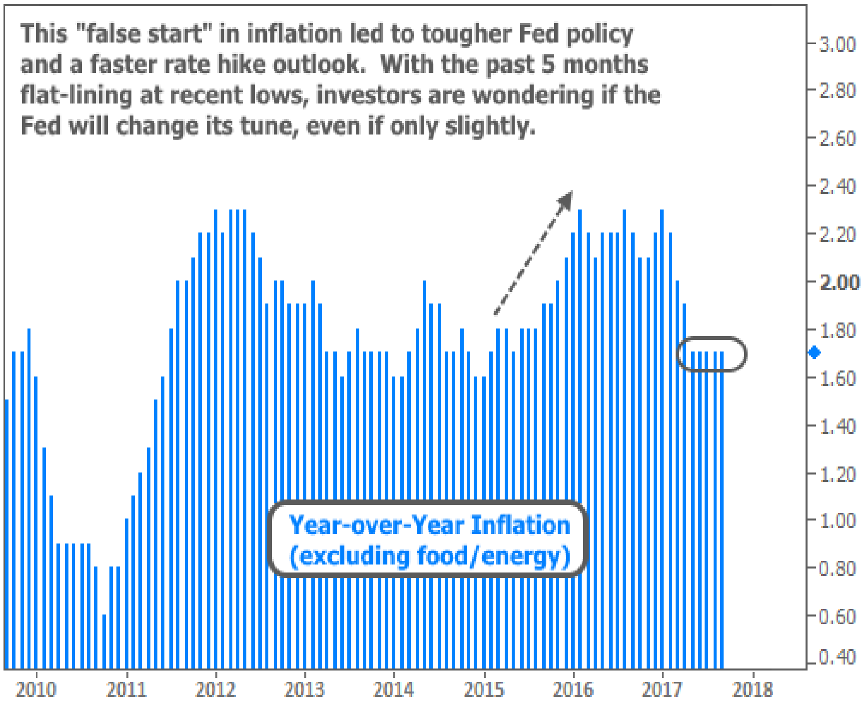
Pricing as of: 8/30 5:59PM EST

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%



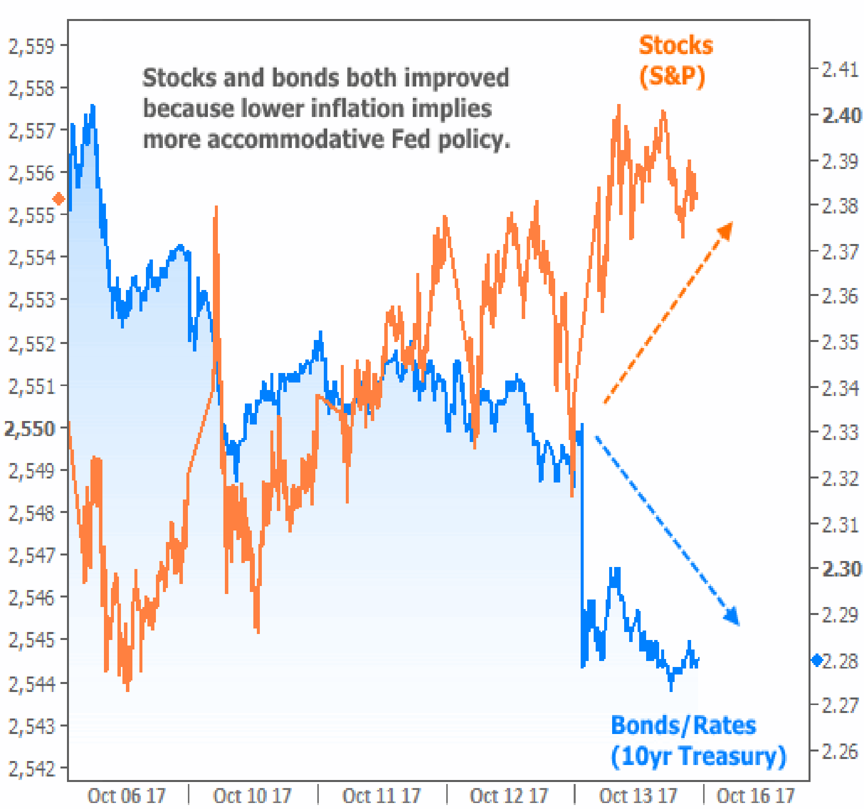
But while the Fed has continued to hike rates and take other steps to remove accommodation (i.e. the balance sheet normalization plan), inflation hasn't risen to the Fed's defense. In fact, inflation is saying **"not so fast!"**



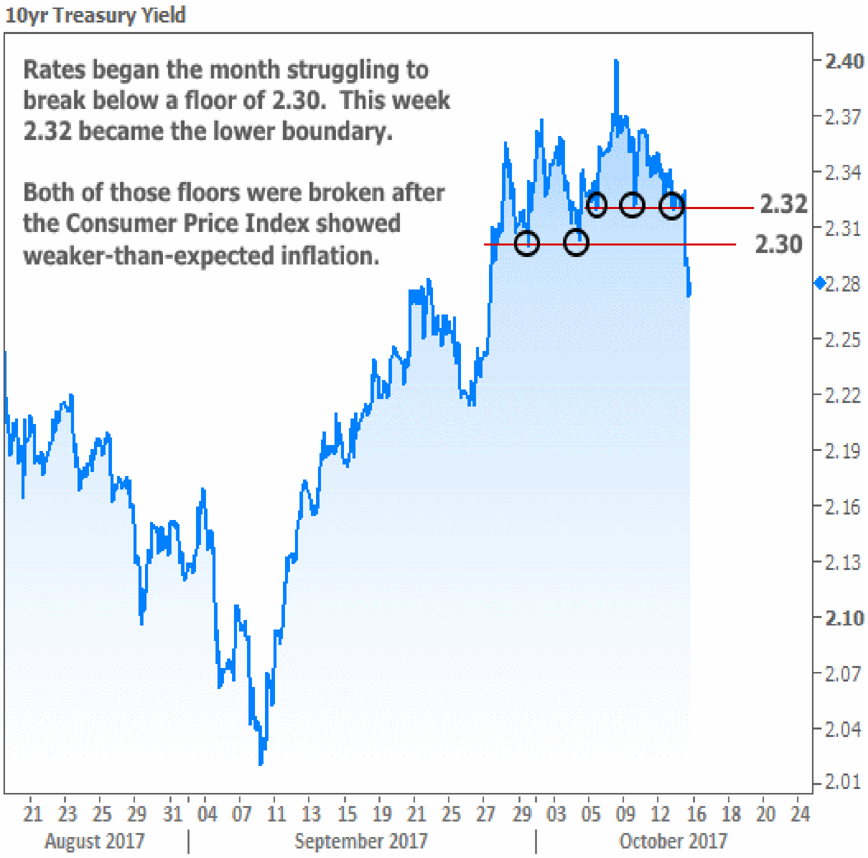
The sharp drop to near-recent-lows is a key reason that rates **haven't** moved higher as quickly as many forecasters predicted. This week, analysts expected inflation to begin lifting-off from those lows, citing the likely impacts from higher fuel prices due to the Hurricane season.

Fuel prices did indeed rise abruptly in the report, but the other price measurements fell by more than enough to offset the fuel effect. That made this inflation reading decidedly low, with **no great counterpoints** for those who are predicting a quick turnaround.

The **good news** about low inflation is its impact on rates. In fact, the stock market doesn't mind the news either because it suggests a more accommodative stance from the Fed. Stocks were already drifting higher due to earnings reports earlier in the week, but the inflation data pushed major indices to new intraday highs at the opening bell.



Turning our focus exclusively to rates, some **good things are happening**. Not only did the inflation data help them break through 2 important floors, it also reinforced a bigger-picture ceiling around 2.40% in terms of 10yr Treasury yields (the most widely-followed benchmark for momentum in longer-term rates like mortgages).


10yr Treasury Yield
Rates began the month struggling to break below a floor of 2.30. This week 2.32 became the lower boundary.
Both of those floors were broken after the Consumer Price Index showed weaker-than-expected inflation.
2.32
2.30
2.40
2.37
2.34
2.31
2.28
2.25
2.22
2.19
2.16
2.13
2.10
2.07
2.04
2.01
21 23 25 29 31 04 07 11 13 15 19 21 25 27 29 03 05 09 12 16 18 20 24
August 2017
September 2017
October 2017


In the bigger picture, this reinforces a ceiling near 2.40% that's been holding since the end of March, 2017.
2.65
2.60
2.55
2.50
2.45
2.40
2.35
2.30
2.25
2.20
2.15
2.10
2.05
2.00
1.95
1.90
1.85
1.80
1.75
1.70
03 18 05 20 06 24 08 24 13 28 12 28 15 31 14 29 17 01 16 31 18 03 19 03 20 06
Q4 2016
Q1 2017
Q2 2017
Q3 2017
Q4 2017

The final 2 of our "4 reasons" stem from housing-related news stories this week. The first covers a report from the Urban Institute (UI) that discusses mortgage lending guidelines. In a nutshell, UI says guidelines could be **TWICE as loose** as they are now and that would merely bring us back in line with historically normal/healthy levels.

It's hard to quantify exactly what "twice as loose" would look like in practice, but most market participants would agree there are many **more potential buyers** to be brought into the market from guideline changes before we're anywhere close to the riskier landscape seen before the mortgage meltdown. This process has already been happening slowly, and the good news is there's no reason it can't continue.

The second piece of news covers an interesting report from CoreLogic that compares the current **housing boom/bust cycle** to past examples. The takeaway is fairly simple: home prices have taken far longer to recover than in previous cycles. Moreover, in many areas, prices STILL haven't crested pre-crisis levels, thus implying more room to run. Of course this will vary from market to market, but the underlying point is that a lot of the seemingly uncanny price appreciation we've seen in the past 5 years has to do with how hard we fell at the start of the crisis.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Oct 11				
7:00AM	w/e Mortgage Market Index	405.2		414
7:00AM	w/e Mortgage Refinance Index	1359.2		1419.2
11:30AM	3-Yr Note Auction (bl)	24		
1:00PM	10-yr Note Auction (bl)	20		
2:00PM	FOMC Minutes			
Thursday, Oct 12				
8:30AM	Sep Producer Prices (%)	0.4	0.4	0.2
8:30AM	Sep Core Producer Prices YY (%)	2.2	2.0	2.0
1:00PM	30-Yr Bond Auction (bl)	12		
Friday, Oct 13				
8:30AM	Sep Retail Sales (%)	1.6	1.7	-0.2
8:30AM	Sep CPI mm, sa (%)	0.5	0.6	0.4
8:30AM	Sep Core CPI Year/Year (%)	1.7	1.8	1.7
10:00AM	Oct Consumer Sentiment	101.1	95.0	95.1
10:00AM	Oct 5yr Inflation Outlook (%)	2.4		2.5
10:00AM	Oct 1yr Inflation Outlook (%)	2.3		2.7
10:00AM	Jul Business Inventories (%)		0.2	0.5

Event Importance:

No Stars = Insignificant
Low
Moderate
Important
Very Important

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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