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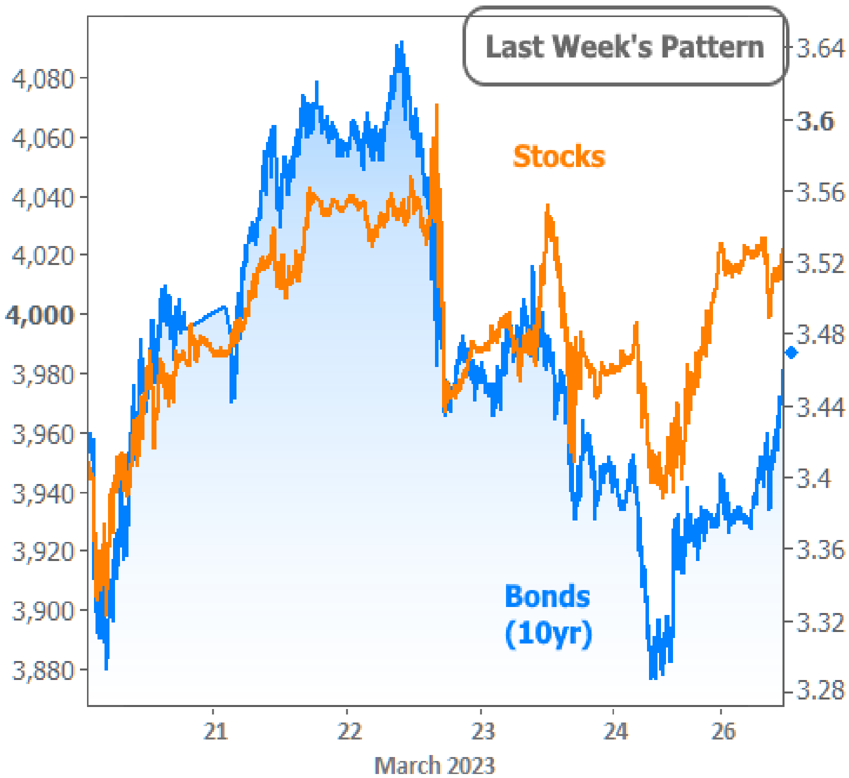
Calmer Markets; Are Home Prices Already Done Falling?

The bond market moved far less over the entire week than it did during a single day last week. Not only was volatility much lighter, but the trading patterns changed as well.

At the onset of the recent panic in the banking sector, stocks and bonds shifted into risk aversion mode. Scary news pushed money out of stocks and into bonds. Promising developments did the opposite. This results in stock prices and bond yields moving with a high degree of correlation (because bond yields move lower when bonds increase in value).



Incidentally, there's your "big day" on March 22nd, when 10yr yields traversed a range between 3.64 and 3.43. Fast forward to the current week (where 10yr yields spent most of their time between 3.54 and 3.58) and there are no signs of that type of correlation.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.86%	-0.05	0.00
15 Yr. Fixed	6.31%	-0.02	0.00
30 Yr. FHA	6.32%	-0.06	0.00
30 Yr. Jumbo	7.04%	-0.03	0.00
5/1 ARM	6.53%	-0.02	0.00
Freddie Mac			
30 Yr. Fixed	6.78%	-0.08	0.00
15 Yr. Fixed	6.07%	-0.09	0.00

Rates as of: 7/26

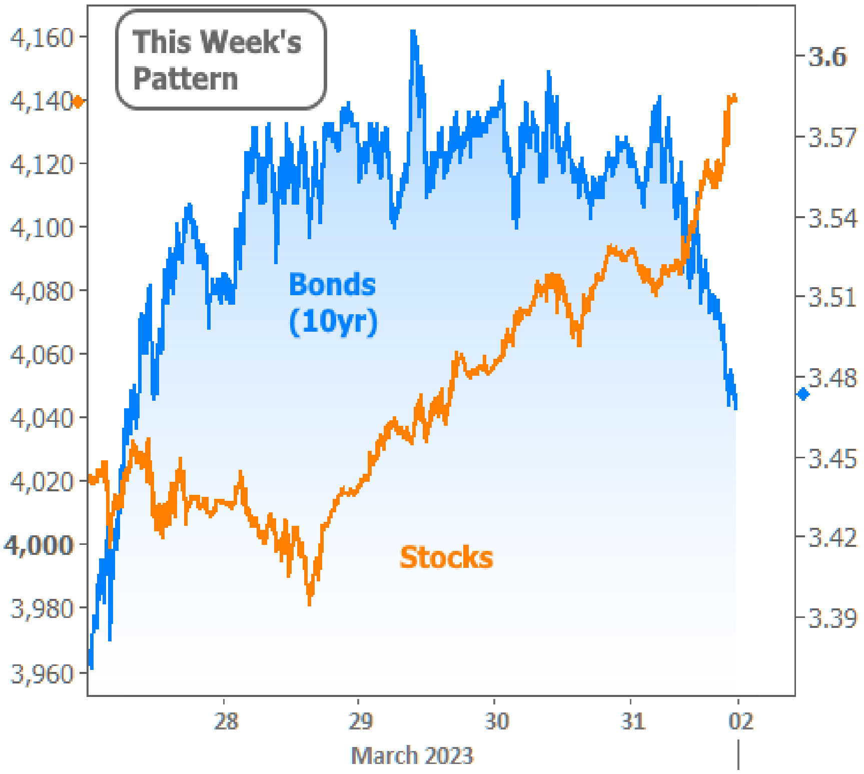
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.68	+0.27
MBS GNMA 5.5	99.98	+0.13
10 YR Treasury	4.1958	-0.0474
30 YR Treasury	4.4523	-0.0305

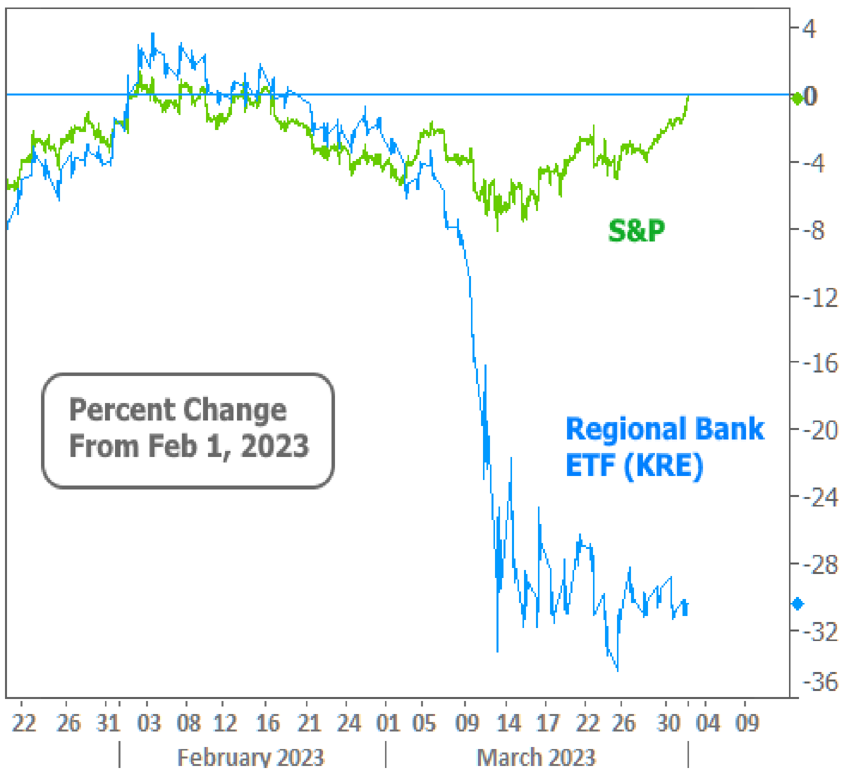
Pricing as of: 7/26 5:59PM EST

Recent Housing Data

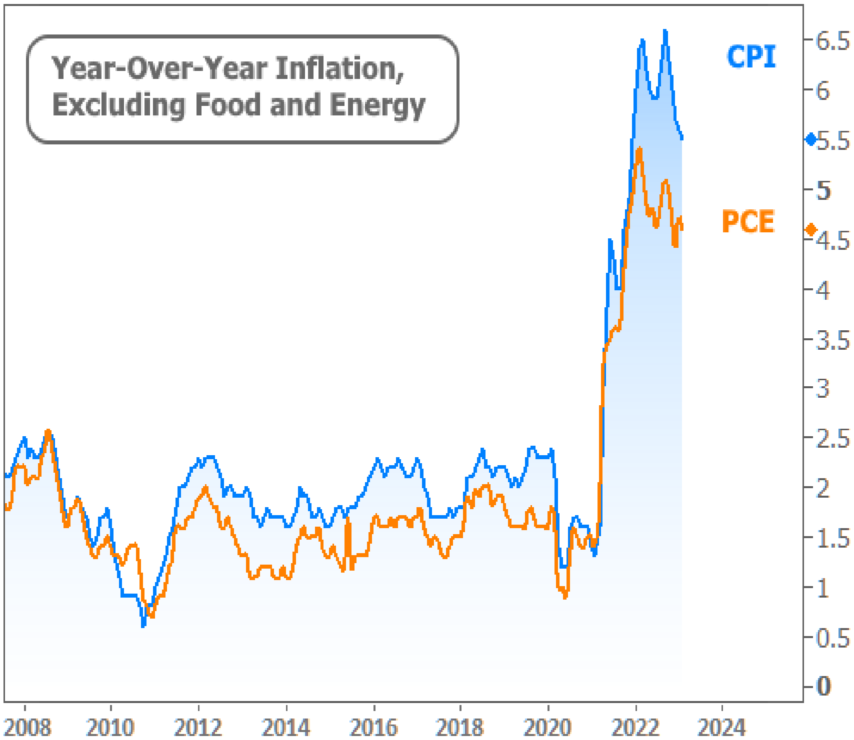
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



There is largely due to the market finally beginning to calm down and move on from the hypervigilant assessment of banking sector risks. To be clear, this doesn't mean those concerns are gone, simply that this week didn't see the same sort of volatility or deterioration in banking sector sentiment. The following chart shows the percent change in regional bank stocks compared to the S&P. It shows the broader stock market beginning to heal as soon as bank stocks stopped plummeting.

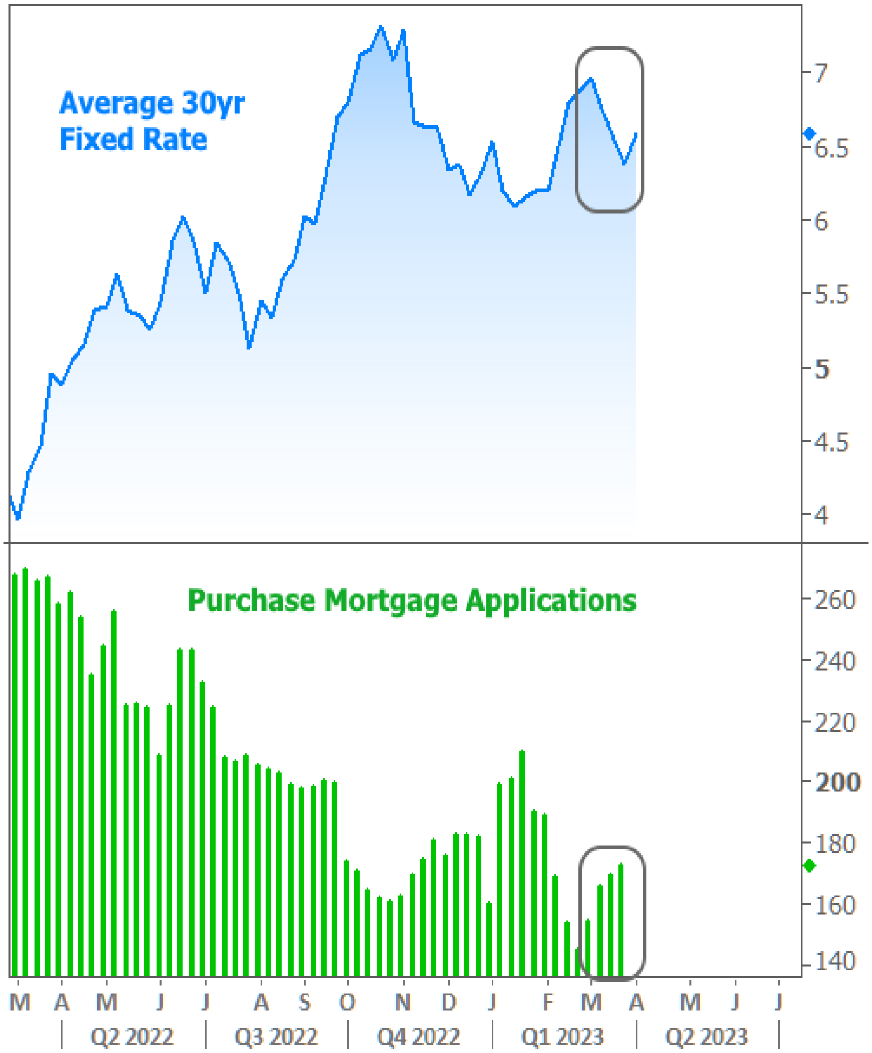


If bank drama continues to fade, the market will increasingly focus on the economic implications, not only of a more cautious banking sector, but also of the high interest rates that are already in place. Those forces combined should put downward pressure on inflation--something that is already showing up in the data, as seen in this week's release of the PCE Price Index falling a tenth of a percent at the "core" level (i.e. excluding food and energy). Along with its more timely counterpart, CPI, both of the two main inflation indices are telling a similar story.

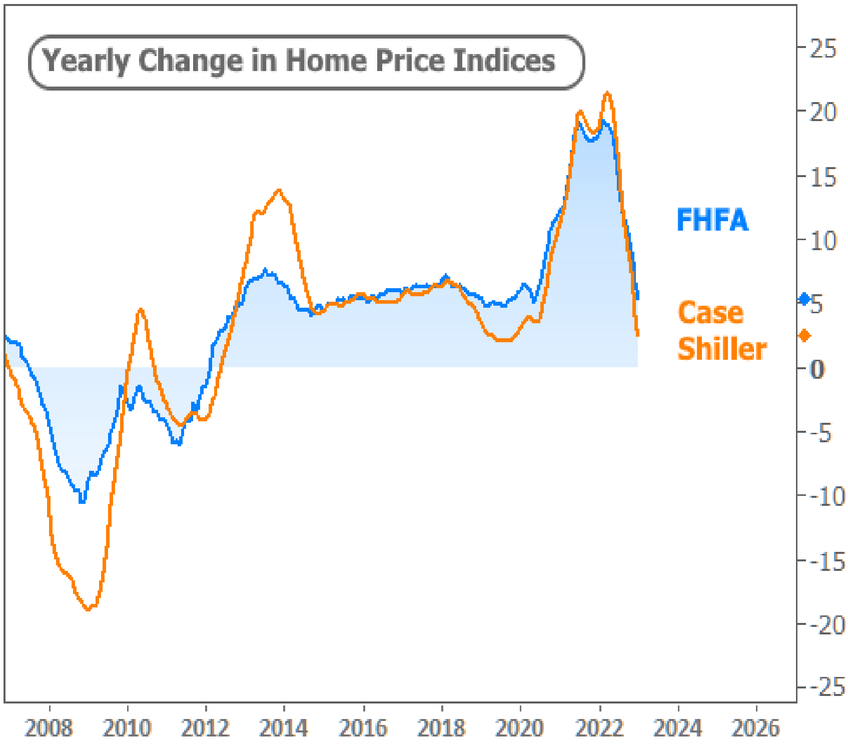


This week's other economic data may not have had an impact on the market, but it's nonetheless relevant to the housing outlook. Pending Home Sales numbers are still historically low, but have risen on each of the past 3 months. That's a big victory for this week's report (which covered the month of February) due to the fast jump in rates seen last month.

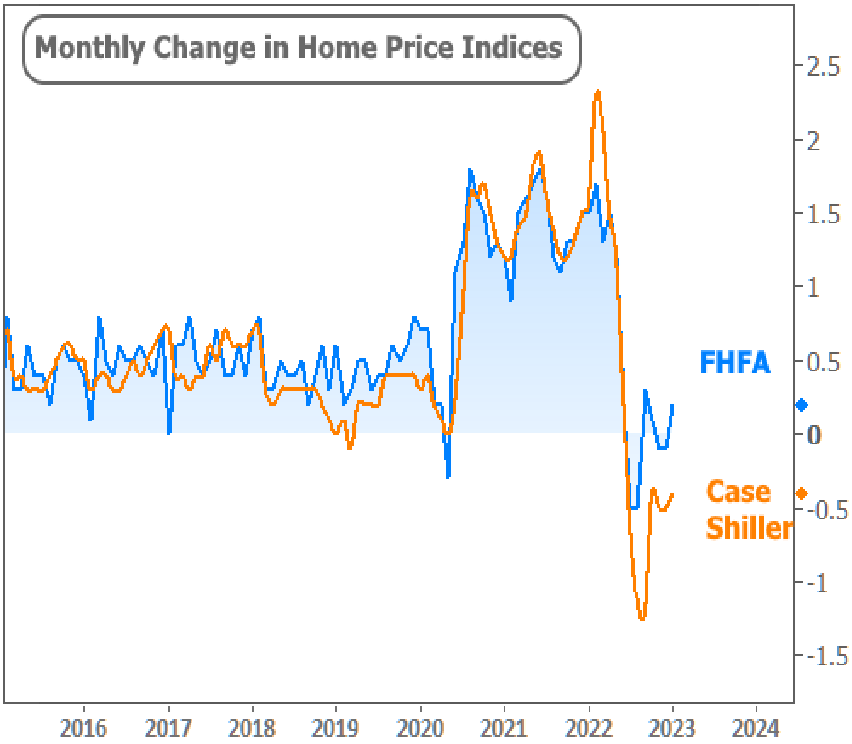
Weekly purchase applications, as reported by the Mortgage Bankers Association, confirm that buyers are paying attention to rates. The rate recovery in March has coincided with a recovery in purchase apps.



But the most notable and most confusing housing data released this week would be the duo of major home price indices from the FHFA and S&P Case Shiller. Both indices show prices in apparent freefall when examined in year-over-year terms.

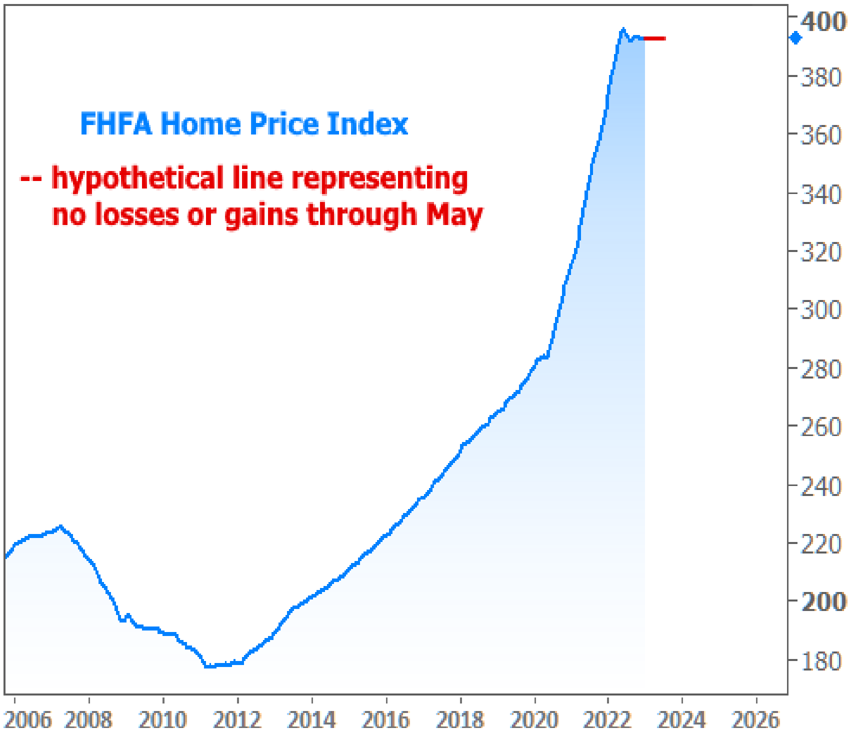


Month-over-month numbers tell a different story. In fact, the broader FHFA index actually moved back into positive territory in January. Case Shiller was down 0.4% but at least that's a slower pace of losses compared to the previous month. And both are well above their moments of steepest declines seen late last year.



Does this mean home prices are done falling? Yes, actually, if you ask FHFA and base the answer on the current data. A big spike in rates or an unexpected economic shock could change the outlook. All we can truly conclude from the current data is that prices are showing a good level of resilience at this stage whereas such resilience was nowhere to be found the last time monthly home prices surged into negative territory.

On a side note, keep in mind that the year-over-year indices may soon turn negative even if prices don't lose any more ground. Reason being: the price index peaked in May/June of last year and leveled off at slightly lower levels shortly thereafter. Prices would need to move up by roughly half a percent by May to avoid turning negative. Even if prices flat-lined here and didn't move higher, here's what that would look like on a chart.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Mar 27				
1:00PM	2-Yr Note Auction (bl)	42		
Tuesday, Mar 28				
9:00AM	Jan Case Shiller Home Prices-20 y/y (%)	2.5	2.5	4.6
9:00AM	Jan CaseShiller Home Prices m/m (%)	-0.4	-0.5	-0.5
9:00AM	Jan FHFA Home Price Index m/m (%)	0.2		-0.1
9:00AM	Jan FHFA Home Prices y/y (%)	5.3		6.6
10:00AM	Mar Consumer confidence	104.2	101.0	102.9
1:00PM	5-Yr Note Auction (bl)	43		
Wednesday, Mar 29				
10:00AM	Feb Pending Sales Index	83.2		82.5

Event Importance:

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

Date	Event	Actual	Forecast	Prior
10:00AM	Feb Pending Home Sales (%)	0.8	-2.3	8.1
1:00PM	7-Yr Note Auction (bl)	35		
Thursday, Mar 30				
8:30AM	Q4 GDP Final (%)	2.6	2.7	2.7
8:30AM	w/e Jobless Claims (k)	198	196	191
Friday, Mar 31				
8:30AM	Feb Core PCE Inflation (y/y) (%)	4.6	4.7	4.7
9:45AM	Mar Chicago PMI	43.8	43.4	43.6
10:00AM	Mar Sentiment: 1y Inflation (%)	3.6		3.8
10:00AM	Mar Sentiment: 5y Inflation (%)	2.9		2.8
10:00AM	Mar Consumer Sentiment (ip)	62.0	63.2	63.4
Monday, Apr 03				
10:00AM	Mar ISM Manufacturing PMI	46.3	47.5	47.7
10:00AM	Feb Construction spending (%)	-0.1	0.0	-0.1
Tuesday, Apr 04				
10:00AM	Feb Factory orders mm (%)	-0.7	-0.5	-1.6
Wednesday, Apr 05				
7:00AM	w/e MBA Purchase Index	166.6		172.7
7:00AM	w/e MBA Refi Index	477.2		504.4
8:15AM	Mar ADP jobs (k)	145	200	242
10:00AM	Mar ISM Biz Activity	55.4		56.3
10:00AM	Mar ISM N-Mfg PMI	51.2	54.5	55.1
Thursday, Apr 06				
7:30AM	Mar Challenger layoffs (k)	89.703		77.770
8:30AM	w/e Jobless Claims (k)	228	200	198
Friday, Apr 07				
8:30AM	Mar Non-farm payrolls (k)	236	239	311
8:30AM	Mar Average workweek hrs (hr)	34.4	34.5	34.5
8:30AM	Mar Unemployment rate mm (%)	3.5	3.6	3.6
8:30AM	Mar Average earnings mm (%)	0.3	0.3	0.2

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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