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# Is Rate Recovery Enough to Keep Housing Healthy?

It was a fraught week for rates and housing, with plenty of movement in financial markets and plenty of **contradictions** in economic data.

There are ample talking points for optimists and pessimists when it comes to the current state of the housing market. Let's start with the **good news**.

The week's first major economic report was New Home Sales for the month of August. This one was worth watching because July's report was so strong that many economists chalked it up to the report's typically high margin of error. Indeed, this often results in "big gains" turning into "big losses" by the time revisions come in.

That was **not the case** this time around. Not only were July's numbers vetted, but August's were also stronger than expected. Next to July, it was the **2nd best report in more than 8 years**. Housing pessimists might try to call attention to the fact that sales still aren't halfway back to their pre-meltdown peak, but even they'd have to concede the unsustainability of 2005's levels of new construction.

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.27% | -0.02 | 0.00 |
| 15YR Fixed | 6.92% | -0.03 | 0.00 |
| 30YR FHA | 6.90% | -0.01 | 0.00 |
| 30YR Jumbo | 7.55% | 0.00 | 0.00 |
| 7/6 SOFR | 6.78% | -0.10 | 0.00 |
| 30YR VA | 6.91% | -0.01 | 0.00 |

Rates as of: 10/30

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.97 | +0.16 |
| 10 YR Treasury | 4.8832 | -0.0467 |
| 30 YR Treasury | 5.2560 | -0.0522 |

Pricing as of: 11/2 9:52AM EST

## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Oct 21 | 195 | +3.39% |
| 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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Housing skeptics have more room to talk when it comes to the issues of **price plateaus, affordability and inventory**. Virtually every other housing-related report released this week (and there were a lot!) addresses these topics in some way.

Black Knight's Home Price Index, one of several mainstream price indices, showed a **distinct slowdown** in price appreciation over the past few months. Another highly-regarding index, Case-Shiller, was more equivocal on the the month-over-month trend in appreciation. Instead, it called attention to the logical **unsustainability** of price appreciation (running over 5 percent, according to most measures) relative to core inflation, which remains near 2 percent.

In that same vein, ATTOM (previously RealtyTrac) released a report focused specifically on **affordability**. It noted that 24 percent of the counties in its study were less affordable than their historical average, compared to 22 percent in the 2nd quarter and 19 percent last year.

In **slightly more upbeat** news, 2 reports from CoreLogic spoke to decreasing levels of distress in housing markets. The first showed that **distressed sales** themselves only increased in 8 states and had fallen 2.2 percent year-over year. The second was more of an indirect comment on "distress," noting that **all-cash sales** dipped below 30 percent in June--the first time that's happened since 2007.

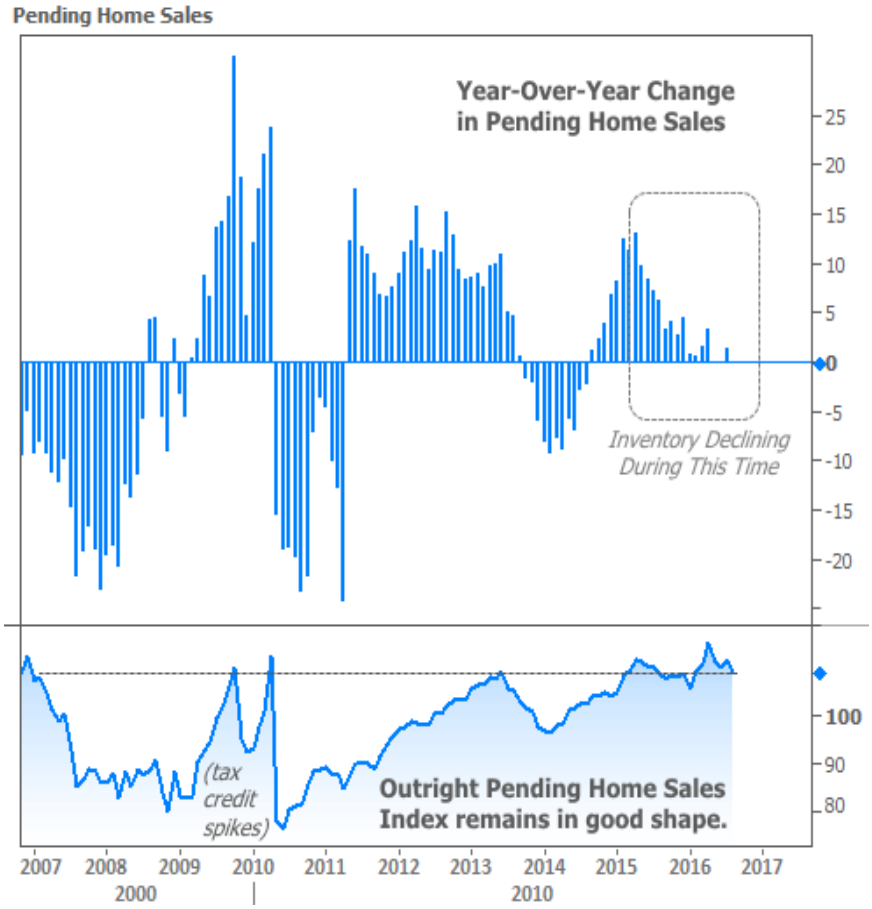
All of the above dovetails into what the National Association of Realtors considers the **core issue facing housing** at the moment: **INVENTORY!** This has been a constant battle cry for the NAR, and one that seems to explain the juxtaposition of unsustainable price gains and relatively stagnant wage/inflation growth.

Inventory is increasingly being used to explain declining momentum in Pending Home Sales, a leading indicator of purchase contract activity. The NAR notes that inventory has contracted in **15 straight months**. This exactly matches the decline in year-over-year growth in Pending Sales, seen in the chart below.

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One fairly constant source of **positivity** for housing markets is the interest rate environment. Although mortgage rates aren't officially at all-time lows at the moment, they've been spending more time **NEAR all-time lows** than at any other time in history.

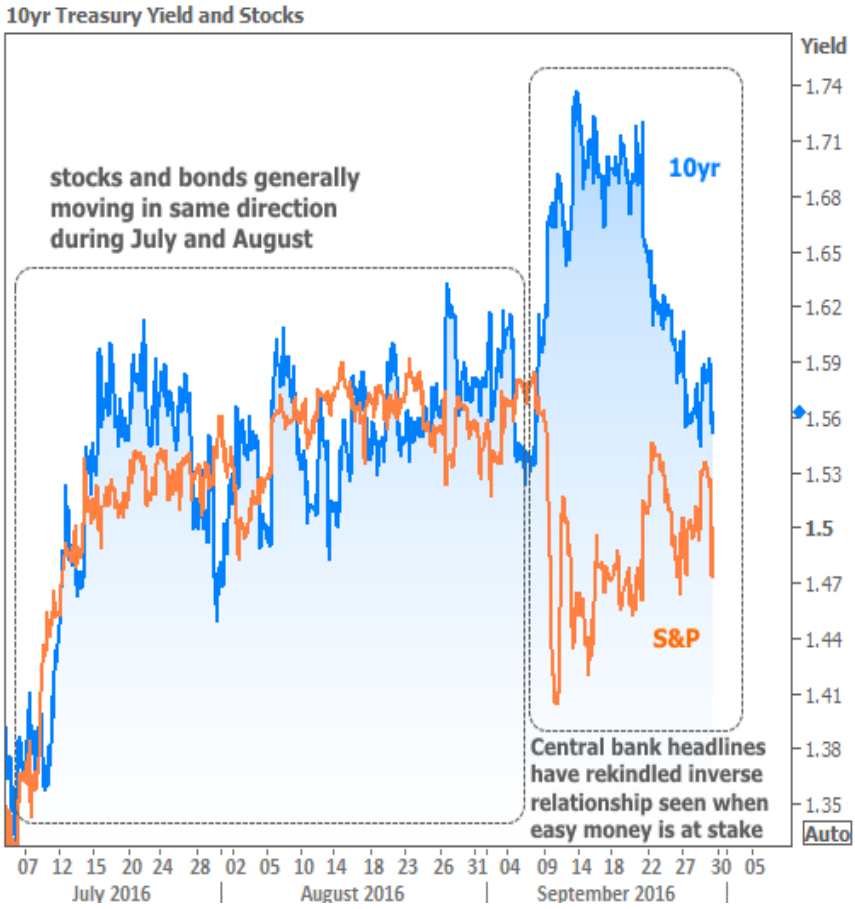
Whether that continues to be the case depends largely on central bank policies. Recent rate volatility began after the European Central Bank hinted that it might be a little less generous with easy money policies in the near future. Last week's Fed Announcement helped rates (and stocks) find their footing, and that **recovery continued this week**.

One classic sign that markets are reacting to central bank's easy money outlook is the **divergence** of stock prices and bond yields (aka "rates"). Over most short-term time horizons, rates tend to move the same direction as stocks, but when markets see the proverbial "punch-bowl" of easy money at stake, stocks and bonds usually lose ground **together** (meaning rates move higher while stock prices move lower, and vice versa).

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Monday, Sep 26** | | | | |
| 10:00AM | Aug New home sales-units mm (ml) | 0.609 | 0.600 | 0.654 |
| 1:00PM | 2-Yr Note Auction (bl) | 26 | | |
| **Tuesday, Sep 27** | | | | |
| 9:00AM | Jul CaseShiller 20 yy (%) | +5.0 | 5.1 | 5.1 |
| 10:00AM | Sep Consumer confidence | 104.1 | 99.0 | 101.1 |
| 1:00PM | 5-Yr Note Auction (bl) | 34 | | |
| **Wednesday, Sep 28** | | | | |
| 7:00AM | w/e Mortgage Market Index | 527.1 | | 530.8 |
| 8:30AM | Aug Durable goods (%) | 0.0 | -1.4 | 4.4 |
| 10:55AM | Yellen Congressional Testimony | | | |
| 1:00PM | 7-Yr Note Auction (bl) | 28 | | |
| **Thursday, Sep 29** | | | | |
| 8:30AM | Q2 GDP Final (%) | +1.4 | 1.3 | 1.1 |
| 8:30AM | w/e Initial Jobless Claims (k) | 254 | 257 | 252 |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| 10:00AM | Aug Pending homes index | 108.5 | | 111.3 |
| **Friday, Sep 30** | | | | |
| 8:30AM | Aug PCE price index mm (%) | +0.1 | | 0.0 |
| 8:30AM | Aug Core PCE price index mm (%) | +0.2 | 0.2 | 0.1 |
| 9:45AM | Sep Chicago PMI | 54.2 | 52.0 | 51.5 |
| **Monday, Oct 03** | | | | |
| 10:00AM | Sep ISM Mfg Prices Paid | 53.0 | 52.9 | 53.0 |
| 10:00AM | Aug Construction spending (%) | -0.7 | 0.2 | 0.0 |
| 10:00AM | Sep ISM Manufacturing PMI | 51.5 | 50.3 | 49.4 |
| **Tuesday, Oct 04** | | | | |
| 9:45AM | Sep ISM-New York index | 719.7 | | 719.9 |
| **Wednesday, Oct 05** | | | | |
| 8:15AM | Sep ADP National Employment (k) | 154.0 | 166 | 177 |
| 8:30AM | Aug International trade mm $ (bl) | -40.73 | -39.3 | -39.5 |
| 10:00AM | Aug Factory orders mm (%) | +0.2 | -0.1 | 1.9 |
| 10:00AM | Sep ISM N-Mfg PMI | 57.1 | 53.0 | 51.4 |
| 10:00AM | Sep ISM N-Mfg Bus Act | 60.3 | 52.2 | 51.8 |
| **Friday, Oct 07** | | | | |
| 8:30AM | Sep Non-farm payrolls (k) | +156 | 175 | 151 |
| 8:30AM | Sep Private Payrolls (k) | +167 | 170 | 126 |
| 8:30AM | Sep Unemployment rate mm (%) | 5.0 | 4.9 | 4.9 |
| 10:00AM | Aug Wholesale inventories mm (%) | -0.2 | -0.1 | -0.1 |


## Experienced. Trusted. Local.

The Arizona Loan Baron is at your service!

I would appreciate the opportunity to share with you my extensive mortgage lending experience. My client focused approach has allowed me to build long lasting relationships and partnerships throughout Arizona. I know this market. I live here and work here. Please allow me to be your mortgage lending partner.

**Timothy Baron**




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