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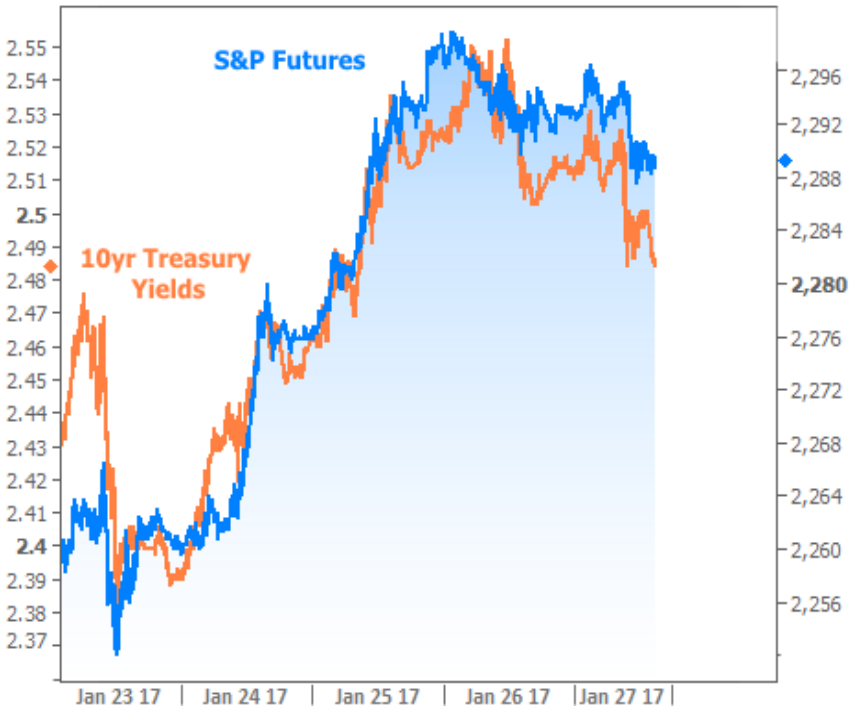
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Rising Rates, Higher Prices, and Record Low Inventories

Although the first three weeks of the year weren't inconsequential, investors were understandably eager to react to Trump's first week in office. One of the **most notable** developments was a break higher for stock prices after weeks of stagnation. This had the unfortunate effect of pushing bond yields (aka "rates") even higher.



Although this brought mortgage rates to 2017 highs, the broader range remains intact. In the context of that range, late-December through mid-January provided an opportunity for rates to undergo a **correction** from an **incredibly abrupt** post-election spike. The first 3 weeks of January were like a holiday break, and now it's back to business.

Further increases in rates raise legitimate questions for mortgage and housing markets. Certainly, we've already seen the effects on refinancing activity, but that's **to be expected** any time rates rise this quickly. In fact, refi applications tend to have a fairly predictable lower boundary.

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	4.8858	-0.0441
30 YR Treasury	5.2586	-0.0496

Pricing as of: 11/2 9:51AM EST

Recent Housing Data

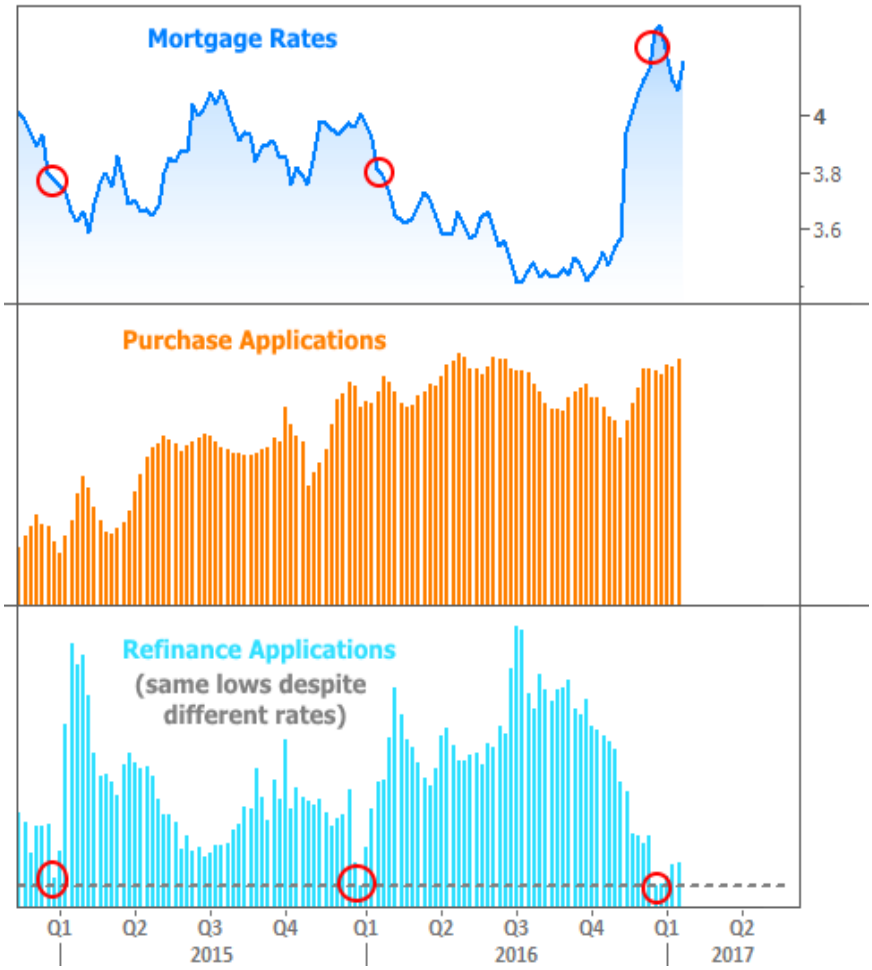
		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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As I mentioned in previous newsletters (both in Nov and Dec), because of that lower boundary, refi activity **didn't have as far to fall** this time around compared to 2013. Recent lows in the MBA's weekly Mortgage Market Index confirm that refi applications have bounced at expected levels.



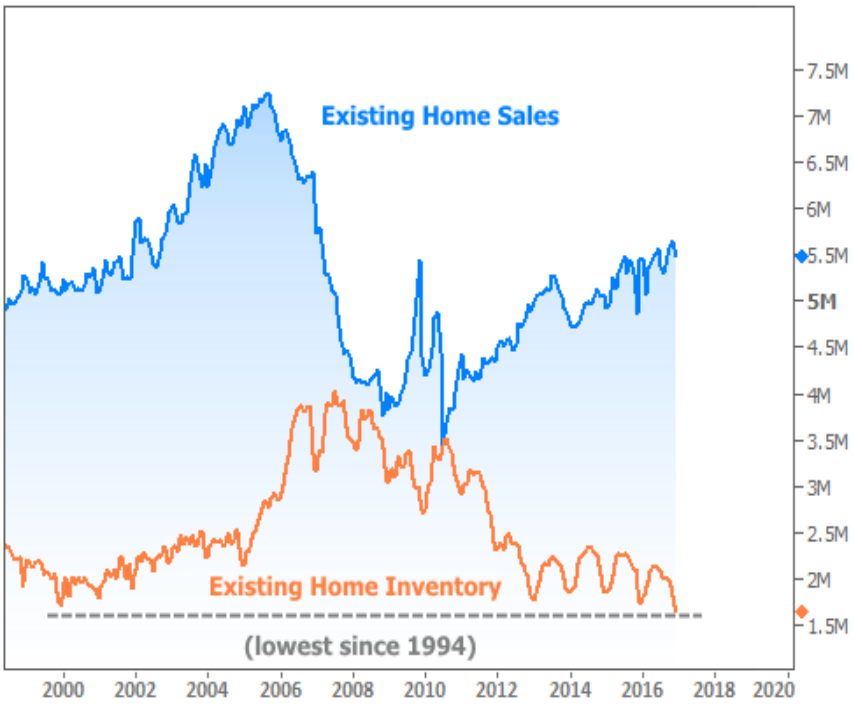
True to form, purchases have been much less affected by the rate spike, but that's partly due to the timing of housing reports. In the chart above, the numbers cover the previous **week's** applications. In the world of housing data, **that's timely!** Most reports cover the previous **month's** data. That means we're just getting December's New and Existing Home Sales numbers this week.

Existing Home Sales fell moderately to an annual pace of 5.49 mln from last month's estimate of 5.65 mln. Despite the decline, 2016 was unsurprisingly stronger than 2015. The most interesting facet of the report was a plunge in inventories to the **lowest level since 1994**.

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What's **preventing homeowners from listing** their homes? It's not a one-dimensional issue. Some sales simply aren't counted because they're not occurring in traditional channels (pocket listings and certain distressed sales). We also know mobility needs have decreased which lowers the organic level of demand for home-buying.

More tangible factors include rising prices of new homes coupled and rising rates. That's a combination that prevents some would-be new home buyers from moving up (thus NOT adding to existing home inventory, as seen in the chart above). This week's New Home Sales data doesn't disagree. Sales fell sharply while prices remained pressed up against all-time highs.

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This is part of the **catch-22** of new fiscal policies and a potentially growing economy. If the economy can grow at a faster pace and if fiscal policies are adding to inflation pressure, rates will continue to rise. In turn, higher rates hinder further economic activity--especially in the housing and mortgage markets. Decreased economic activity and inflation pressure would allow rates to fall again, but most experts agree that's a ways off.

Separate economic data this week suggested that near-term concerns about economic growth could remain on hold for a while longer. The first reading on Q4 **GDP** came in at +1.9 percent versus a median forecast of +2.2 percent.

Next week brings several of the **most significant** economic reports, including the all-important jobs report on Friday. In addition, we'll get an updated statement from the Fed on Wednesday. While investors will try to glean clues from any changes in the Fed's verbiage, there's effectively no chance of a rate hike this time around.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Jan 24				
10:00AM	Dec Existing home sales (ml)	5.49	5.52	5.61
10:00AM	Dec Exist. home sales % chg (%)	-2.8	-1.1	0.7

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Wednesday, Jan 25				
7:00AM	w/e Mortgage Market Index	397.4		382.2
7:00AM	w/e MBA Purchase Index	243.2		229.4
7:00AM	w/e Mortgage Refinance Index	1265.6		1263.2
Thursday, Jan 26				
8:30AM	w/e Initial Jobless Claims (k)	259	250	234
8:30AM	w/e Continued jobless claims (ml)	2.1	2.040	2.046
10:00AM	Dec New home sales-units mm (ml)	0.536	0.588	0.592
10:00AM	Dec New home sales chg mm (%)	-10.4	-1.0	5.2
Friday, Jan 27				
8:30AM	Q4 GDP Advance (%)	+1.9	2.2	3.5
8:30AM	Dec Durable goods (%)	-0.4	2.6	-4.5
10:00AM	Jan U Mich Sentiment Final (ip)	98.5	98.1	98.1
Monday, Jan 30				
8:30AM	Dec Consumption, adjusted mm (%)	+0.5	0.5	0.2
8:30AM	Dec Personal income mm (%)	+0.3	0.4	0.0
8:30AM	Dec Core PCE price index yy (%)	+1.7		1.6
Tuesday, Jan 31				
8:30AM	Q4 Employment costs (%)	+0.5	0.6	0.6
9:00AM	Nov CaseShiller 20 mm SA (%)	+0.9	0.7	0.6
9:45AM	Jan Chicago PMI	50.3	55.0	54.6
10:00AM	Jan Consumer confidence	111.8	113.0	113.7
Wednesday, Feb 01				
7:00AM	w/e Mortgage Market Index	384.7		397.4
8:15AM	Jan ADP National Employment (k)	246.0	165	153
10:00AM	Jan ISM Manufacturing PMI	56.0	55.0	54.5
10:00AM	Dec Construction spending (%)	-0.2	0.2	0.9
2:00PM	N/A FOMC rate decision (%)	0.50-0.75	0.625	0.625
Thursday, Feb 02				
8:30AM	Q4 Labor Costs Preliminary (%)	+1.7	1.9	0.7
8:30AM	Q4 Productivity Preliminary (%)	+1.3	1.0	3.1
Friday, Feb 03				
8:30AM	Jan Non-farm payrolls (k)	+227	175	156
8:30AM	Jan Unemployment rate mm (%)	4.8	4.7	4.7
8:30AM	Jan Average earnings mm (%)	+0.1	0.3	0.4
10:00AM	Jan ISM N-Mfg Bus Act	60.3	61.2	60.9
10:00AM	Jan ISM N-Mfg PMI	56.5	57.0	56.6

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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.

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