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New Home Prices Smash Record: Good or Bad?

As we learned roughly 10 years ago, relentless **home price appreciation** can be "too much of a good thing." While the mortgage meltdown was multifaceted to say the least, the sense of perpetually higher home values **didn't help** slow things down. Fortunately, current underwriting guidelines and compliance considerations simply won't allow for a repeat performance. Prices have been rising for more logical reasons this time around.

Two weeks ago, a Fannie Mae survey showed a **record number** of homeowners thought it was a good time to sell. Last week, the National Association of Realtors warned of a **"housing emergency"** on the horizon if supply/demand imbalances continue. All the while, rents have remained high, rates have remained low, and guidelines have made it somewhat easier for prospective buyers to qualify for a mortgage. Higher home prices are a logical result.

Until this week, the pace of home price appreciation was easily characterized as "stronger than expected." Unlike the 15-17% year-over-year gains seen in 2004-2006, the past 3 years have seen a **stable** range of 5-7%. Economists figured that range would be moving down into the 4's in 2017. As such, the most recent CoreLogic tally of 6.9% certainly classifies as "stronger than expected" without coming close to the exuberance of the pre-meltdown era.

Then a report like this week's New Home Sales comes along. It shows a **16.8% year-over-year advance in home prices**, not to mention a record high level of $345,800. Is it time to freak out about too much of a good thing?

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

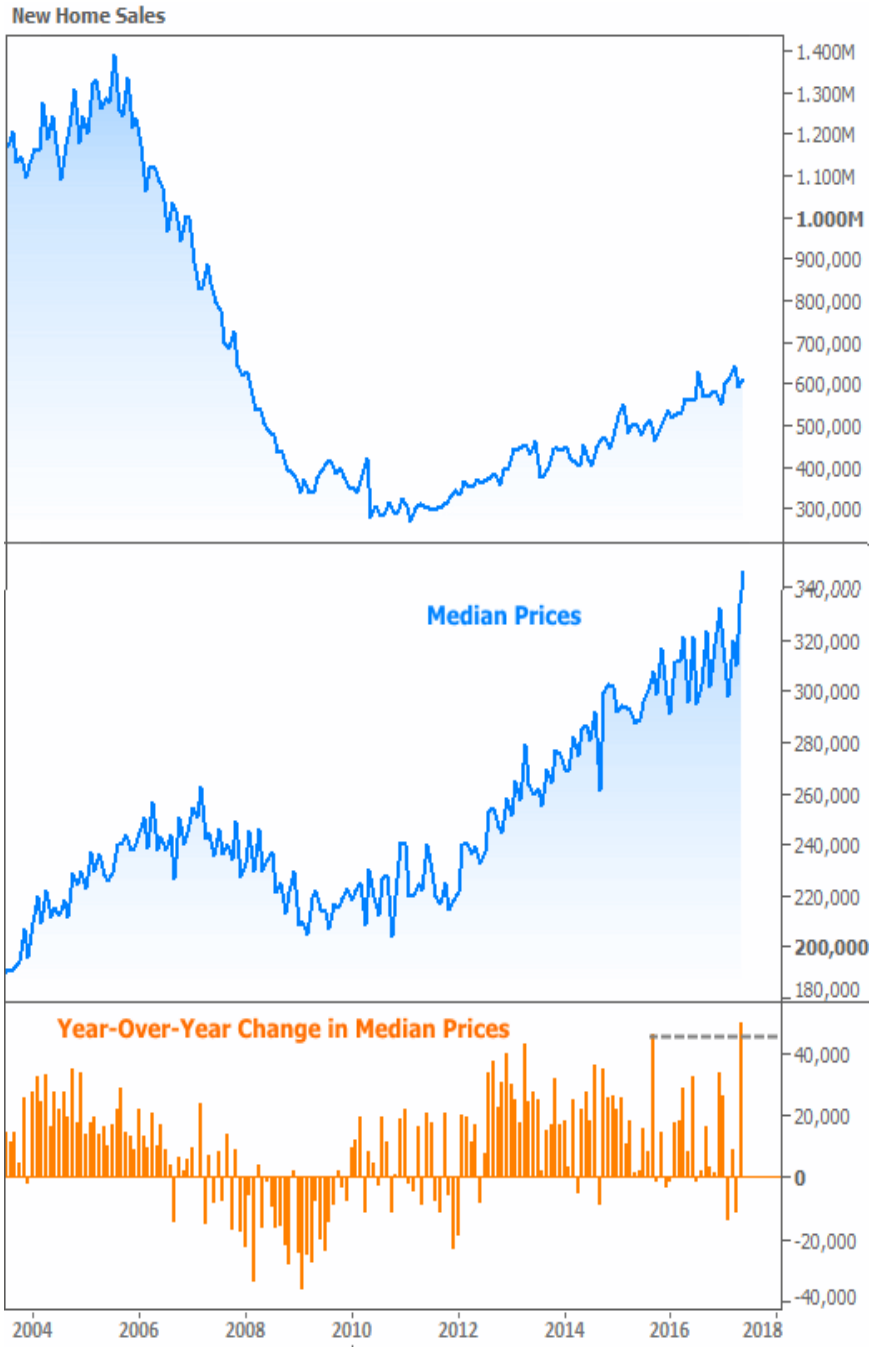
Recent Housing Data

		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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As the chart suggests, these sorts of spikes happen from time to time. Big, isolated spikes have also been more frequent in recent years compared to 2004-2006 or 2013-2014. This is largely due to **geographical** patterns.

Specifically, prices in the Southern region have been growing faster than the Midwestern region. A 24% year-over-year **decrease** in Midwestern sales versus an **increase** of 15% in the South, goes a long way toward driving the general advance in median prices.

The Western region explains the rest--**especially** the isolated spikes. Sales are up more than 14% year-over-year in the West, and prices have been rising rapidly. The West's median home price ($370,100 in Q1) is also **well above** the national median, and has been over $340k since Q2 2014.

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Given that the Western sales rose **13.3%** month-over-month versus the next closest region (South) at 6.2%, and that the Midwest **fell by 25.7%** month-over-month, it's no surprise to see the national median dragged quickly higher in the current Census Bureau data.

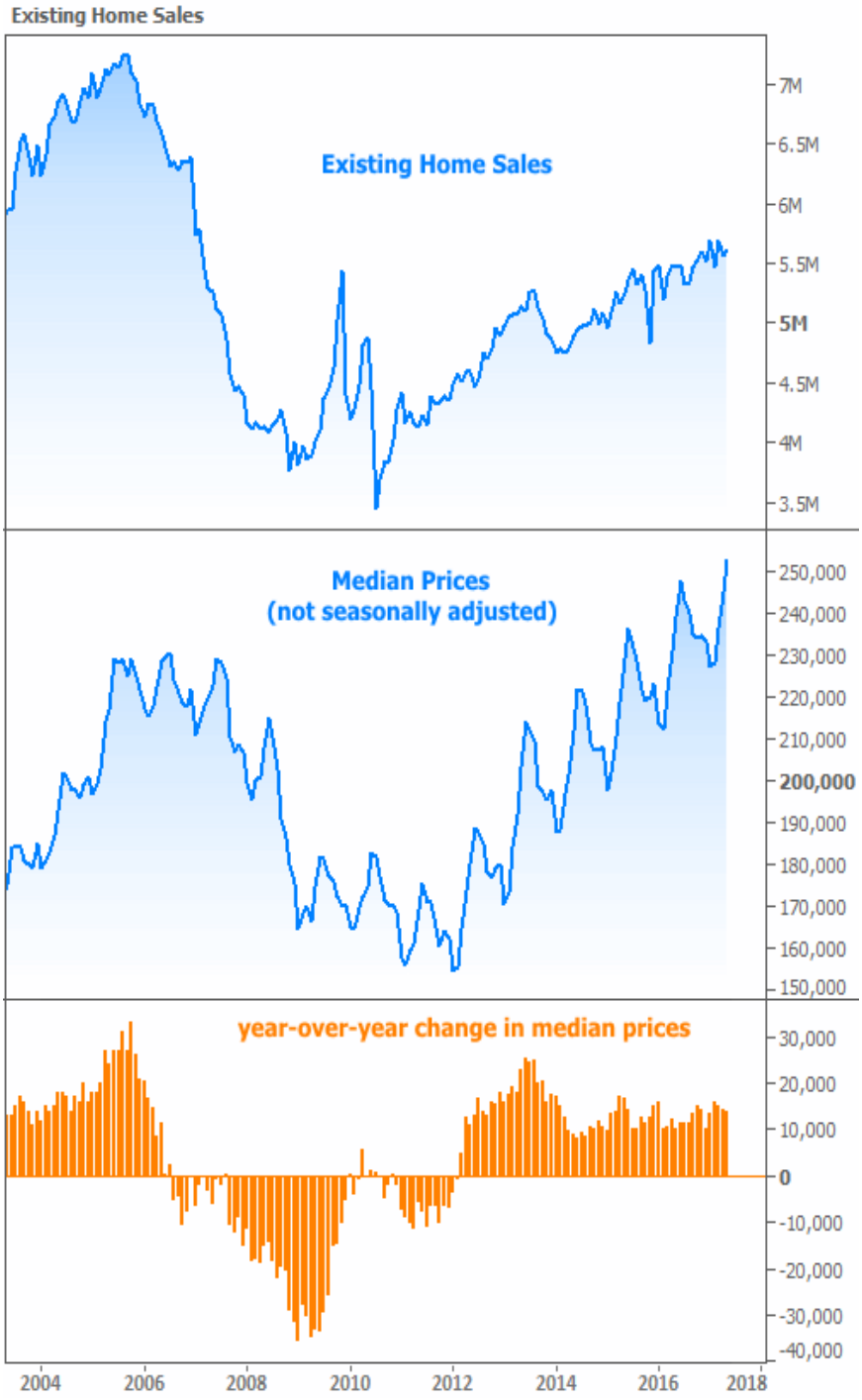
Does this really mean that home prices are up 16.8% year-over-year? The Census Bureau will be the first to tell you about the **margin of error** in this data (±21.9 percent year-over-year). Revisions notwithstanding, there's also a good chance this month's numbers will simply be an outlier.

On a final note, it's always good to remember just how small a proportion of home sales are accounted for by new construction. May's tally of 610k (annual pace) pales in comparison to the Existing Home Sales numbers of 5.62 million reported this week. Additionally, NAR's non-seasonally-adjusted prices paint a **much more linear** picture, as seen in the following chart.

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Bottom line: prices are certainly rising, but take the Census Bureau headlines with a grain of salt.

Rates and Markets

While there's typically a fair amount to discuss each week regarding interest rate movement, the current week was **exceptionally quiet**. There weren't many market movers on tap in the first place. Beyond that, we're entering a traditionally quieter time of year for financial markets where rates are less inclined to move unless given a good reason (like the taper tantrum in 2013 or Brexit in 2016).

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Following last week's volatility (due to economic data and the Fed on Wednesday), every subsequent trading day has seen rates hold inside a much narrower range. While it's not great for excitement, it's a **great time to be flat** considering rates are near their best levels in more than 8 months.

The bigger picture is starting to look more and more **promising** as well. Whereas the consensus among economists was for sea change in rates following the US presidential election, we've instead seen a spike that looks more similar to the 2013 taper tantrum than the **truly threatening** trend seen from 2003-2008.



Next week should see some volatility **return** to rates markets thanks to several higher tier economic reports as well as the month/quarter-end trading environment (which creates a significant amount of compulsory trading needs for money managers).

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Jun 21				
10:00AM	May Exist. home sales % chg (%)	+1.1	-0.5	-2.3
10:00AM	May Existing home sales (ml)	5.62	5.55	5.57
Thursday, Jun 22				
8:30AM	w/e Initial Jobless Claims (k)	241	240	237
8:30AM	w/e Continued jobless claims (ml)	1.944	1.940	1.935
9:00AM	Apr Monthly Home Price yy (%)	6.8		6.2
9:00AM	Apr Monthly Home Price mm (%)	0.7		0.6
Friday, Jun 23				

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
10:00AM	May New home sales-units mm (ml)	0.610	0.597	0.569
10:00AM	May New home sales chg mm (%)	+2.9	5.4	-11.4
Monday, Jun 26				
8:30AM	May Durable goods (%)	-1.1	-0.6	-0.8
1:00PM	2-Yr Note Auction (bl)	26		
Tuesday, Jun 27				
9:00AM	Apr CaseShiller 20 yy (%)	+5.7	5.9	5.9
10:00AM	Jun Consumer confidence	118.9	116.0	117.9
1:00PM	5-Yr Note Auction (bl)	34		
Wednesday, Jun 28				
7:00AM	w/e Mortgage Market Index	417.4		445.2
10:00AM	May Pending sales change mm (%)	-0.8	0.8	-1.3
10:00AM	May Pending homes index	108.5		109.8
10:30AM	w/e Crude Oil Inventory (ml)	0.118	-2.585	-2.451
1:00PM	7-Yr Note Auction (bl)	28		
Thursday, Jun 29				
8:30AM	Q1 GDP Final (%)	+1.4	1.2	1.2
Friday, Jun 30				
8:30AM	May Consumption, adjusted mm (%)	+0.1	0.1	0.4
8:30AM	May Personal income mm (%)	+0.4	0.3	0.4
8:30AM	May PCE price index mm (%)	-0.1		0.2
8:30AM	May Core PCE price index yy (%)	+1.4		1.5
9:45AM	Jun Chicago PMI	65.7	58.0	59.4
10:00AM	Jun U Mich Sentiment Final (ip)	95.1	94.5	94.5

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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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