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What New Loan Limits Mean; Should We Worry About "Worst Ever" Pending Home Sales?

It's been a good week for extremes in the housing market with rates at 3 month lows, pending home sales at "record" lows, and conforming loan limits up to record highs. Here's why at least two of those three things aren't very interesting.

Let's start with what was probably the week's most dramatic housing market headline: record low pending home sales. Sounds scary, no?

By no means should we think that the housing market doesn't have a care in the world. To be sure, existing homes (and by extension, Pending Home Sales) have suffered on a combination of higher rates and lower inventory, but there are several counterpoints to historically low sales numbers.

The "record" low reported by the National Association of Realtors this week is actually slightly higher than the number initially reported (and subsequently revised) in May 2020. More importantly, it just wasn't very far from last month's reading, nor was it a departure from the prevailing trend.

Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.08	-0.20
MBS GNMA 6.0	101.02	-0.13
10 YR Treasury	4.4978	+0.0417
30 YR Treasury	4.6405	+0.0320

Pricing as of: 5/10 5:04PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
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%

Simply put, pending sales had been in a high, stable trend before covid. Demand surged early in the pandemic when rates and prices were lower. Sales dried up quickly as prices and rates soared, AND as fewer sellers were willing to list their homes for sale.

This is in stark contrast from the low sales counts surrounding the Great Financial Crisis which saw abundant inventory, lower prices, and lower rates. In other words, it makes sense for home sales to be in the toilet, and it will make sense to see them climb out once rates improve more meaningfully.

Conforming Loan Limits

This week also brought the release of home price data from the US government. When Q3 data comes out in late November, it results in an update to the conforming loan limit (CLL), which will always be higher as long as home prices are higher than they were a year ago.

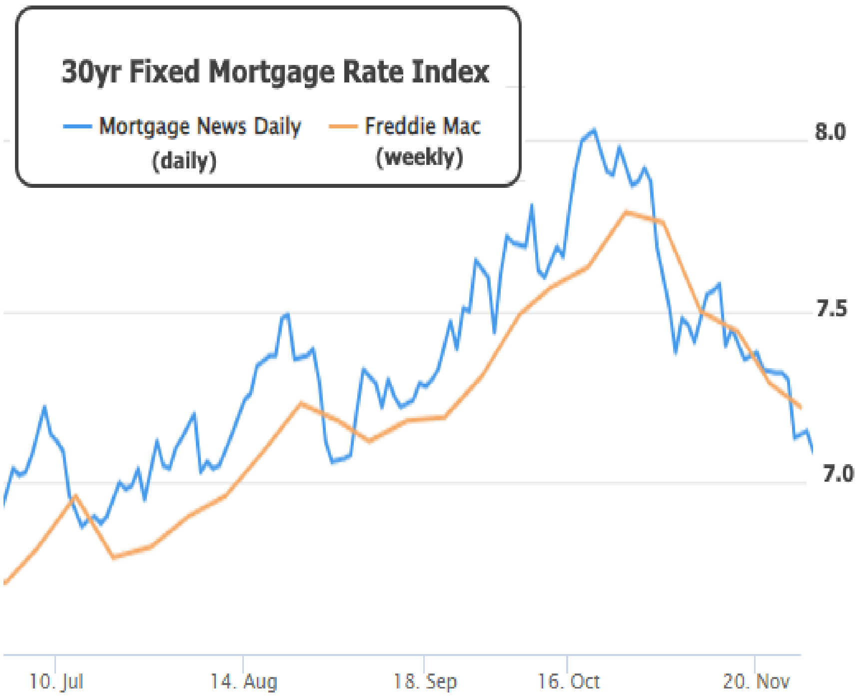
But what does the CLL even mean? It's not a big dramatic thing and it is only really newsworthy for buyers who needed a loan that was just a bit larger than the previous loan limit.

The CLL is the maximum amount that Fannie Mae and Freddie Mac will guarantee as a conforming loan. Conforming loans have a uniform set of underwriting guidelines and pricing adjustments that tends to result in a streamlined approval process and lower rates compared to other mortgage options.

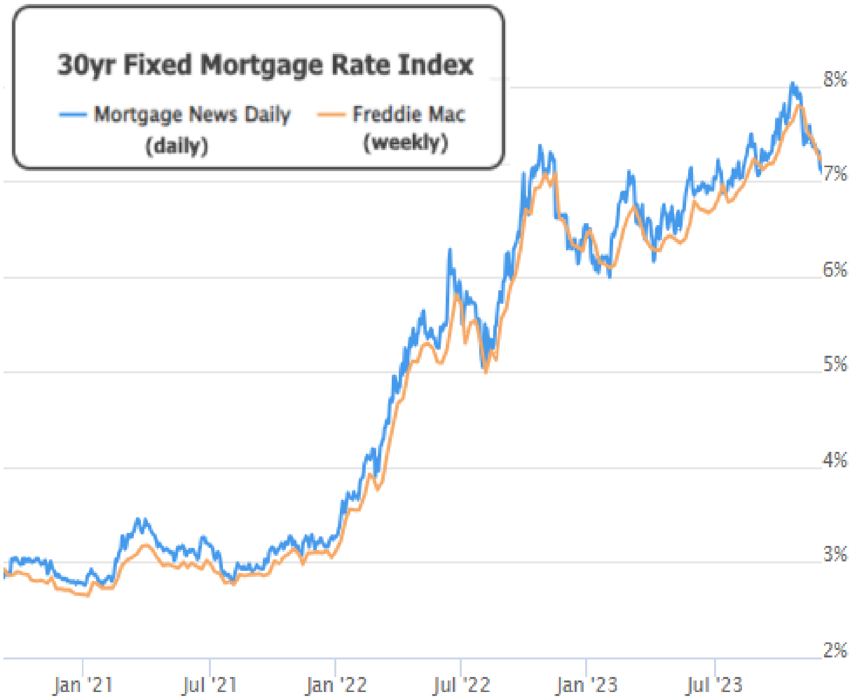
This year, the CLL increased from $726,200 to $766,550, a reflection of the 5.5% year-over-year increase in home prices measured by the Federal Housing Finance Agency (FHFA). There are higher loan limits for certain counties and property types. More info is available here.

Rates at 3 Month Lows

Now we're getting into things that are more interesting, at least if we're looking at rates in a more recent context.



If we zoom out to a longer-term context, this is only the beginning of what some analysts think will be the last big reversal that we'll see for a while in the rising rate trend of the past few years.



We're careful to qualify the rate reversal as a thing that "some analysts" expect as opposed to a sure thing. Sure things are incredibly rare when it comes to the future movement in interest rates and even then, they tend to only exist as conditional generalities.

Whether or not the current potential bounce proves to be THE bounce we're looking for is HIGHLY conditionally dependent on upcoming economic data. In not so many words, the economy has reached a point where it's starting to show signs that the Fed's rate hikes have cooled inflation and growth off enough that the Fed could soon have the opportunity to consider cutting rates.

"Soon" in this context is measured not in days or weeks, but months--2 or 3 of them at least. It would also not happen all at once, but instead be a gradual process informed by key economic reports along the way.

With that in mind, the upcoming week brings several key economic reports with Friday's Jobs Report being the most important. If the data is weaker than economists' forecasts, rates would likely move lower. If the data is stronger--especially if it's much stronger--the market's dialogue will quickly shift from the potential for early 2024 Fed rate cuts to the possibility of additional rate HIKES.

To reiterate, big increases or decreases in rates are highly conditionally dependent on economic data. The more cohesive the message in the data and the stronger the message (i.e. every single report next week coming in much better or much worse than forecast) the bigger the potential reaction in rates.

Even then, with an important Fed announcement coming up the following week, some of the potential reaction to next week's data will be on hold until traders see what the Fed has to say.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Nov 27				

Event Importance:

No Stars = Insignificant

☆ Low

Date	Event	Actual	Forecast	Prior
10:00AM	Oct New Home Sales (ml)	0.679M	0.723M	0.759M
Tuesday, Nov 28				
9:00AM	Sep FHFA Home Price Index m/m (%)	0.6%	0.4%	0.6%
9:00AM	Sep FHFA Home Prices y/y (%)	6.1%		5.6%
9:00AM	Sep Case Shiller Home Prices-20 y/y (%)	3.9%	4%	2.2%
10:00AM	Nov CB Consumer Confidence (%)	102	101	102.6
Wednesday, Nov 29				
7:00AM	Nov/24 MBA Purchase Index	144.9		138.4
7:00AM	Nov/24 MBA Refi Index	327.8		359.9
8:30AM	Q3 GDP (%)	5.2%	5%	2.1%
Thursday, Nov 30				
8:30AM	Nov/25 Jobless Claims (k)	218K	220K	209K
8:30AM	Oct Core PCE Inflation (y/y) (%)	3.5%	3.5%	3.7%
8:30AM	Oct Core PCE (m/m) (%)	0.2%	0.2%	0.3%
9:45AM	Nov Chicago PMI	55.8	45.4	44
10:00AM	Oct Pending Home Sales (%)	-1.5%	-2%	1.1%
Friday, Dec 01				
10:00AM	Nov ISM Manufacturing PMI	46.7	47.6	46.7
10:00AM	Oct Construction spending (%)	0.6%	0.4%	0.4%
Tuesday, Dec 05				
9:45AM	Nov S&P Global Services PMI	50.8	50.8	50.6
10:00AM	Nov ISM N-Mfg PMI	52.7	52	51.8
10:00AM	Oct USA JOLTS Job Openings	8.733M	9.3M	9.553M
Wednesday, Dec 06				
7:00AM	Dec/01 MBA Refi Index	373.3		327.8
7:00AM	Dec/01 MBA Purchase Index	144.5		144.9
8:15AM	Nov ADP jobs (k)	103K	130K	113K
Thursday, Dec 07				
8:30AM	Dec/02 Jobless Claims (k)	220K	222K	218K
Friday, Dec 08				
8:30AM	Nov Average earnings mm (%)	0.4%	0.3%	0.2%
8:30AM	Nov Non Farm Payrolls	199K	180K	150K
8:30AM	Nov Unemployment rate mm (%)	3.7%	3.9%	3.9%
10:00AM	Dec Consumer Sentiment (ip)	69.4	62	61.3

Moderate
Important
Very Important

Let me put my 38 + years of mortgage financing experience to work for you.

I have been fortunate to be originating mortgages since 1986 and built a team of experienced mortgage professionals that is second to none in the mortgage industry. The Murray mortgage team has help to keep me in the Top 1% of all mortgage originators in America for the last twenty five years. Please feel free to contact us with any questions about purchasing a home. We would welcome the chance to put our decades of mortgage experience to work for you. My team's top priority is to provide you with as stress free home purchase or refinance experience as possible

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