**Eric Aasness**
Branch Sales Manager, Homebridge Financial
NMLS #506980
16040 Christensen Road, Suite 315 Tukwila, WA 98188

Mobile: 206-915-3742
eric@ericismybanker.com
View My Website

# Are Home Sales Lying? And Why Are Rates Flying?

There was a **striking disparity** in two separate reports on home sales this week. According to one, things are great and look to be firing on all cylinders. According to the other, things are "less upbeat" to put it mildly. Which one is telling the truth?

First the **good news:** New Home Sales surged well into their best levels since before the Financial Crisis. Not only that, but the trend has been linear and positive without fail since 2010.

Unlike New Home Sales, the NAR's Pending Sales Index tracks home purchase **contract** activity. This means it tends to run a month **ahead** of actual sales reports, but more importantly (for the sake of this comparison), that it includes EXISTING homes (resales). Here we see some signs for concern, with the index matching its weakest reading in more than 2 years.

The disparity between the two reports can be reconciled in a few ways. Most obviously, we're simply dealing with two **different paces** of recovery relative to 2005's peak. New Home Sales were much slower to rebound, and now have more room to run. In terms of the weakness seen in Pending Home Sales, the NAR cites inventory as the biggest ongoing issue, but also notes hurricane-related distortions are still playing out.

## 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 | 99.81 | -0.02 |
| 10 YR Treasury | 4.9299 | +0.0084 |
| 30 YR Treasury | 5.3082 | +0.0081 |

Pricing as of: 10/30 5:59PM 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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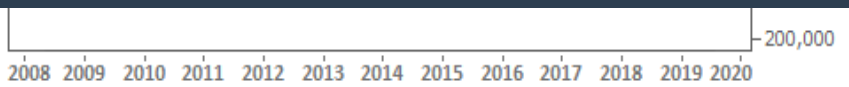
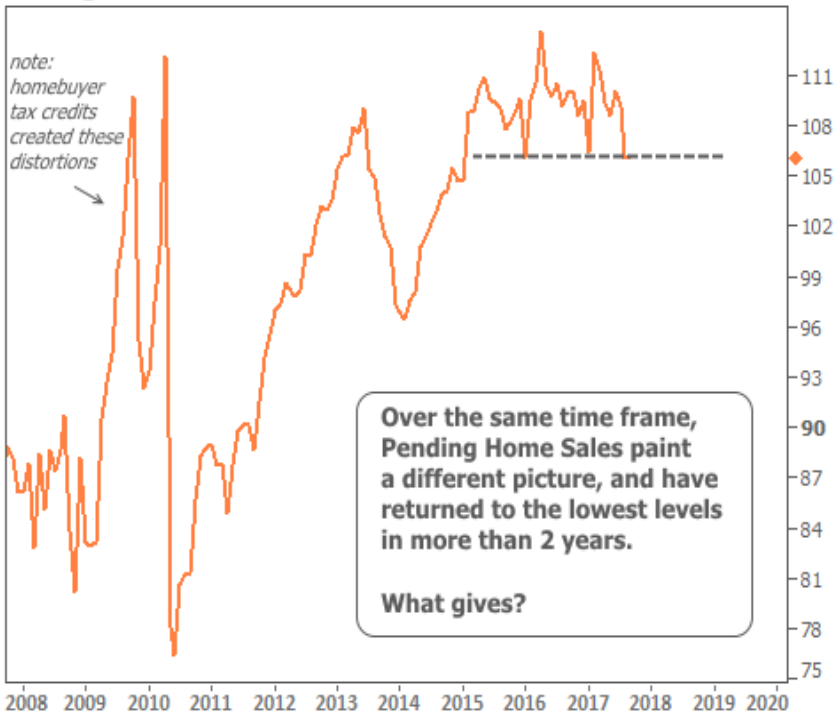



**Pending Home Sales**




**New and Pending Home Sales**

Whether or not the plateau in Pending Home Sales is a harbinger of a housing market slowdown remains to be seen. The NAR is clear in pointing out **high levels of demand** among buyers. It's just that many of those buyers aren't able to find or to secure a contract on the homes they want given the stiff competition and affordability constraints.

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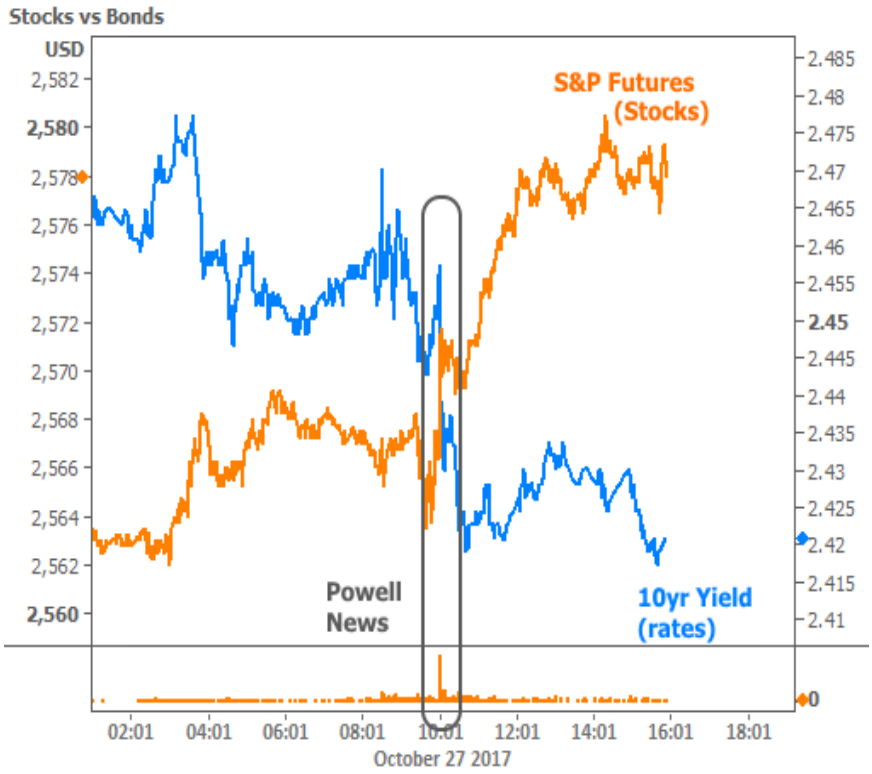
For the most part, mortgage rates are doing their part to help the affordability equation. Rates remain historically low, but they've been **under pressure** in recent weeks. Key considerations have been the possibility of tax reform (which rates don't seem to like), and the uncertainty surrounding the nomination of a new Chairperson for the Fed (which rates may like or dislike, depending on the final choice).

The Fed Chair (a role currently filled by Janet Yellen) is perhaps the **most important person in the world** when it comes to interest rate movement. While the Fed will ultimately be forced to adapt its rate policy to economic conditions, so many of the ups and downs we experience along the way are driven by the Fed's decisions. The Chair has a disproportionate amount of control over those decisions. In short, don't think of the Fed as a "jury" of equals. The table is anything but round, and "The Chair" clearly sits at the head.

Trump has indicated he will announce his Fed Chair nomination by the end of next week. But **rumors** are already flying fairly regularly. The latest arrived on Friday morning, suggesting Trump favored Jerome Powell (an existing Fed member who is seen as being more like Yellen) over the other frontrunner, economist John Taylor.

It's easy to see just how much markets care about the decision based on their reaction. Both stocks and bonds prefer Powell in a major way.




Despite Friday's bond market improvements, rates remain elevated compared to the past few weeks. In terms of 10yr yields, the risk is that we've broken above a key ceiling at 2.42%, and might have a hard time making a convincing move back below.

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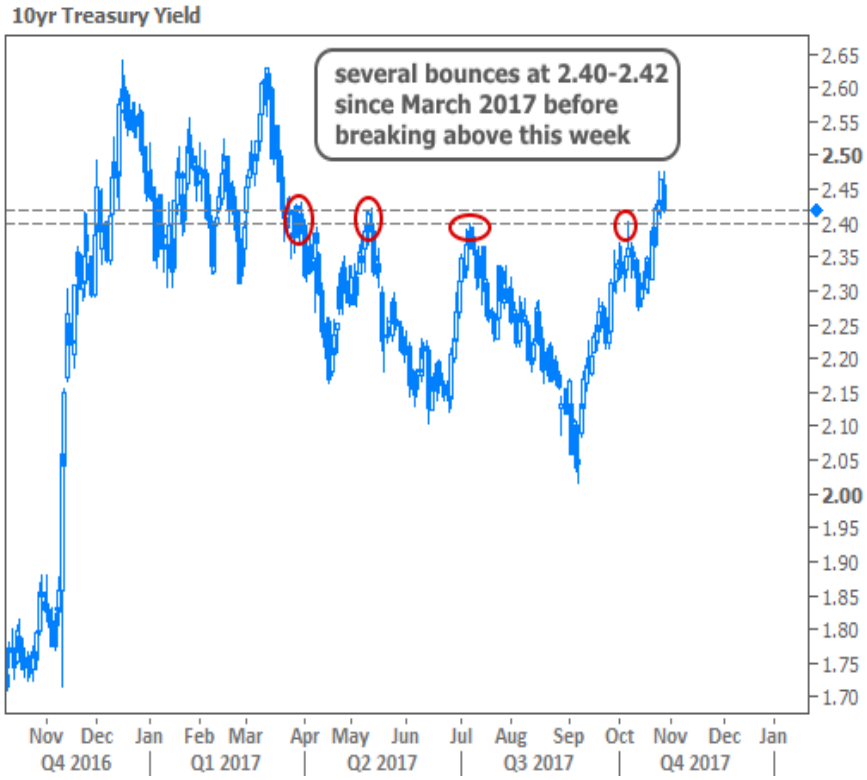
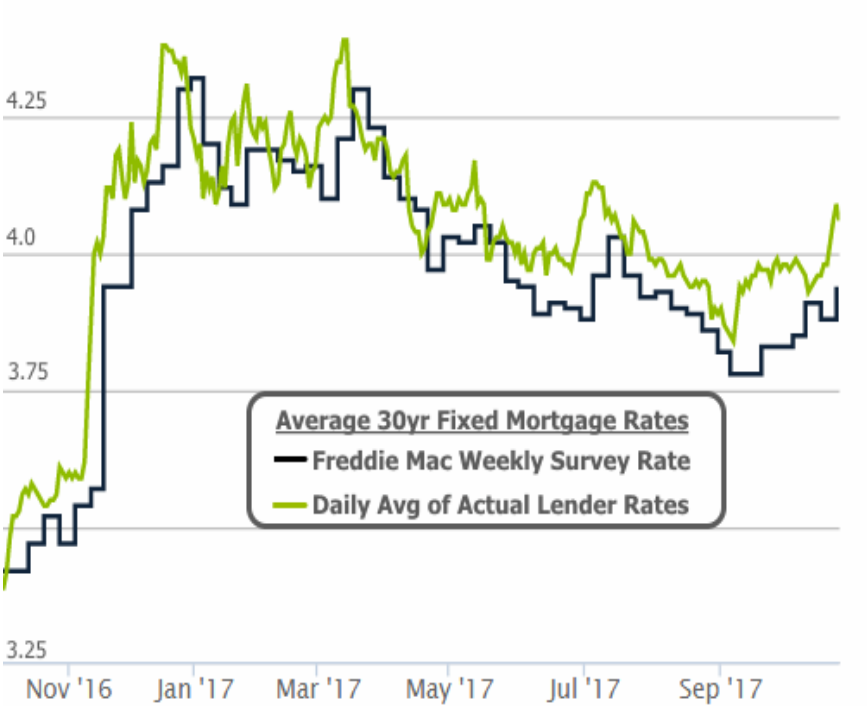



Mortgage rates are faring slightly better and have yet to rise above summertime highs. That said, this week was worse than most major media outlets are reporting due to overreliance on Freddie Mac's weekly survey-based rate data (which can lag actual lenders' rate sheets when markets are volatile).




Expect **infinitely more clarity** on the rate situation next week when we get the final word (hopefully) from Trump himself.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Wednesday, Oct 25** | | | | |
| 7:00AM | w/e Mortgage Market Index | | | 405.2 |
| 7:00AM | w/e Mortgage Refinance Index | | | 1359.2 |
| 7:00AM | w/e MBA Purchase Index | 228.0 | | 242.9 |
| 8:30AM | Sep Durable goods (%) | 2.2 | 1.0 | 2.0 |
| 8:30AM | Sep Nondefense ex-air (%) | 1.3 | 0.5 | 1.1 |
| 9:00AM | Aug Monthly Home Price yy (%) | 6.6 | | 6.3 |
| 9:00AM | Aug Monthly Home Price mm (%) | 0.7 | | 0.2 |
| 10:00AM | Sep New home sales-units mm (ml) | 0.667 | 0.555 | 0.560 |
| 10:00AM | Sep New home sales chg mm (%) | 18.9 | -0.9 | -3.4 |
| 1:00PM | 5-Yr Note Auction (bl) | 34 | | |
| **Thursday, Oct 26** | | | | |
| 8:30AM | w/e Jobless Claims (k) | 233 | 235 | 222 |
| 10:00AM | Sep Pending Sales Index | 106.0 | | 106.3 |
| 10:00AM | Sep Pending Home Sales (%) | 0.0 | 0.2 | -2.6 |
| 1:00PM | 7-Yr Note Auction (bl) | 28 | | |
| **Friday, Oct 27** | | | | |
| 8:30AM | Q3 GDP Advance (%) | 3.0 | 2.5 | 3.1 |
| 10:00AM | Oct U Mich Sentiment Final (ip) | 100.7 | 100.9 | 101.1 |
| **Monday, Oct 30** | | | | |
| 8:30AM | Sep Consumer Spending (Consumption) (%) | +1.0 | 0.8 | 0.1 |
| 8:30AM | Sep Core PCE (y/y) (%) | +1.3 | | 1.3 |
| 8:30AM | Sep Personal Income (%) | +0.4 | 0.4 | 0.2 |
| **Tuesday, Oct 31** | | | | |
| 9:00AM | Aug CaseShiller 20 yy (%) | +5.9 | 6.0 | 5.8 |
| 9:45AM | Oct Chicago PMI | 66.2 | 61.0 | 65.2 |
| 10:00AM | Oct Consumer confidence | 125.9 | 121.0 | 119.8 |
| **Wednesday, Nov 01** | | | | |
| 7:00AM | w/e Mortgage Market Index | 389.8 | | 400.3 |
| 8:15AM | Oct ADP National Employment (k) | 235 | 200 | 135 |
| 10:00AM | Oct ISM Manufacturing PMI | 58.7 | 59.5 | 60.8 |
| 10:00AM | Sep Construction spending (%) | +0.3 | 0.0 | 0.5 |
| 2:00PM | N/A FOMC rate decision (%) | 1.000 - 1.250 | 1.125 | 1.125 |
| **Thursday, Nov 02** | | | | |
| 8:30AM | Q3 Productivity Preliminary (%) | 3.0 | 2.4 | 1.5 |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| 8:30AM | Q3 Labor Costs Preliminary (%) | 0.5 | 0.5 | 0.2 |
| 8:30AM | w/e Jobless Claims (k) | | 235 | 233 |
| 9:45AM | Oct ISM-New York index | 749.4 | | 748.6 |
| **Friday, Nov 03** | | | | |
| 8:30AM | Oct Non-farm payrolls (k) | 261 | 310 | -33 |
| 8:30AM | Oct Unemployment rate mm (%) | 4.1 | 4.2 | 4.2 |
| 8:30AM | Sep International trade mm $ (bl) | -43.5 | -43.2 | -42.4 |
| 10:00AM | Oct ISM N-Mfg PMI | 60.1 | 58.5 | 59.8 |
| 10:00AM | Sep Factory orders mm (%) | | | 1.2 |

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