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Mortgage Rates Rose Sharply This Week

The average mortgage rate headline among major news networks suggests things improved this week. The average headline is **wrong**.

Don't blame the news organization in question. They're just taking part in the longstanding tradition of covering Freddie Mac's weekly mortgage rate survey. Freddie did indeed report a small drop in rates versus last week, but there are **several caveats**.

Freddie's survey is released on Thursday morning. That might make it seem like timely enough news, even at the end of the week, but the data was **already stale** when it came out.

Freddie accepts survey responses through Wednesday, but receives most of them on **Monday**. To Freddie's credit, if we examine Monday's rates compared to last Monday's, they are lower by almost exactly the amount in the news.

Unfortunately, **things changed** in the 2nd half of the week (the half that wasn't measured by the survey). Rates rose **abruptly** on Wednesday and Friday following surprisingly high inflation readings in The UK and Germany.

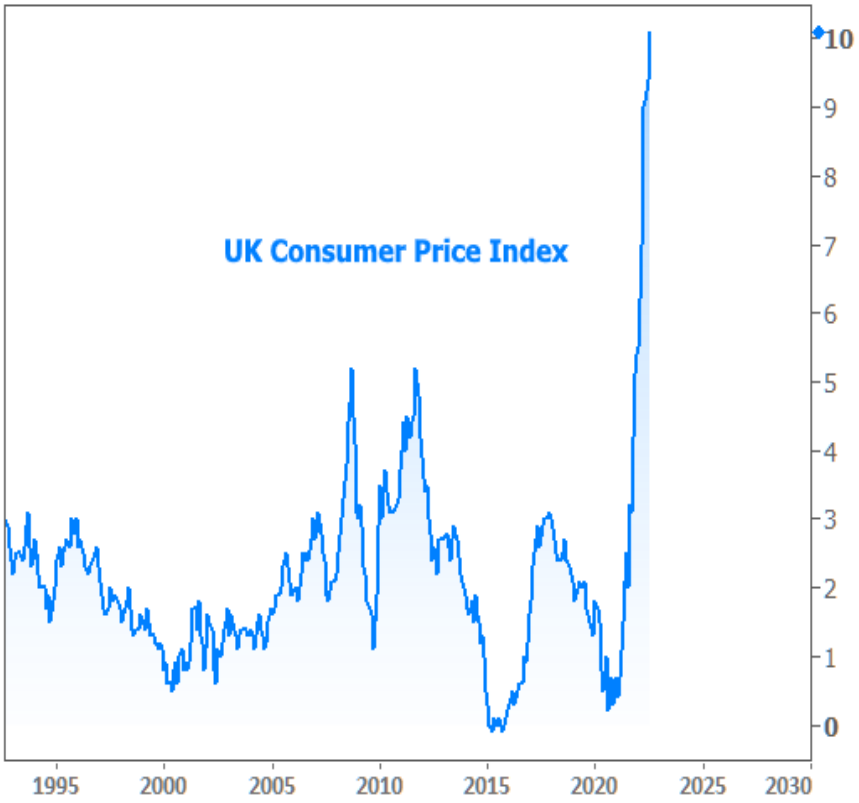
Recent Housing Data

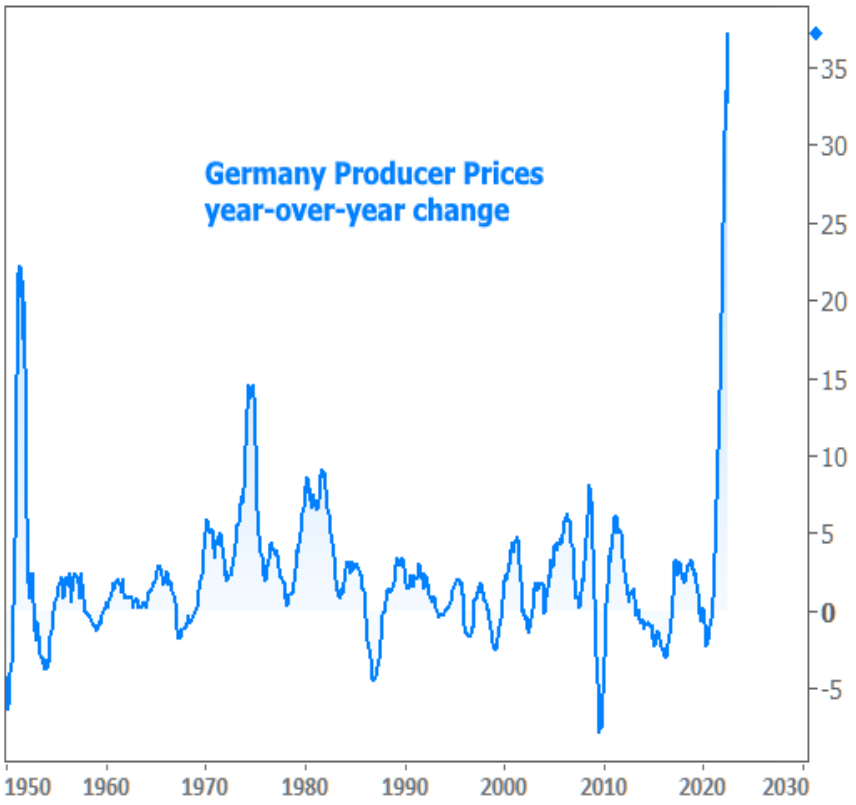
		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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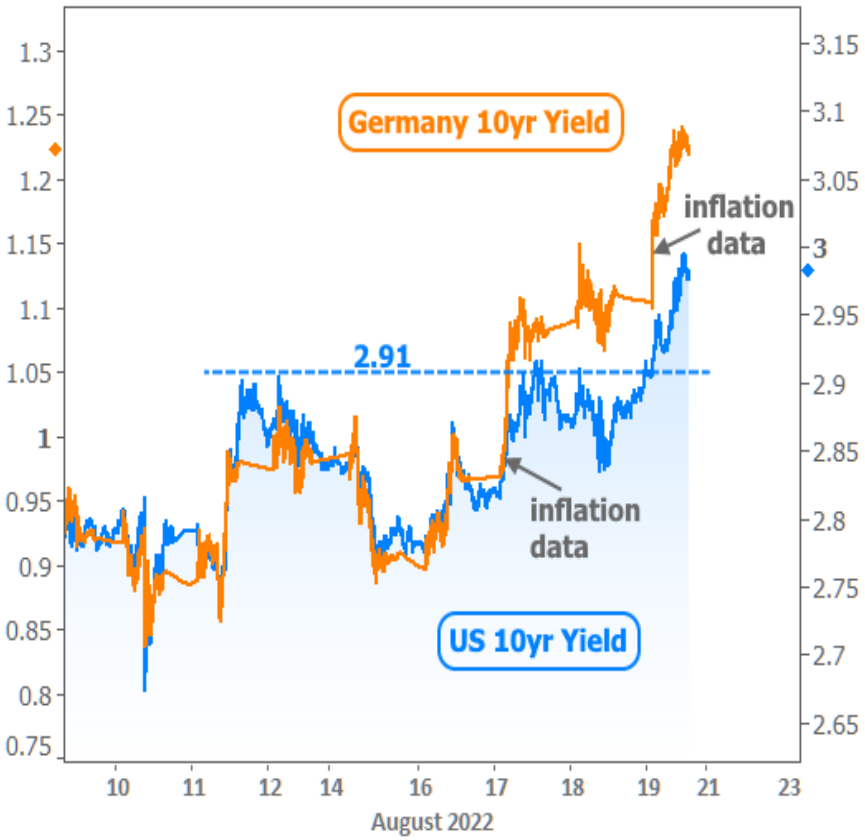


All other things being equal, **higher inflation means higher rates**. And higher rates abroad tend to translate to higher rates at home, albeit to a slightly lesser extent. That's exactly how this week played out.

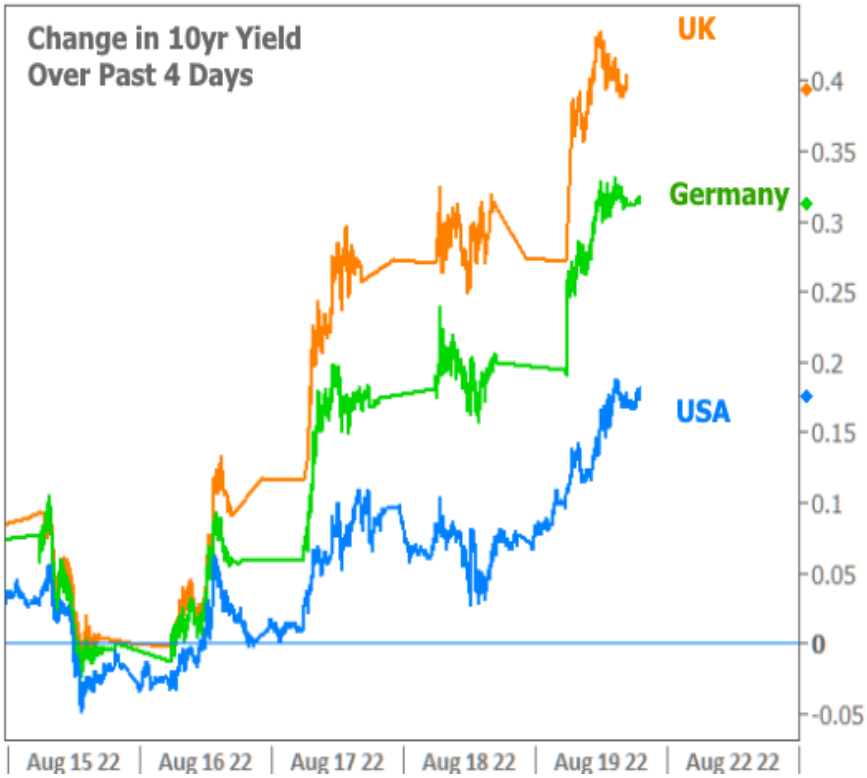
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To get a better sense of how much worse things were for Europe, the following chart shows the absolute change in 10yr bond yields over the past 4 days for the US, UK, and Germany.



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As for why we care about 10yr Treasury yields in the mortgage/housing markets, this is why:

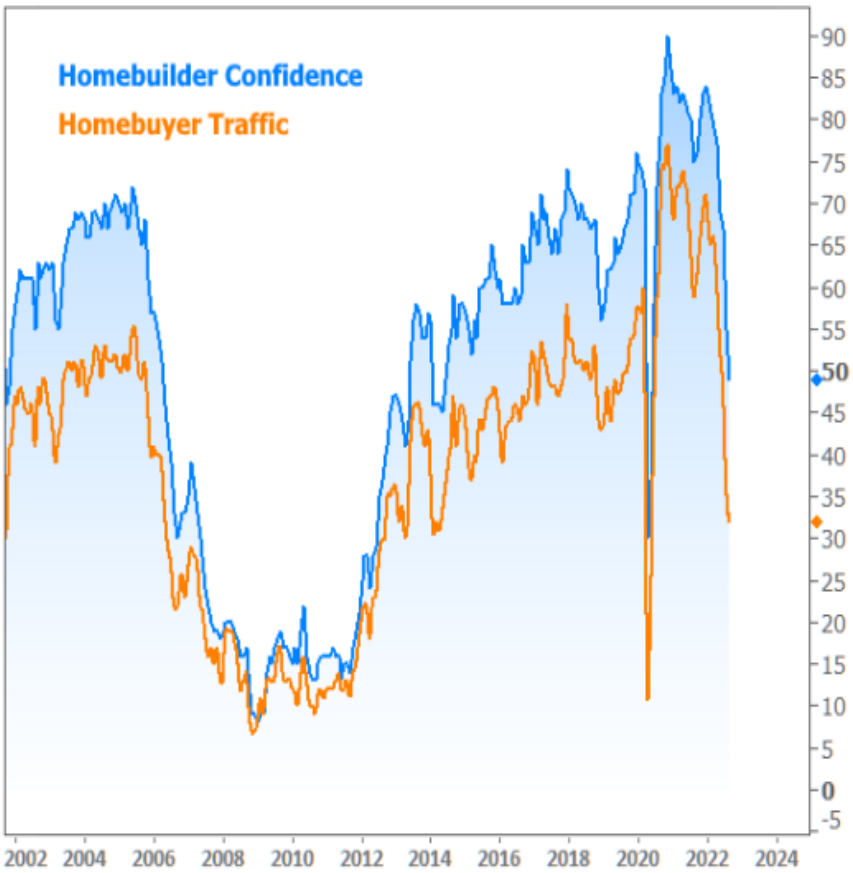


The net effect for US mortgage rates was a move up to the **highest levels in nearly a month**. That's not ideal considering the already obvious impact of higher rates on various housing metrics. All of the following charts are from new reports released this week.

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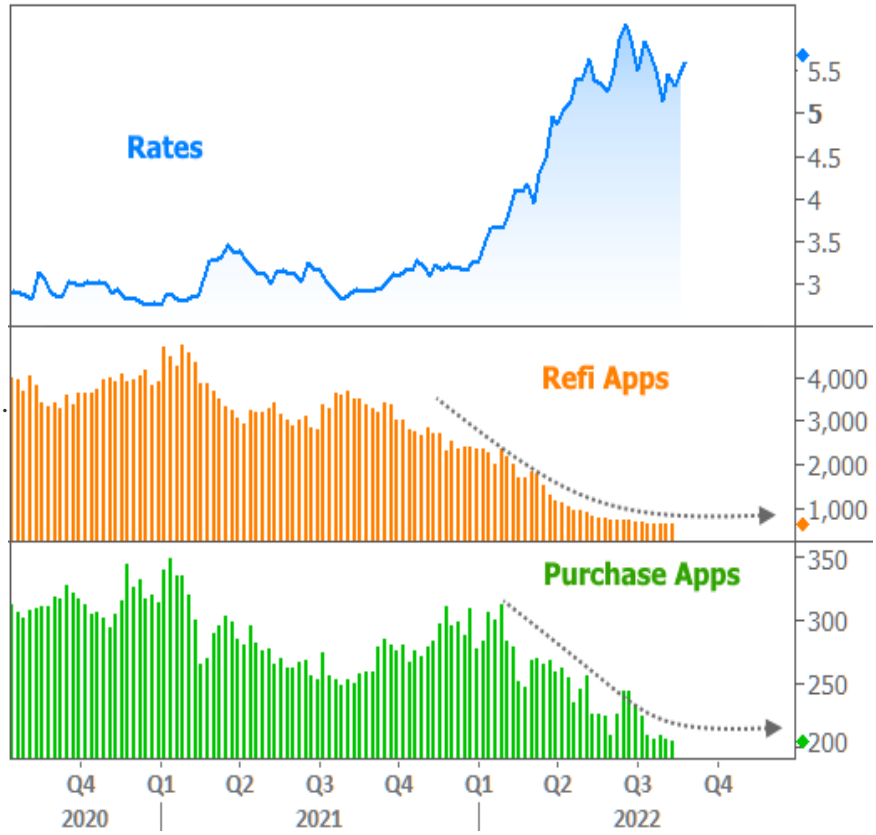


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The chart below (MBA's weekly mortgage application survey) raises a good point about the nature of recently gloomy data. Simply put, the mortgage industry has already undergone a majority of its contraction in response to the rate surge. Past precedent (not pictured in the chart) leaves room for some more deterioration, but the sharpest changes are behind us. For instance, in addition to the already flat refi activity, note the last 5 weeks of purchase applications hovering right around the same level.



While it's not a pleasant experience for those in the industry, the correction in housing was and still is a logical byproduct of the unprecedented boom in prices and sales in 2020 and 2021. Even after coming off the boil, year-over-year price appreciation is **still** in historically high territory. The following charts are from this week's Existing Home Sales report. The first shows the year-over-year change in the median existing home price.

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From the same report, we can also see that the **inventory** of existing homes is still treading water relative to last year's levels.

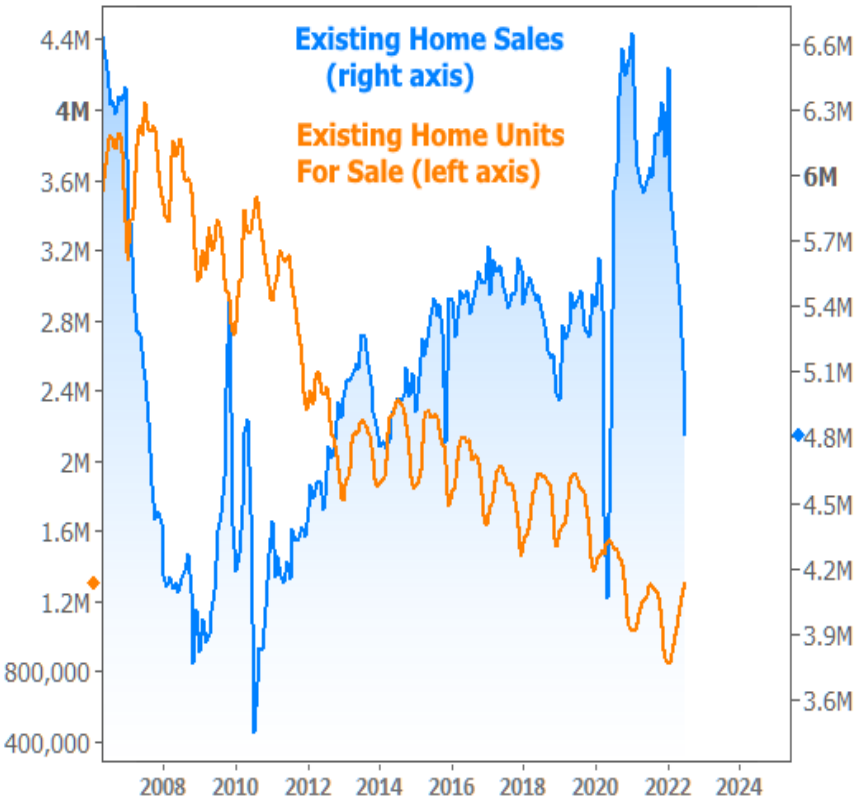


The last Existing Homes chart shows a more linear visualization of inventory (orange line) along with the big shift in sales seen so far in 2022.

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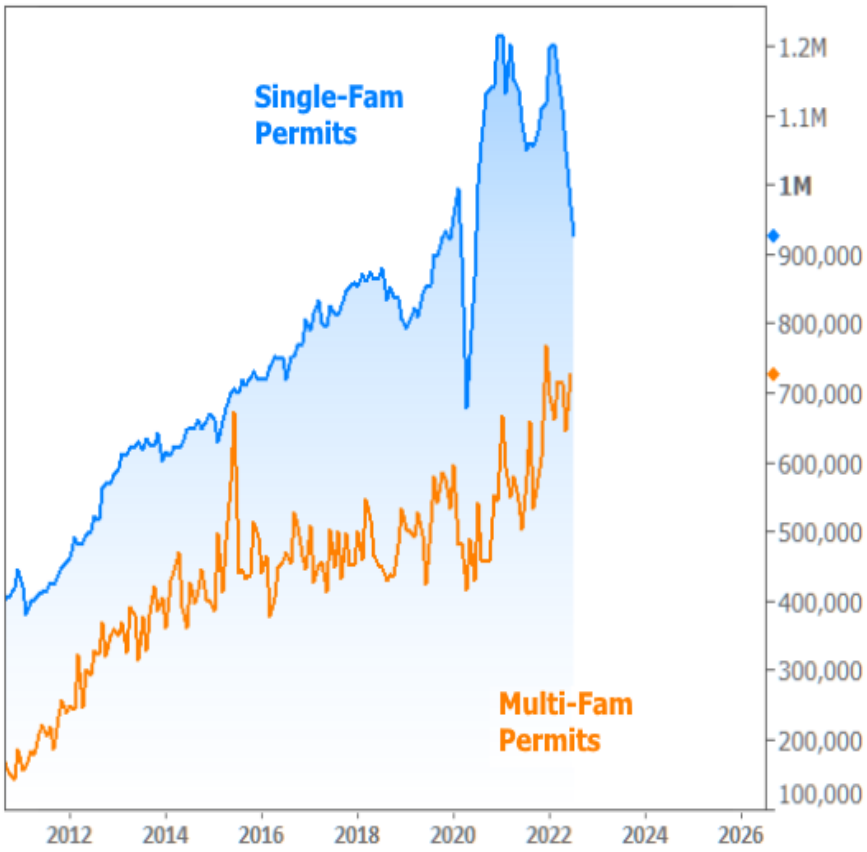


Clearly, inventory could stand to increase some more. Builders are trying to address that need with a noticeable shift toward **multi-family** housing. The following data comes from this week's New Residential Construction report, which breaks provides a count of building permits for single family and multi-family homes. One is still rising while the other has fallen sharply.

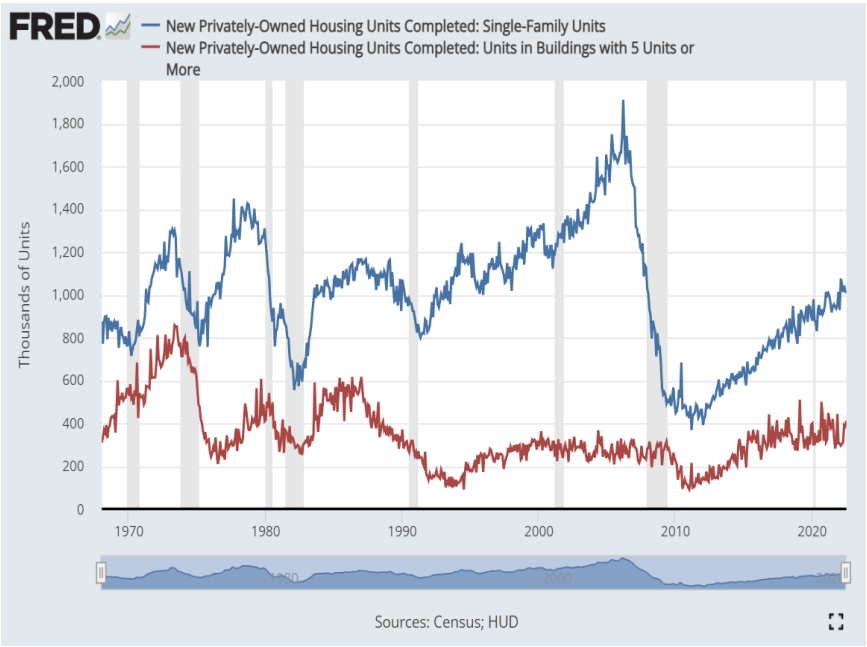
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One reason experts aren't expecting massive relief on the inventory front very soon is that multi-family construction is not being completed at nearly the same pace as single-family. Notice the red line (multi-fam) is generally flat since 2016 whereas the blue line is still trending higher.



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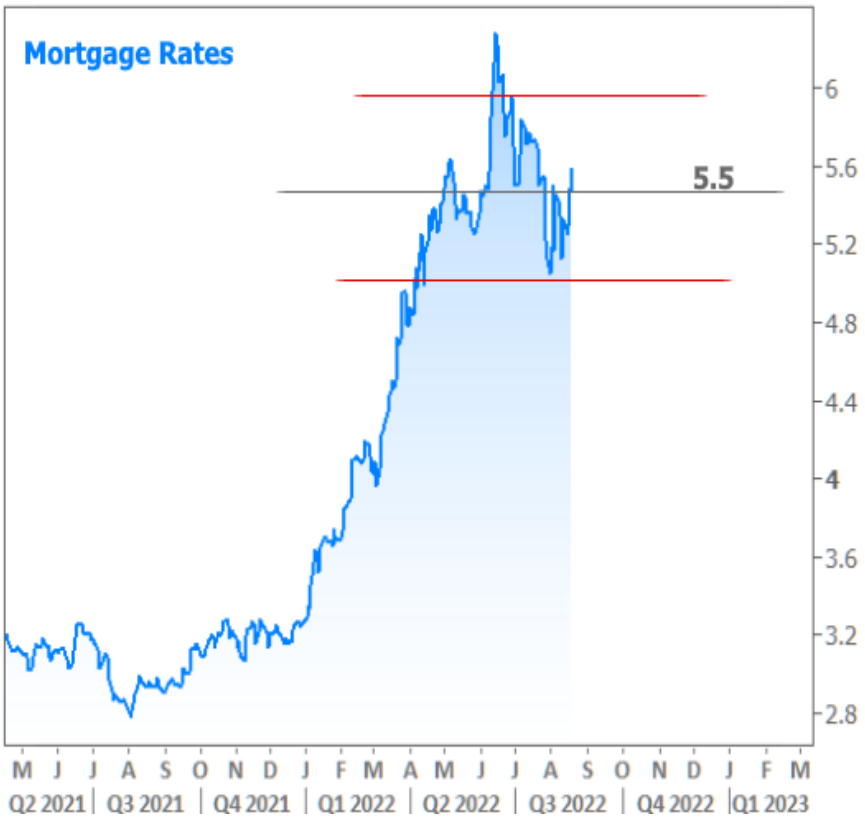
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If there's relief in sight for rates, it will depend on the path of economic data and inflation in the coming weeks. The market and the Fed both seem to be expecting a certain measure of moderation in the inflation data, so calmer inflation won't really help until it has established a track record with several months of substantial declines. At the same time, the market has been surprisingly willing to be spooked by higher inflation data--as was the case this week.

Weaker economic data has helped rates at times in the past 2 months, but weak housing data doesn't really count because weakness is widely expected when rates have risen as much as they have. There have also been just as many surprisingly strong economic reports--several of them noticeably contributing to the rising rate trend seen so far in August.

In the bigger picture, August's rising rate trend is merely restoring rates to the volatile, sideways range that we started talking about in May. Incidentally, rates are now right back around the same levels after spending time exploring more extreme boundaries. Without a major change for better or worse in the economic data, it wouldn't be bad planning to expect rates to continue bouncing around in this range until the data is looking consistently stronger or weaker.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Aug 15				
8:30AM	Aug NY Fed Manufacturing	-31.3	5.00	11.10
10:00AM	Aug NAHB housing market indx	49	55	55
Tuesday, Aug 16				
8:30AM	Jul House starts mm: change (%)	-9.6		-2.0
8:30AM	Jul Housing starts number mm (ml)	1.446	1.537	1.559

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:30AM	Jul Building permits: number (ml)	1.674	1.650	1.696
8:30AM	Jul Build permits: change mm (%)	-1.3		0.1
9:15AM	Jul Industrial Production (%)	0.6	0.3	-0.2
Wednesday, Aug 17				
7:00AM	w/e MBA Purchase Index	203.8		205.4
7:00AM	w/e MBA Refi Index	627.1		662.9
8:30AM	Jul Retail Sales (%)	0.0	0.1	1.0
10:00AM	Jun Business Inventories (%)	1.4	1.4	1.4
10:30AM	w/e Crude Oil Inventory (ml)	-7.056	-0.275	5.458
1:00PM	20yr Bond Auction			
2:00PM	FOMC Minutes			
Thursday, Aug 18				
8:30AM	Aug Philly Fed Business Index	6.2	-5.0	-12.3
8:30AM	w/e Jobless Claims (k)	250	265	262
10:00AM	Jul Existing home sales (ml)	4.81	4.89	5.12
10:00AM	Jul Exist. home sales % chg (%)	-5.9		-5.4
10:00AM	Jul Leading index chg mm (%)	-0.4	-0.5	-0.8
Tuesday, Aug 23				
9:45AM	Aug Markit Composite PMI	45.0		47.7
10:00AM	Jul New Home Sales (ml)	0.511	0.575	0.590
10:00AM	Jul New Home Sales (%) (%)	-12.6		-8.1
1:00PM	2-Yr Note Auction (bl)	44		
Wednesday, Aug 24				
7:00AM	w/e MBA Purchase Index	202.8		203.8
7:00AM	w/e MBA Refi Index	609.8		627.1
8:30AM	Jul Durable goods (%)	0.0	0.6	2.0
10:00AM	Jul Pending Sales Index	89.8		91.0
10:00AM	Jul Pending Home Sales (%)	-1.0	-4.0	-8.6
1:00PM	5-Yr Note Auction (bl)	45		
Thursday, Aug 25				
8:30AM	Q2 GDP Prelim (%)	-0.6	-0.8	-0.9
8:30AM	w/e Jobless Claims (k)	243	253	250
1:00PM	7-Yr Note Auction (bl)	37		
Friday, Aug 26				
8:30AM	Jul Core PCE Inflation (y/y) (%)	4.6	4.7	4.8
10:00AM	Aug Consumer Sentiment (ip)	58.2	55.2	55.1

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Small But Mighty Locally Owned Mortgage Brokerage in Lahaina Maui Since 2003

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