



Guy McAtee

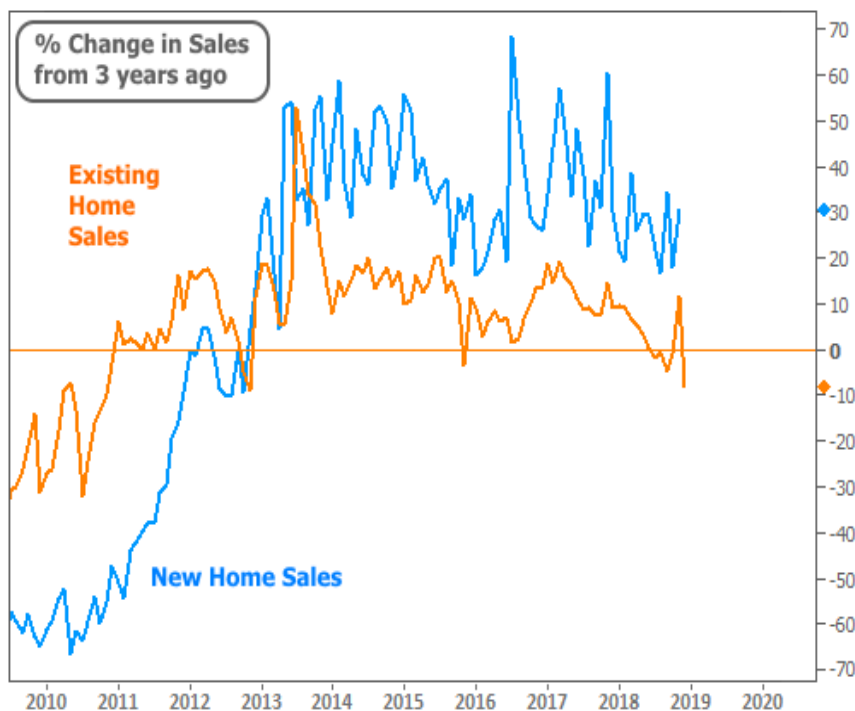
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Why 2019 Could Actually be Great For Housing and Mortgage Markets

By some measures, housing and mortgage markets took a turn for the worse in 2018. Some of the weakness can be thought of in a positive light (i.e. housing "catching its breath" after a strong run). But the rest of the weakness raised questions as to how deep the housing and mortgage market corrections might go.

It's worth mentioning that different metrics suggest different conclusions. For example, compared to 3 years ago, Existing Homes Sales are nearly 10% lower at last check, but New Home Sales are 30% higher.



But this actually **isn't** the best way to make a case for the housing market at the moment. New Homes represent only a small piece of the pie. They fell harder during the Financial Crisis and have thus been able to bounce back more stably.

An optimistic viewpoint is better-served by considering the reasons behind housing's shift in 2018 and then asking ourselves "what's next?" Opinions vary as to what did the most damage to housing, but there is broad agreement that higher rates had an impact.

National Average Mortgage Rates



| | Rate | Change | Points |
|----------------------------|------|--------|--------|
| Mortgage News Daily | | | |

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.89% | 0.00 | 0.00 |
| 15 Yr. Fixed | 6.33% | +0.01 | 0.00 |
| 30 Yr. FHA | 6.33% | +0.01 | 0.00 |
| 30 Yr. Jumbo | 7.05% | 0.00 | 0.00 |
| 5/1 ARM | 6.58% | 0.00 | 0.00 |

Freddie Mac

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.77% | -0.09 | 0.00 |
| 15 Yr. Fixed | 6.05% | -0.11 | 0.00 |

Rates as of: 7/22

Market Data

| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 5.5 | 99.51 | +0.12 |
| MBS GNMA 5.5 | 99.93 | +0.15 |
| 10 YR Treasury | 4.2286 | -0.0239 |
| 30 YR Treasury | 4.4538 | -0.0187 |

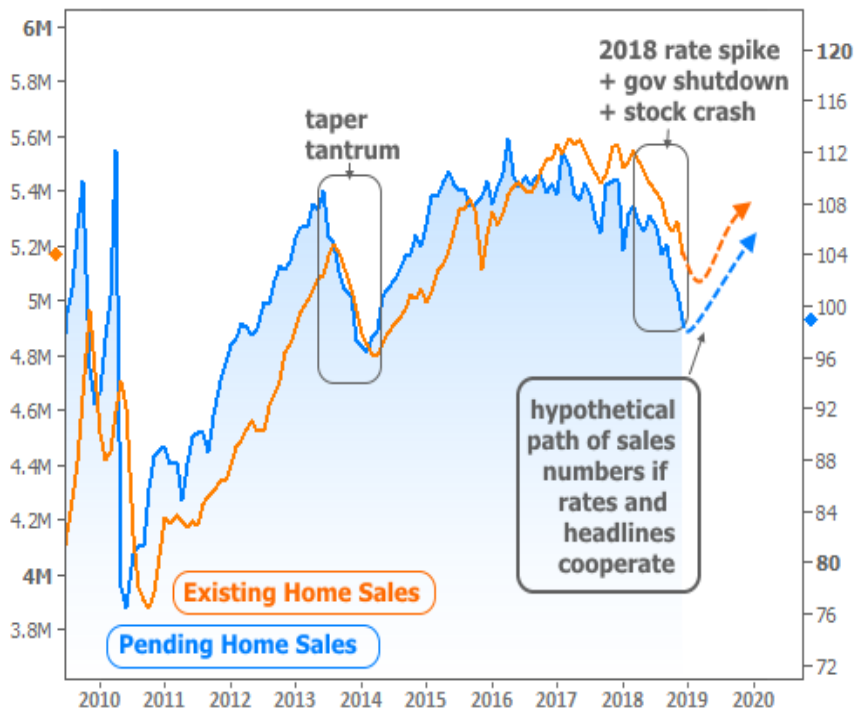
Pricing as of: 7/23 8:48AM EST

Recent Housing Data

| | Value | Change |
|---------------------|--------------|---------|
| Mortgage Apps | Jul 10 206.1 | -0.19% |
| 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% |

You may be thinking to yourself "wait! There's not broad agreement, because when people want to buy a house, rates don't matter." It's true that rates don't matter to a great many would-be buyers, but some buyers on the margins of qualifying for the most affordable homes suddenly find themselves unable to buy. On the other end of the spectrum, a certain percentage of potential move-up buyers simply decide it makes more sense to **stay in place** if the new mortgage payment would be too high.

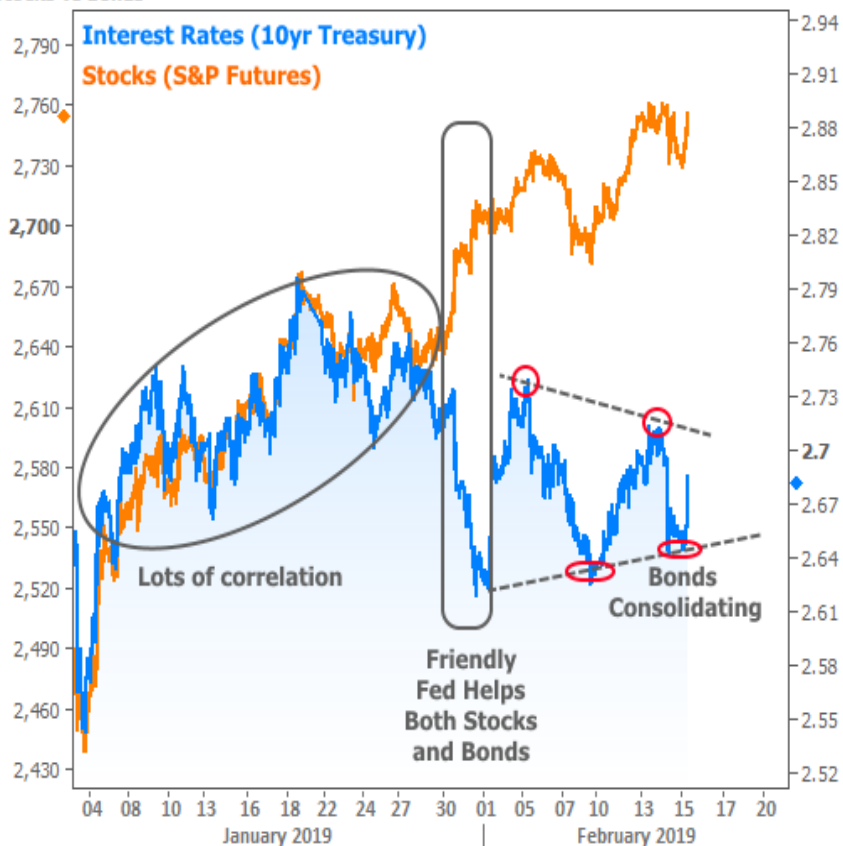
With all of the above in mind, it's no surprise to see how sales responded to the **two biggest rate spikes** in recent memory (highlighted in the chart below). Notably, housing would likely already be bouncing back from the 2018 spike, but the stock crash and government shutdown caused confidence issues for some homebuyers (and paycheck issues for others!).



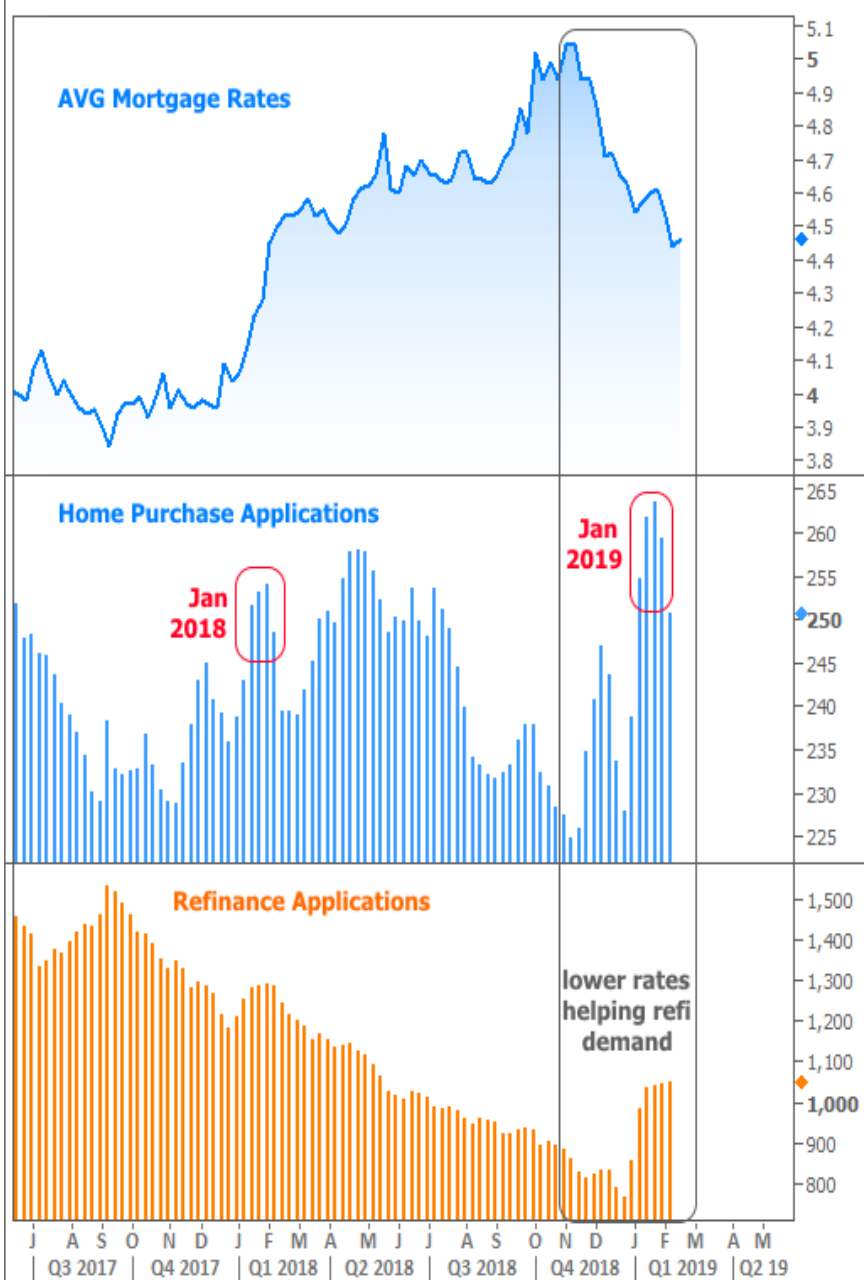
But now, rates are near their **lowest** levels in a year. As of this week, it looks like we've averted another government shutdown. And stocks have clearly been able to recapture much of the ground they'd lost.

Whereas we might worry that a strong stock market could pull interest rates higher, the recent shift in tone from the Federal Reserve has allowed rates to stay near their lows **even as stocks advance**. The following chart shows how well correlated stocks and rates were heading into the Fed Announcement at the end of January, and how quickly they diverged afterward.

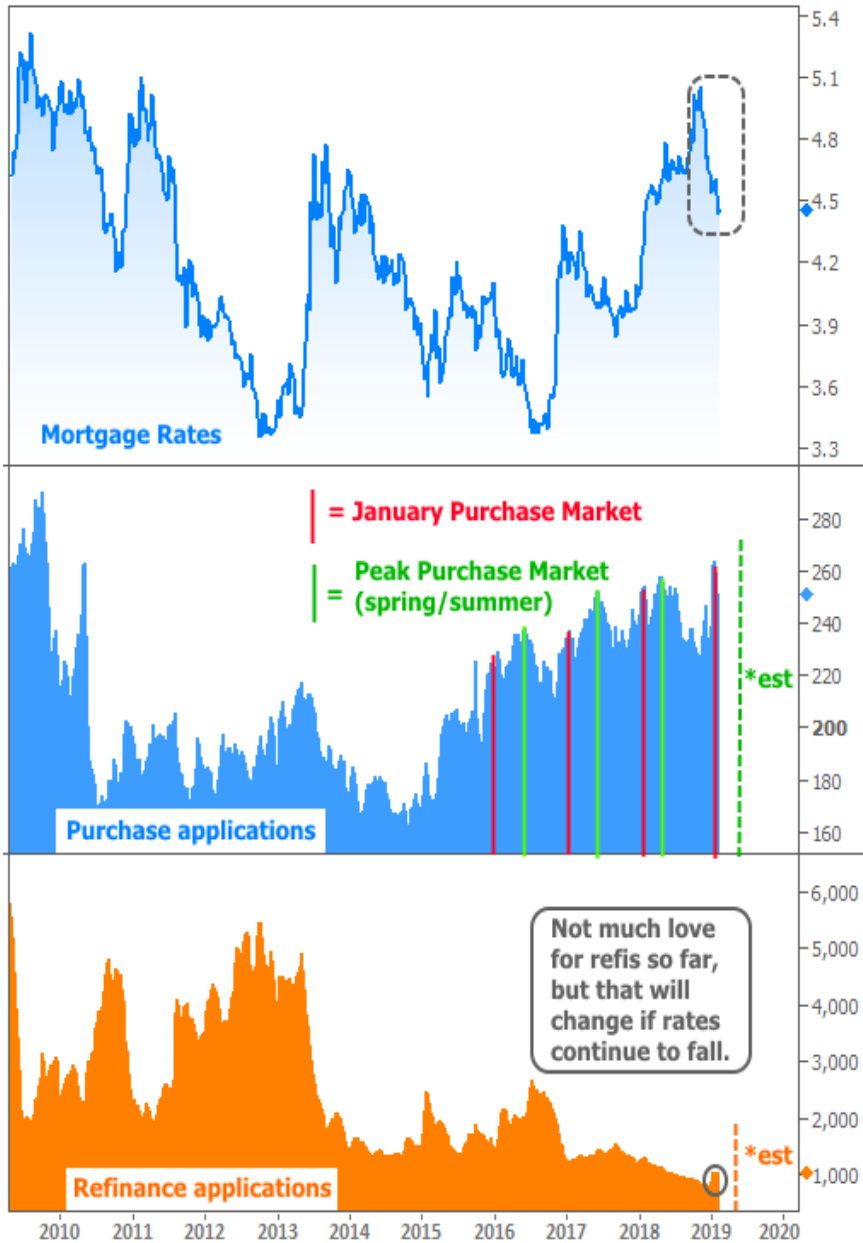
Stocks vs Bonds



Crossing over to the mortgage side of the housing market, we find **even more reason to be optimistic**. When it comes to homebuyers seeking mortgages, this January has actually been better than last. Lower rates have also helped refi demand increase.



Zooming out to a wider view is even better for purchase applications. There we see a consistent trend of strength in January followed by a bigger surge as home sales hit their seasonal peak in Spring/Summer.



The bigger picture is not kind to the refi market, but very few homeowners have had an incentive to refi since rates fell in the middle of 2017. That said, rates are now on the verge of falling to levels that **would make refinancing attractive** to a majority of homeowners who bought their homes any time after the beginning of 2018.

As far as keeping track of the housing-related developments, next week brings another installment of the monthly Existing Home Sales report. It's **important to remember** that Existing Sales tend to follow Pending Sales, and we'll likely need to see a bigger bounce there before Existing Sales follow suit. Pending Sales will be released the following Tuesday, Feb 27th. If we see a noticeable improvement, it will add to the case for the housing market being on its way to a strong 2019.

Subscribe to my newsletter online at: <http://housingnewsletters.com/mcateeteam>

Recent Economic Data

Event Importance:

No Stars = Insignificant

| Date | Event | Actual | Forecast | Prior |
|--------------------------|---------------------------------|--------|----------|--------|
| Wednesday, Feb 13 | | | | |
| 7:00AM | w/e MBA Purchase Index | 237.7 | | 253.1 |
| 7:00AM | w/e Mortgage Refinance Index | 1052.4 | | 1053.4 |
| 8:30AM | Jan CPI mm, sa (%) | 0.0 | 0.1 | -0.1 |
| 8:30AM | Jan Core CPI Year/Year (%) | +2.2 | 2.1 | 2.2 |
| Thursday, Feb 14 | | | | |
| 8:30AM | Jan Producer Prices (%) | -0.1 | 0.1 | -0.2 |
| 8:30AM | Jan Core Producer Prices YY (%) | +2.6 | 2.5 | 2.7 |
| 8:30AM | Dec Retail Sales (%) | -1.2 | 0.2 | 0.2 |
| 8:30AM | w/e Jobless Claims (k) | 239 | 225 | 234 |
| 10:00AM | Nov Business Inventories (%) | -0.1 | 0.3 | 0.6 |
| Friday, Feb 15 | | | | |
| 8:30AM | Jan Import prices mm (%) | -0.5 | -0.1 | -1.0 |
| 8:30AM | Jan Export prices mm (%) | -0.6 | -0.1 | -0.6 |
| 8:30AM | Feb NY Fed Manufacturing | 8.8 | 7.00 | 3.90 |
| 9:15AM | Jan Industrial Production (%) | -0.6 | 0.1 | 0.3 |
| 9:15AM | Jan Capacity Utilization (%) | 78.2 | 78.7 | 78.7 |
| 10:00AM | Feb 5yr Inflation Outlook (%) | 2.3 | | 2.6 |
| 10:00AM | Feb Consumer Sentiment | 95.5 | 93.0 | 91.2 |
| 10:00AM | Feb 1yr Inflation Outlook (%) | 2.5 | | 2.7 |
| Tuesday, Feb 19 | | | | |
| 10:00AM | Feb NAHB housing market indx | 62 | 59 | 58 |
| Wednesday, Feb 20 | | | | |
| 7:00AM | w/e MBA Purchase Index | 232.7 | | 237.7 |
| 7:00AM | w/e Mortgage Refinance Index | 1084.4 | | 1052.4 |
| Thursday, Feb 21 | | | | |
| 8:30AM | Feb Philly Fed Business Index | -4.1 | 14.0 | 17.0 |
| 8:30AM | Dec Durable goods (%) | 1.2 | 1.5 | 0.7 |
| 8:30AM | Dec Nondefense ex-air (%) | -0.7 | 0.2 | -0.6 |
| 8:30AM | w/e Jobless Claims (k) | 216 | 220 | 239 |
| 10:00AM | Jan Exist. home sales % chg (%) | -1.2 | 0.8 | -6.4 |
| 10:00AM | Jan Existing home sales (ml) | 4.94 | 5.00 | 4.99 |
| 10:00AM | Jan Leading index chg mm (%) | -0.1 | 0.1 | -0.1 |

- ☆ Low
- ★ Moderate
- ★★ Important
- ★★★ Very Important

Experience, Responsive, Expertise

Whether you're buying, selling, refinancing, or building your dream home, you have a lot riding on your loan specialist. Since market conditions and mortgage programs change frequently, you need to make sure you're dealing with a top professional who is able to give you quick and accurate financial advice. I have the expertise and knowledge you need to explore the many financing options available.

Ensuring that you make the right choice for you and your family is my ultimate goal. And I am committed to providing my customers with mortgage services that exceed their expectations.

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