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After Massive Response Last Week, Are Low Rates Already Gone?

While interest rates are always a topic of conversation in the housing and mortgage markets, **everyone** was talking about them last week. That tends to happen when the average 30yr fixed rate threatens to break into the high 3% range after a long absence. But just as quickly as the good times started to roll, rates bounced higher this week. Are the good times over?

First off, let's take a look at the effects of last week's big drop in rates so we can better understand "the good times." As the following chart shows, there was a **big, immediate response** in refinance demand, according to the Mortgage Bankers Association's (MBA) weekly application data. It was by far the biggest jump in several years--not all that surprising considering last week made March the best month for mortgage rate improvement in more than a decade.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.32%	-0.02	0.00
15YR Fixed	6.87%	-0.02	0.00
30YR FHA	6.95%	-0.01	0.00
30YR Jumbo	7.42%	-0.03	0.00
7/6 SOFR	6.70%	-0.13	0.00
30YR VA	6.97%	0.00	0.00

Rates as of: 11/24

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.59	+0.04
10 YR Treasury	4.9267	-0.0195
30 YR Treasury	5.3214	+0.0130

Pricing as of: 11/24 5:59PM EST

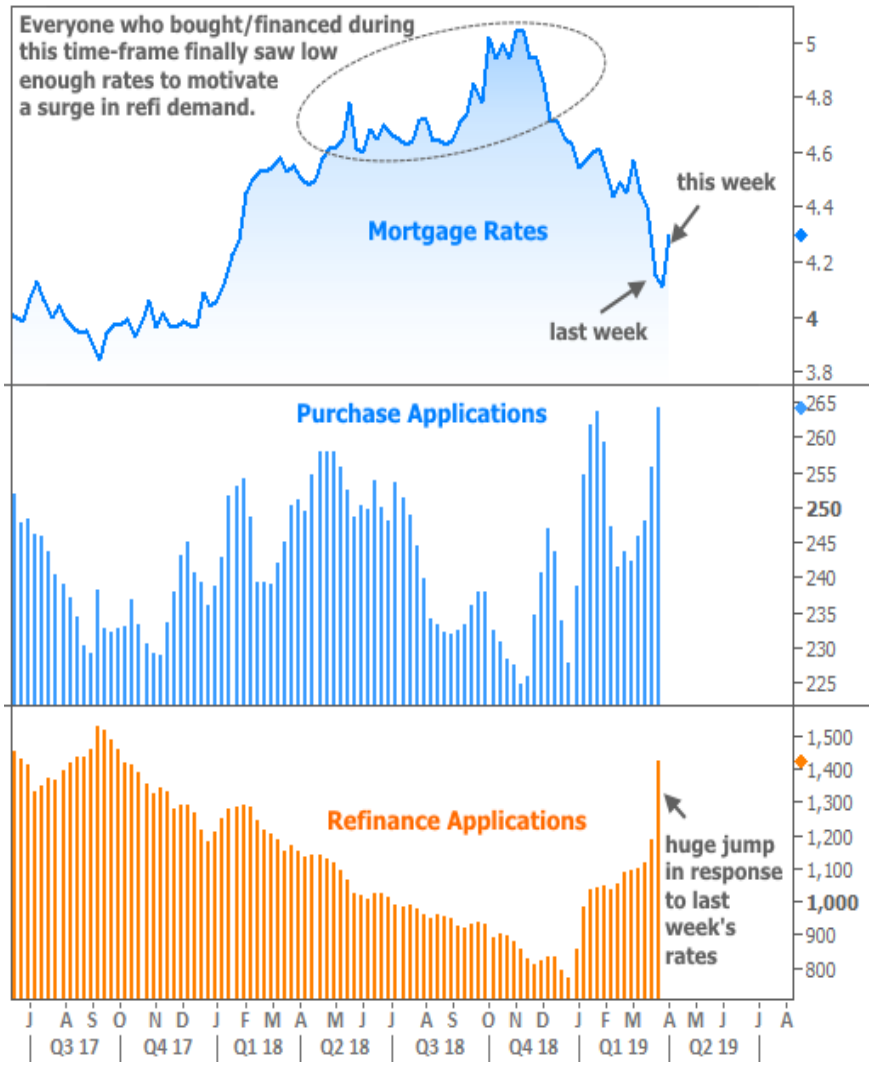
Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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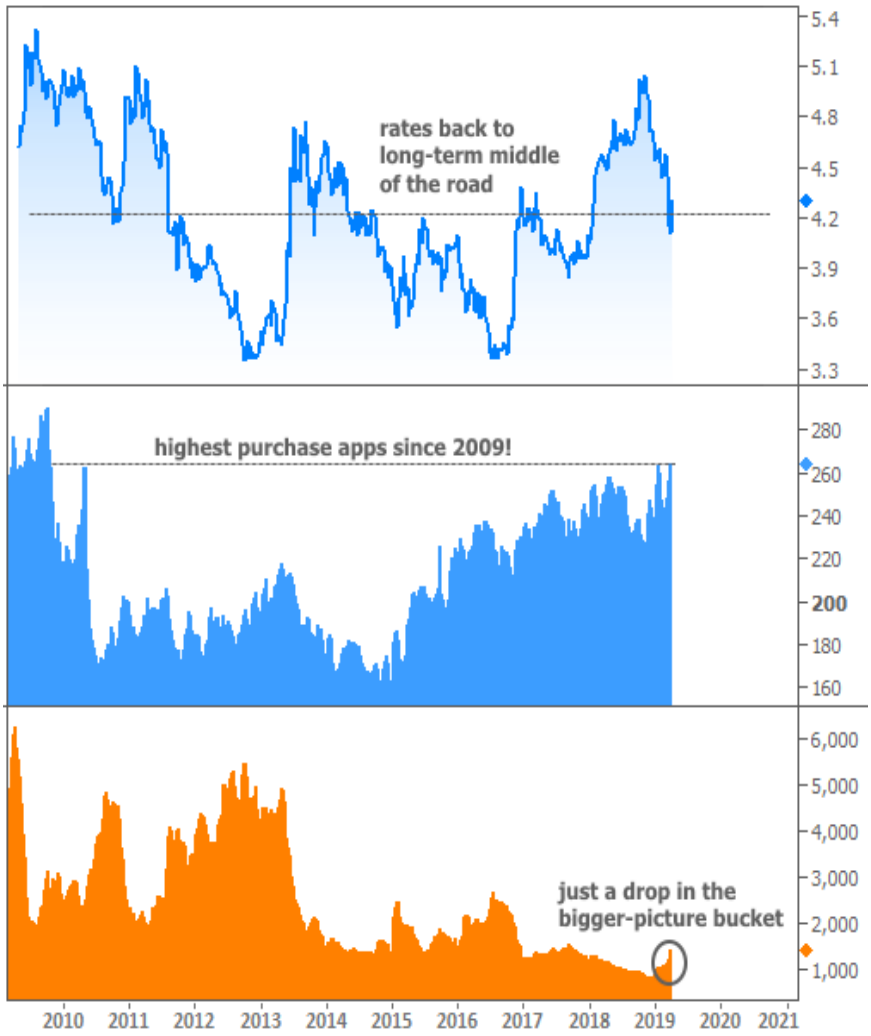
In addition to the jump in refi demand, the purchase market also benefited from lower rates, though not as much as it may seem. There is a **strong seasonal component** to the MBA's purchase data, and we would **expect** the Spring homebuying season to be building toward the year's best levels as it did around this time in 2018.

What happens if we widen our frame of view significantly? Will the uptick in applications still be meaningful? And where are rates in the bigger picture?

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In terms of refi applications, even though last week was a tremendous improvement and the highest level seen in more than 2 years, it was **just a drop in the bigger-picture bucket**. Reason being: it's really only mortgages originated in 2018 that would stand to benefit from a refi. Everyone else already had a lower rate or a chance to refi into one.

Last week just happened to be tipping point for a large portion of those 2018 mortgages. Even then, many who bought homes in mid-to-late 2018 (the ones that are "in the money" with respect to refinancing) aren't yet thinking about a new mortgage simply because it's not common to refi so quickly after a purchase. In other words, if those homeowners had been living with their high rate since 2016-2017, a larger percentage of them would be looking for refi opportunities.

More importantly, there simply isn't a big enough refi pool at the moment for current rates to accomplish what they accomplished in 2010 (see the chart above, and the refi demand levels relative to rates in 2010). Leading up to that refi boom, rates had been even higher than they were in 2018 and purchase activity even higher (i.e. plenty of refi candidates). Then by mid-2012, all of those refinancers were in a position to pull the trigger again, not to mention anyone that had purchased in the first 8 months of 2011.

But enough about refis! What's up with the purchase market hitting the highest application levels since 2009? This has actually been **on our radar for quite a while** (and I predicted it in this previous newsletter due largely to seasonality), but there's no doubt the drop in rates helped grease the skids.

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The bigger question is whether this drop was temporary or just the beginning. Unfortunately, that can't be answered by anyone in any reliable way. I think we've seen the **lion's share of the improvement** we'll see due to the change in the Fed's stance in mid-March (discussed here). From here, it will depend almost entirely on the incoming economic data and the policy developments likely to impact future economic data.

Case in point, it was strong economic data and news of progress on US/China trade talks that accounted for the noticeable jolts this week. Friday's jobs report shows us how mixed-to-weaker economic data can **push back in the other direction** (NOTE: the jobs headline wasn't weaker, but several of the internal components--like wages--were well under the median forecast).



US trade policy will remain in focus, but markets will add Fed policy to the agenda for next week. Wednesday afternoon brings the Minutes from the most recent Fed meeting. This gives investors a deeper look at the discussion that resulted in the Fed's surprising announcement on March 20th. On the same day, the EU holds an **emergency summit** to decide if the Brexit saga will continue. And it almost certainly will, but if for some unforeseen reason Britain finds itself unable to negotiate another extension, rates would likely drop in response.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Apr 01				
8:30AM	Feb Retail Sales (%)	-0.2	0.3	0.2
10:00AM	Mar ISM Manufacturing PMI	55.3	54.5	54.2
10:00AM	Jan Business Inventories (%)	+0.8	0.5	0.6
10:00AM	Feb Construction spending (%)	1.0	-0.2	1.3
Tuesday, Apr 02				
8:30AM	Feb Durable goods (%)	-1.6	-1.8	0.3

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:30AM	Feb Nondefense ex-air (%)	-0.1	0.0	0.8
9:45AM	Mar ISM-New York index	869.1		860.7
Wednesday, Apr 03				
8:15AM	Mar ADP National Employment (k)	129.0	170	183
10:00AM	Mar ISM N-Mfg PMI	56.1	58.0	59.7
10:00AM	Mar ISM N-Mfg Bus Act	57.4	61.5	64.7
Thursday, Apr 04				
8:30AM	w/e Jobless Claims (k)	202	210	211
8:30AM	w/e Continued jobless claims (ml)	1.717	1.750	1.756
Friday, Apr 05				
8:30AM	Mar Non-farm payrolls (k)	+196	180	20
8:30AM	Mar Unemployment rate mm (%)	3.8	3.8	3.8
Monday, Apr 08				
10:00AM	Feb Factory orders mm (%)	-0.5	-0.6	0.1
Tuesday, Apr 09				
1:00PM	3-Yr Note Auction (bl)	38		
Wednesday, Apr 10				
7:00AM	w/e MBA Purchase Index	278.1		276.6
7:00AM	w/e Mortgage Refinance Index	1582.6		1786.0
8:30AM	Mar Core CPI (Annual) (%)	2.0	2.1	2.1
1:00PM	10-yr Note Auction (bl)	24		
Thursday, Apr 11				
8:30AM	Mar Core Producer Prices YY (%)	2.4	2.4	2.5
8:30AM	w/e Jobless Claims (k)	196	204	202
8:30AM	w/e Continued jobless claims (ml)	1.713	1.738	1.717
1:00PM	30-Yr Bond Auction (bl)	16		
Friday, Apr 12				
8:30AM	Mar Import prices mm (%)	0.6	0.4	0.6
8:30AM	Mar Export prices mm (%)	0.7	0.2	0.6
10:00AM	Apr 1yr Inflation Outlook (%)	2.4		2.5
10:00AM	Apr 5yr Inflation Outlook (%)	2.3		2.5
10:00AM	Apr Consumer Sentiment	96.9	98.0	98.4

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