



Mike Baker

Head Interest Rate Shopper, The Rate Shop
 Individual NMLS: 259076 Company NMLS: 2554765 State
 23211 W 45th St Shawnee, KS 66226

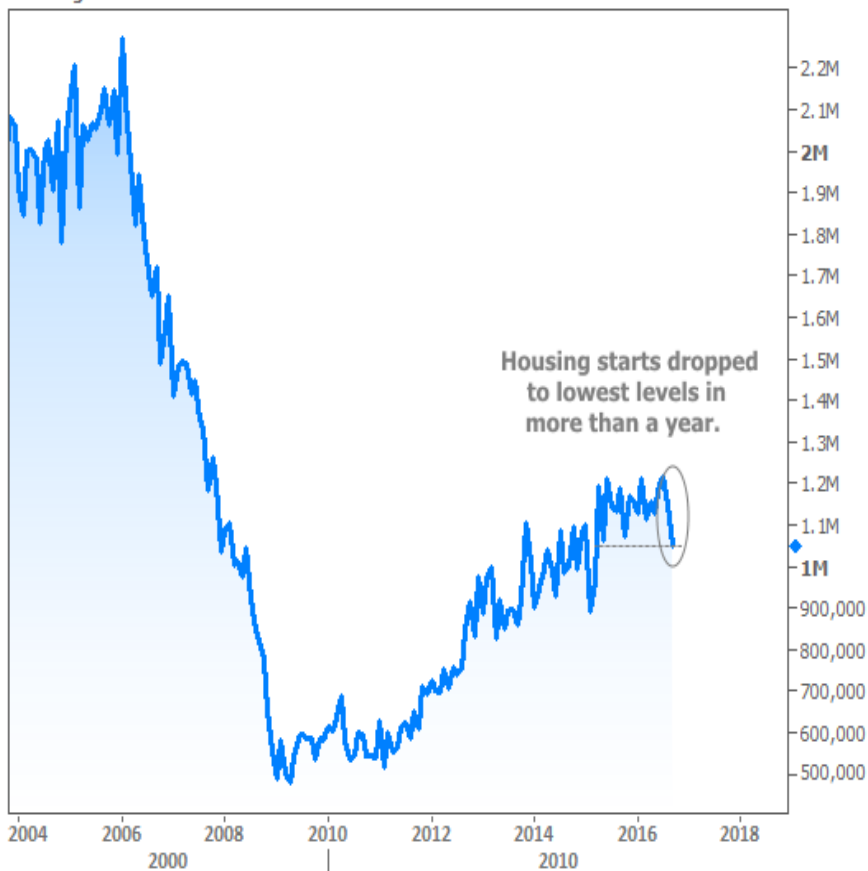
Office: 913-213-3335
 Mobile: 913-213-3335
mike@rateshopkc.com
[View My Website](#)

Housing and Rates in Trouble? It Depends

This week, a [report from Fannie Mae](#) suggests the housing market is **losing momentum** due to declines in single family construction spending and the prospect of higher interest rates in the future. Whether or not this should be troubling is a matter of perspective.

It is true that certain construction metrics have been **lagging**. In a [separate report](#) this week, housing starts fell sharply to their lowest levels in more than a year.

Housing Starts



In and of itself, this drop in Housing Starts **could be** troubling, but by the time we look at the week's other data, the situation doesn't seem so dire.

Right off the bat, it's **important to remember** that any monthly economic data is inherently volatile. One rogue month of weakness in Housing Starts (down 9.0%) doesn't speak to a shift in the bigger picture. A stronger case could be made if the other housing-related data was similarly weak, but if anything,

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.07%	+0.02	0.00
15 Yr. Fixed	6.45%	0.00	0.00
30 Yr. FHA	6.51%	+0.02	0.00
30 Yr. Jumbo	7.26%	0.00	0.00
5/1 ARM	7.02%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00

Rates as of: 6/28

Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.11	-0.07
MBS GNMA 6.0	100.24	-0.09
10 YR Treasury	4.4395	+0.0415
30 YR Treasury	4.5981	+0.0341

Pricing as of: 7/1 8:50AM EST

Recent Housing Data

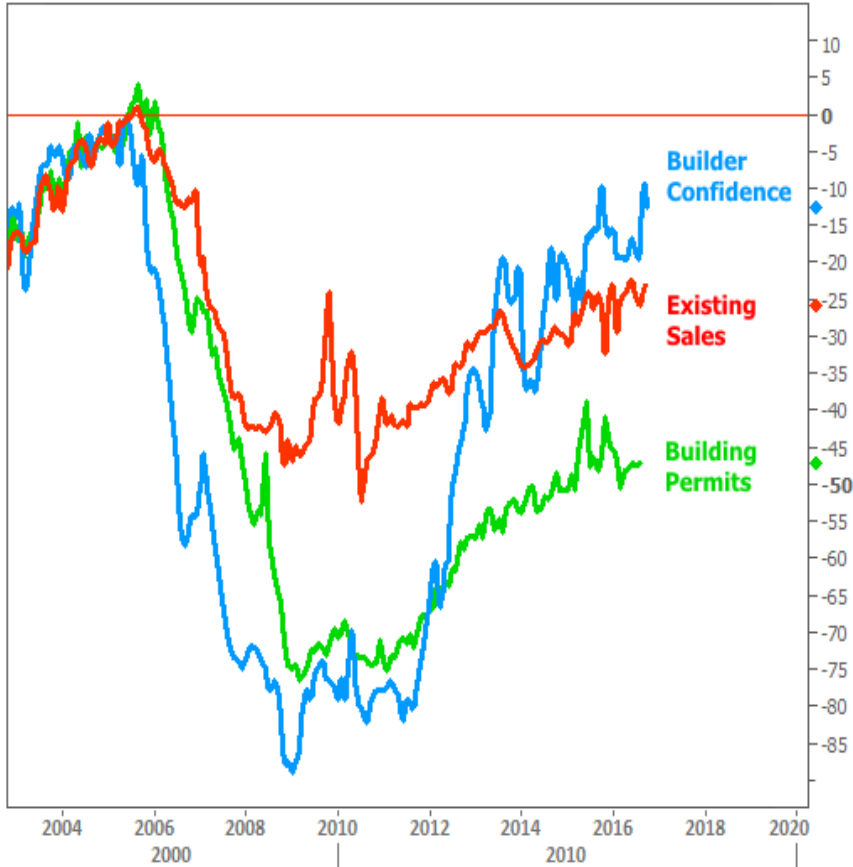
	Value	Change
Mortgage Apps	Jun 12 208.5	+15.58%
Building Permits	Mar 1.46M	-3.95%
Housing Starts	Mar 1.32M	-13.15%
New Home Sales	Mar 693K	+4.68%
Pending Home Sales	Feb 75.6	+1.75%
Existing Home Sales	Feb 3.97M	-0.75%
Builder Confidence	Mar 51	+6.25%

this week's data argues the opposite.

In the same report as Housing Starts, Building Permits told a completely **different story**, rising 6.3% from last month and 8.5% from last year. **Builder Confidence** fell, but remained at the 2nd highest level of the year.

Existing home sales were **unabashedly strong**, not to mention first-time buyer participation at a 4-year high, and a 5.6% annual improvement in prices. The following chart shows how several of these metrics have evolved (in terms of percent change) from "peak housing data" in June 2005.

Percent Change From June 2005



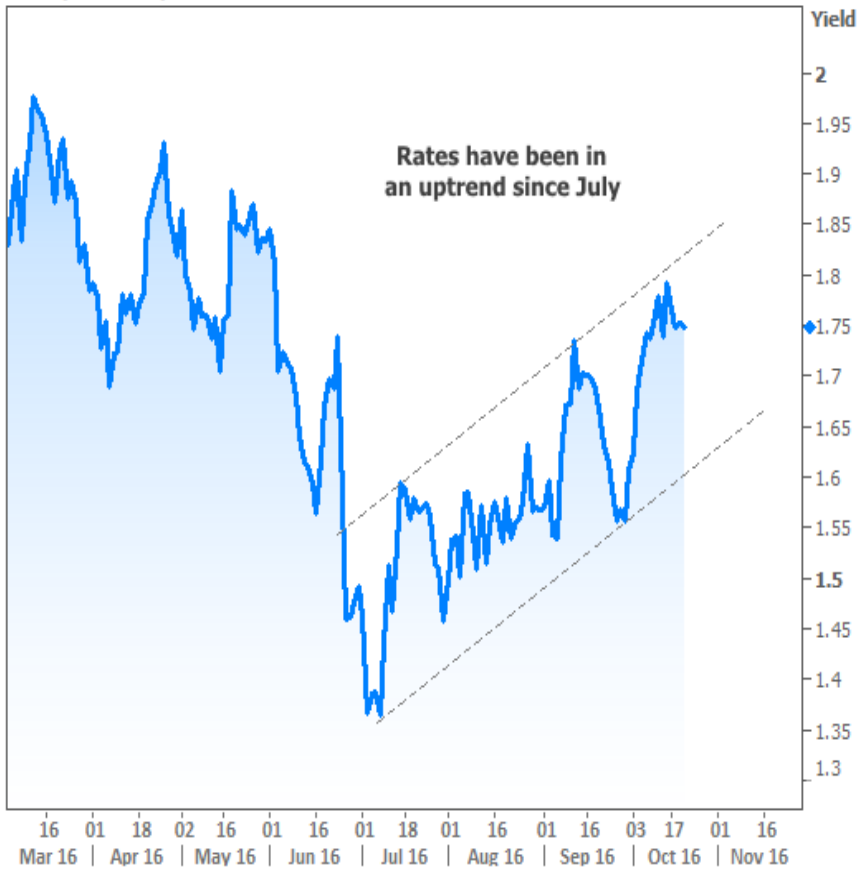
Clearly, the housing market is **not "in trouble"** at the moment. Waning momentum, on the other hand, is a possibility we have to consider.

The waning momentum thesis relies, in part, on the **expectation of higher rates**. Fannie, and others, are worried that rates could now be at greater risk of a long-term uptrend as global central banks begin unwinding their easy money policies.

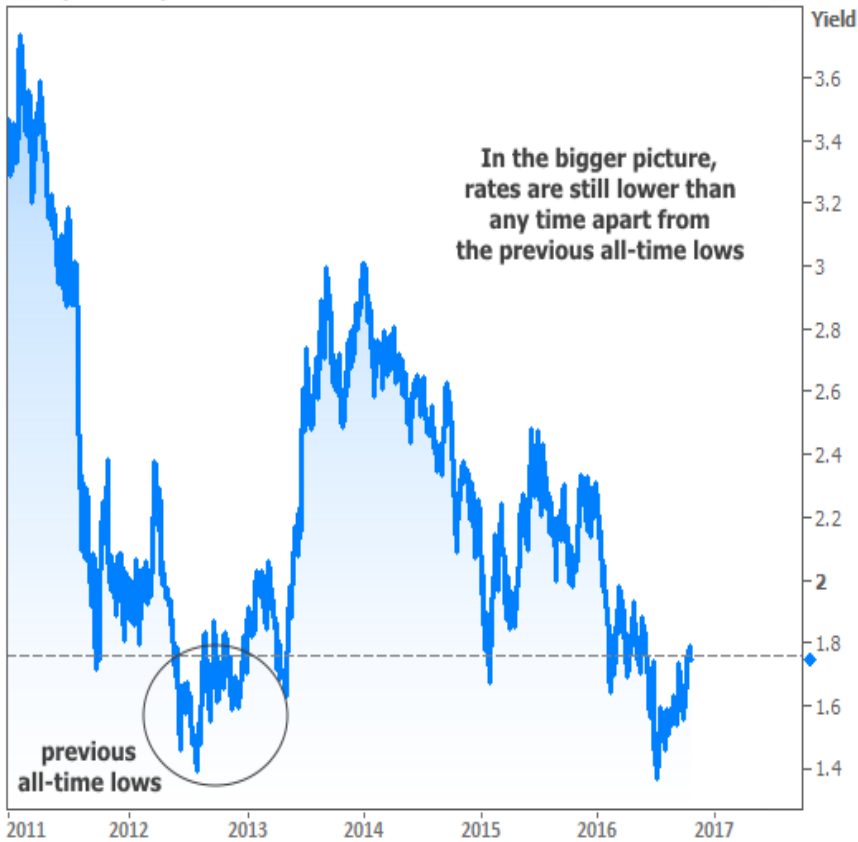
This fear is quite valid. Indeed, rates are only as low as they are due to global central bank monetary policy. Naturally, if the European Central Bank (ECB) announced its intention to taper asset purchases as the Fed did in 2013, a similar **taper tantrum** could be the result.

Markets have been **concerned enough** about another taper tantrum that rates have been moving steadily higher in anticipation. Whether or not they're "high" on an outright basis, is a matter of perspective. After all, they've only been this low for this long one other time in history. (The following chart uses 10yr Treasury yields as proxy for movement in longer-term rates like mortgages.)

US 10yr Treasury



US 10yr Treasury



The preceding chart is **bittersweet**. It's great that rates have been so low, but it also serves as a reminder of just how quickly they can move higher. Keep in mind that almost no one expected mortgage rates in the 3% range again the 2013 taper tantrum, yet here we are.

If the ECB does indeed cause a similar tantrum things **could get scary** in the same way they were scary in 2013. But at that point, the global economy would need to be firing on most of its cylinders in order to keep rates heading higher. Otherwise, there's no reason to believe the life-expectancy of a new taper tantrum would be better than the old one.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Oct 17				
8:30AM	Oct NY Fed manufacturing	-6.8	1.00	-1.99
9:15AM	Sep Industrial output mm (%)	+0.1	0.1	-0.4
Tuesday, Oct 18				
8:30AM	Sep CPI mm, sa (%)	+0.3	0.3	0.2
8:30AM	Sep Core CPI mm, sa (%)	+0.1	0.2	0.3
Wednesday, Oct 19				
7:00AM	w/e Mortgage Market Index	512.9		509.6
8:30AM	Sep Building permits: number (ml)	1.225	1.165	1.152
8:30AM	Sep Housing starts number mm (ml)	1.047	1.175	1.142
Thursday, Oct 20				
8:30AM	Oct Philly Fed Business Index	9.7	5.3	12.8
10:00AM	Sep Existing home sales (ml)	5.47	5.35	5.33
Tuesday, Oct 25				
9:00AM	Aug CaseShiller 20 yy (%)	+5.1	5.0	5.0
10:00AM	Oct Consumer confidence	98.6	101.0	104.1
1:00PM	2-Yr Note Auction (bl)	26		
Wednesday, Oct 26				
10:00AM	Sep New home sales-units mm (ml)	0.593	0.600	0.609
1:00PM	5-Yr Note Auction (bl)	34		
Thursday, Oct 27				
8:30AM	Sep Durable goods (%)	-0.1	0.1	0.1
10:00AM	Sep Pending homes index	110.0		108.5
1:00PM	7-Yr Note Auction (bl)	28		
Friday, Oct 28				
8:30AM	Q3 Employment costs (%)	+0.6	0.6	0.6
8:30AM	Q3 GDP Advance (%)	+2.9	2.5	1.4
10:00AM	Oct U Mich Sentiment Final (ip)	87.2	88.1	87.9
Tuesday, Mar 21				

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
11:30AM	26-Week Bill Auction (bl)	55		

Real Talk

At The Rate Shop, we're not your average mortgage banker. We specialize in bringing you ridiculously low interest rates that will make you wonder what the other guys are doing. In fact the ONLY objection we ever hear is "your rates sound too good to be true". Well they're not, and here is why...

After 15 years in the retail banking world I was frustrated with the high interest rates that came from that business model. As I looked around at all the bloated layers of management and their expensive salaries and the overhead of running a larger company (think rent costs, employee health and benefit costs, payroll taxes, and on and on) it dawned on me that I was a part of the problem, and the solution, for me at least, was so easy to see.

Start my own mortgage brokerage shop. No expensive executive salaries, no expensive building to pay rent at, no unnecessary employees and all the costs that are associated with that. What happens when you cut out all the fat? You can provide lower rates and lower closing costs. It's simple. Now here is the best part, you still get great service from a local Kansas City Lender. My mission is to let everyone know that low rates and great customer service are NOT mutually exclusive.

Thanks for coming along on this journey where Low Rates meet Great Service. The two do NOT have to be mutually exclusive. It's just a lie that the big box mortgage companies have been telling you for years. Don't believe me? Give me a call or shoot me a text on my personal cell phone today and compare my rates and costs up against any other lender in the country, and be prepared to be blown away.

Mike Baker

