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Home Construction at 2017 Highs as Markets Wait on Tax Reform

Tensions are running high on tax reform. The Senate was able to advance its bill through committee despite a **shouting match** over whether the bill disproportionately benefits the rich. The House passed its version of the bill, but the Senate won't take it up until after Thanksgiving. Even then, we may see several major changes before a passable version begins to take shape.

For now, **both** bills leave some **homeowner tax incentives** on the chopping block. Critics decry the move as a major blow to the housing market. If they're right, the housing data released this week will soon look like a collector's item.

As written, the House version of the new tax bill would limit the **deduction for mortgage interest** as well as a portion of state and local property taxes. Homes bought or refinanced before Nov 2nd would be grandfathered in under the existing tax code.

In other words, October's housing data would not yet be affected by apprehension over potential tax changes. Incidentally, October's [New Residential Construction Report](#) came out this week, and it was just shy of its **best levels in a decade**--at least in terms of Housing Starts, the report's headline metric. The same can't quite be said of the Building Permits metric, but it was nonetheless in solid territory, near its highest post-crisis levels.

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

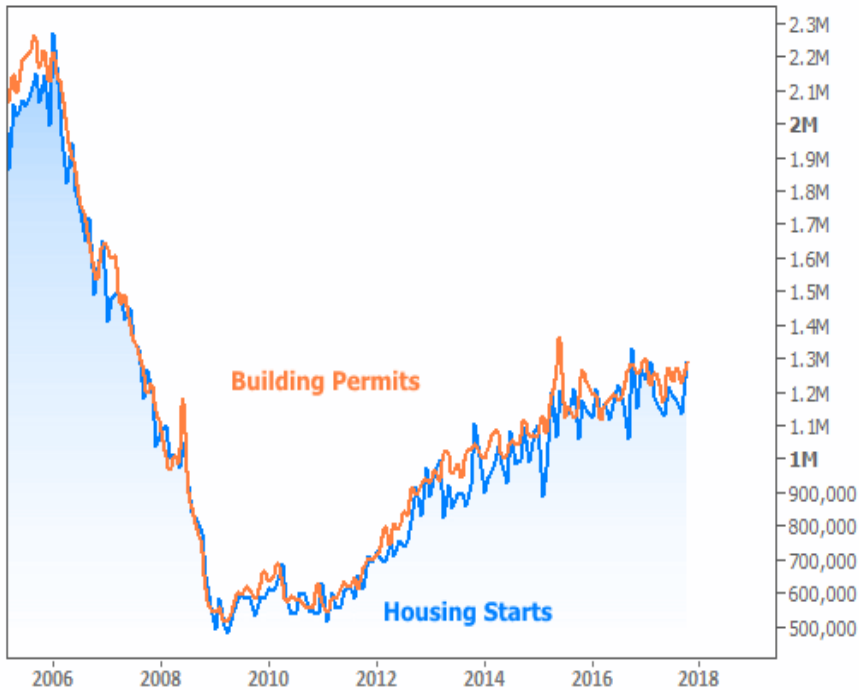
	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.4109	+0.0129
30 YR Treasury	4.5741	+0.0101

Pricing as of: 7/1 6:48AM 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%

Starts and Permits

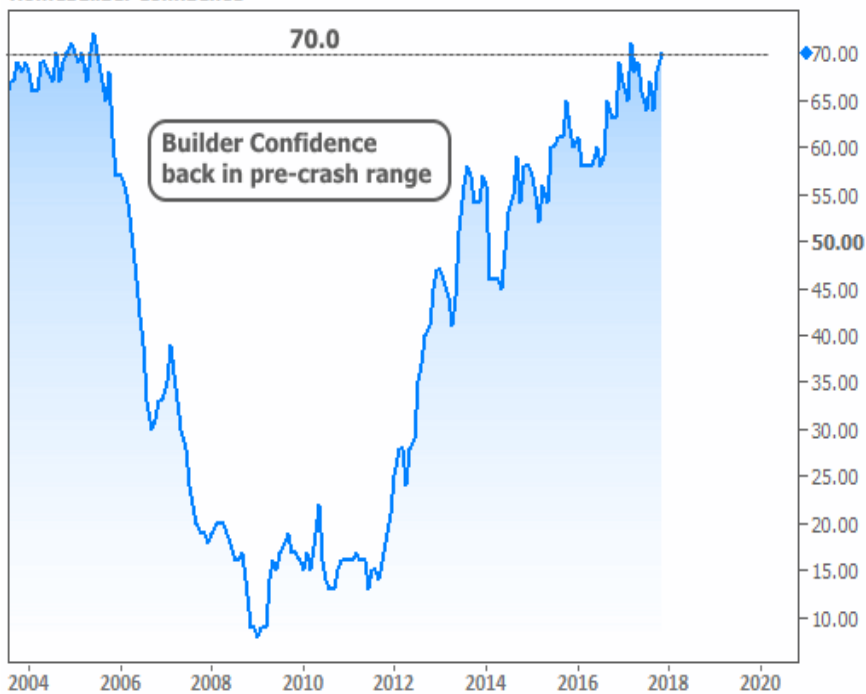


Even after the next round of data (which includes homes that COULD be affected by tax changes), we should remember two things. First, at least when it comes to Starts and Permits, the contracts for new construction and ground-breaking for November's numbers will largely have been in place **before** the November 2nd cutoff. Therefore, to whatever extent potential tax changes spook the housing market, we wouldn't see it in these numbers until January at the earliest.

More importantly, in terms of median home prices, mortgage amounts, and tax brackets, the backbone of these construction numbers won't be heavily impacted by proposed tax changes. Combine that with lobbying groups actively trying to salvage as many homeowner tax incentives as possible, and it's easier to understand this week's **other** key housing report.

The National Association of Homebuilders (NAHB) is one of the groups voicing vehement opposition to the housing-related changes in the tax bill. Yet their members were in good spirits this month as seen in the NAHB's [Housing Market Index](#) (a measure of builder confidence) rising to the **2nd highest** level since before the housing crisis. In fact, builder confidence is generally in the same territory as the height of the housing boom!

Homebuilder Confidence



In the spirit of "waiting and seeing," interest rates improved slightly this week. This keeps them locked in a consolidative trend (higher lows and lower highs) that's been underway for more than a month. It's the bond market's way of expressing indecision, and for now, the trend suggests indecision could linger at least through early December. Even if we apply some esoteric math to recent rate movement and derive a line that measures momentum, that line has been **almost perfectly flat** for several weeks.

US 10yr Treasury Yield



The upcoming Thanksgiving week is a **tricky** one for market watchers. Many market participants are out of the office, either mentally or physically. Lighter participation and volumes open the door for volatility without regard for underlying data and events. We've often seen rates go one way for no apparent reason only to bounce back in the following week. Bottom line: anticipating future rate movement is always a guessing game, but for Thanksgiving week, that's doubly true.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Nov 14				
8:30AM	Oct Producer Prices (%)	0.4	0.1	0.4
8:30AM	Oct Core Producer Prices YY (%)	2.4	2.3	2.2
Wednesday, Nov 15				
7:00AM	w/e MBA Purchase Index	228.2		227.2
7:00AM	w/e Mortgage Refinance Index	1371.6		1290.8
8:30AM	Oct CPI mm, sa (%)	0.1	0.1	0.5
8:30AM	Oct Core CPI Year/Year (%)	1.8	1.7	1.7
8:30AM	Oct Retail Sales (%)	0.2	0.0	1.6
10:00AM	Sep Business Inventories (%)	0.0	0.0	0.7
Thursday, Nov 16				
8:30AM	Oct Import prices mm (%)	0.2	0.4	0.7
8:30AM	Oct Export prices mm (%)	0.0	0.4	0.8
8:30AM	Nov Philly Fed Business Index	22.7	25.0	27.9
8:30AM	w/e Jobless Claims (k)	249	235	239
9:15AM	Oct Industrial Production (%)	0.9	0.5	0.3
9:15AM	Oct Capacity Utilization (%)	77.0	76.3	76.0
10:00AM	Nov NAHB housing market indx	70	68	68
Friday, Nov 17				
8:30AM	Oct House starts mm: change (%)	13.7		-4.7
8:30AM	Oct Building permits: number (ml)	1.297	1.247	1.225
8:30AM	Oct Housing starts number mm (ml)	1.290	1.185	1.127
8:30AM	Oct Build permits: change mm (%)	5.9		-3.7
Tuesday, Nov 21				
10:00AM	Oct Existing home sales (ml)	5.48	5.42	5.39
Wednesday, Nov 22				
7:00AM	w/e Mortgage Market Index	402.3		401.7
8:30AM	Oct Durable goods (%)	-1.2	0.3	2.0
8:30AM	Oct Nondefense ex-air (%)	-0.5	0.5	1.7
8:30AM	w/e Jobless Claims (k)	239	240	249
10:00AM	Nov U Mich Sentiment Final (ip)	98.5	98.0	97.8

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
Thursday, Nov 23				
12:00AM	Thanksgiving Day			

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

