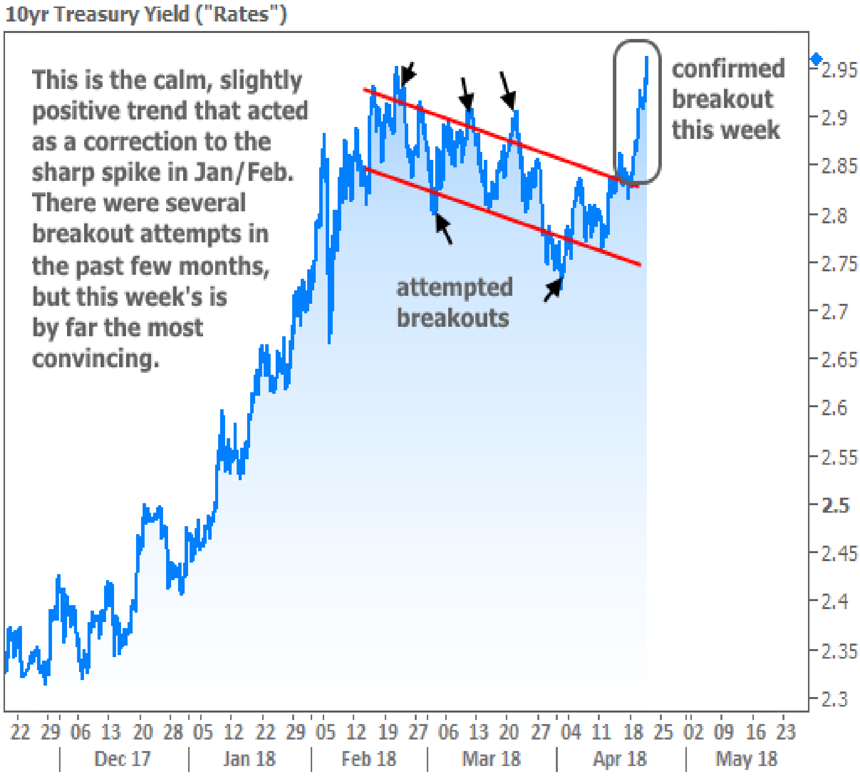
Mike Baker
Head Interest Rate Shopper, The Rate Shop
Individual NMLS: 259076 Company NMLS: 2554765 State
23211 W 45th St Shawnee, KS 66226

Office: 913-213-3335
Mobile: 913-213-3335
mike@rateshopkc.com
View My Website

Housing Market Not Very Scared of Big Bad Wolf

2018 began with a massive spike in interest rates. It was the proverbial big bad wolf for housing markets and for financial markets in general, or **so we're told**. Refreshingly, the wolf was on vacation in March--rates moderated in a narrow, friendlier range--but now he's back, huffing and puffing.



This old wolf not only gets a bad rap, but he also gets **more credit than he deserves**. Rate spikes like this are simultaneously feared as a negative indicator for housing and blamed for spooking the stock market. A housing hit seems logical enough. After all, rates affect affordability. But in reality, none of the ups and downs in rates over the past few years have had commensurate impacts on housing numbers.

The following chart shows this week's housing-related data, which consisted of Builder Confidence and the New Residential Construction report (Building Permits and Housing Starts). Granted, these reports cover the month of March, but the lines on the chart **also** traveled through the big rate spike at the beginning of 2018--not to mention the even bigger example in 2013--

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

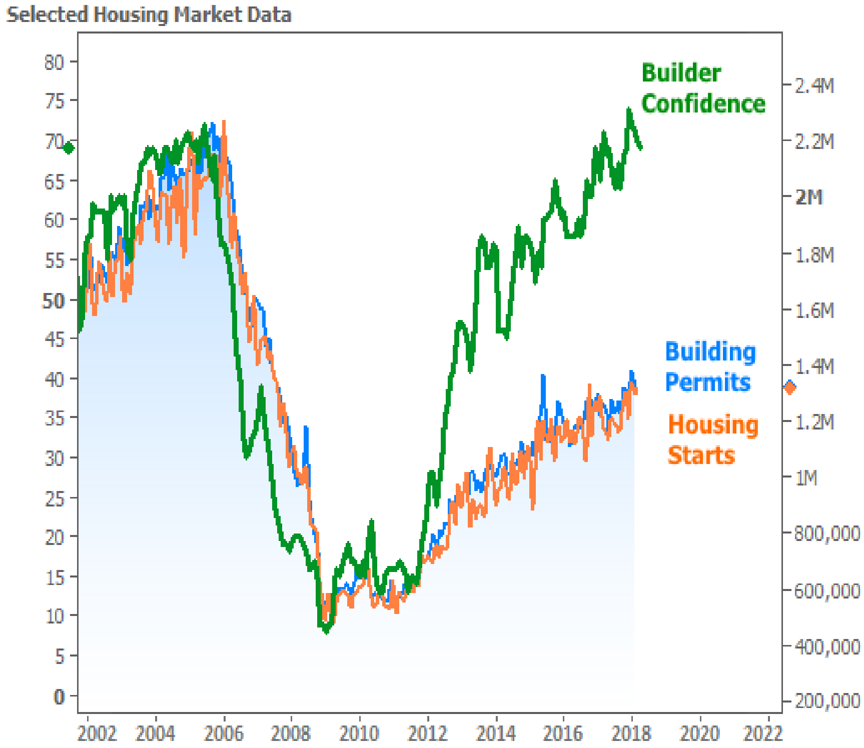
	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.4049	+0.0069
30 YR Treasury	4.5659	+0.0019

Pricing as of: 7/1 4:55AM 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%

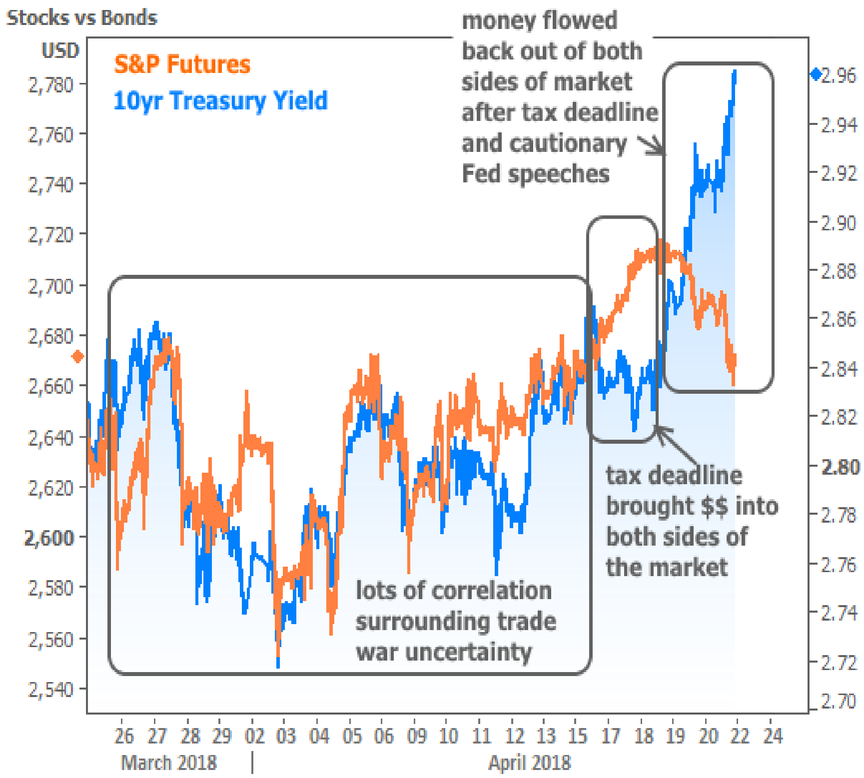
without missing a beat. **Conclusion:** if something is going to derail these trends, it's not rate spikes.



How about the stock market? It was fairly tough to tune-in to financial news this week without seeing the rate spike being blamed for slumping stocks. Rather than bore you with words, I'll just leave the following chart right here (**conclusion:** stocks didn't care about 3% 10yr Treasury yields in the past, nor did they care about a much bigger rate spike in 2013):

So if it's not the rate spike, what's up with investors selling stocks and bonds at the same time? Before addressing that, it's worth remembering that, although stocks **fell** at the end of the week, they managed to hit the **best weekly closing levels** since before Trump's tariff announcement in March. But one could still argue that Friday's sharper stock losses were the result of the rate spike.

In light of the strong correlation seen in recent weeks, this was indeed an odd dynamic, but it could be largely explained by **tax season**. Consider the extra cash streaming into the hands of fund managers as a result of the tax deadline for retirement account funding. In the following chart, it looks like this may have given stocks a boost and delayed the rate spike (more buyers = blue line can stay lower). Stocks then moved lower after the tax deadline passed.



In addition to potential market complications from tax season, we also heard from several Fed officials this week. The general tone was that the Fed Funds Rate was well on its way to 3% (or close to it) and that monetary policy would be increasingly **restrictive** in the coming years. One Fed Governor (Brainard) even mentioned asset price imbalances and leverage in the context of "cyclical pressures."

In other words, she was saying what many pundits have been debating: this **economic expansion is getting old**. And while we're often reminded that expansions don't die of old age, it's another matter if warning signs (like leverage and asset price imbalances) begin to increase. Brainard's comment happens to be in line with research from several economists who've recently noted a growing collection of "warning signs."

There's always a **massive amount of uncertainty** about what the next shift in any economic cycle might look like when we're still in the economic cycle in question! But if stocks were to lose enough ground--and especially if a new political regime were to reverse some of the government borrowing trends associated with the tax bill--the bond market would likely have enough support for rates to turn a corner and head lower in a meaningful way.

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Recent Economic Data

Event Importance:

Date	Event	Actual	Forecast	Prior
Monday, Apr 16				
8:30AM	Apr NY Fed Manufacturing	15.80	18.80	22.50
8:30AM	Mar Retail Sales (%)	0.6	0.4	-0.1
10:00AM	Apr NAHB housing market indx	69	70	70
10:00AM	Feb Business Inventories (%)	0.6	0.6	0.6
Tuesday, Apr 17				
8:30AM	Mar Build permits: change mm (%)	2.5		-4.1
8:30AM	Mar House starts mm: change (%)	1.9		-7.0
9:15AM	Mar Capacity Utilization (%)	78.0	77.9	77.7
Wednesday, Apr 18				
7:00AM	w/e Mortgage Refinance Index	1149.5		1110.8
7:00AM	w/e Mortgage Market Index	399.4		380.6
Thursday, Apr 19				
8:30AM	Apr Philly Fed Business Index	23.2	20.1	22.3
8:30AM	w/e Jobless Claims (k)	232	230	233
Monday, Apr 23				
10:00AM	Mar Existing home sales (ml)	5.60	5.54	5.54
10:00AM	Mar Exist. home sales % chg (%)	1.1	0.2	3.0
Tuesday, Apr 24				
9:00AM	Feb CaseShiller 20 yy (%)	6.8	6.3	6.4
9:00AM	Feb Monthly Home Price mm (%)	0.6		0.8
10:00AM	Mar New home sales-units mm (ml)	0.694	0.630	0.618
10:00AM	Apr Consumer confidence	128.7	126.0	127.7
10:00AM	Mar New home sales chg mm (%)	+4.0	1.9	-0.6
1:00PM	2-Yr Note Auction (bl)	32		
Wednesday, Apr 25				
7:00AM	w/e Mortgage Market Index	398.5		399.4
1:00PM	5-Yr Note Auction (bl)	35		
Thursday, Apr 26				
8:30AM	Mar Durable goods (%)	2.6	1.6	3.0
8:30AM	Mar Nondefense ex-air (%)	-0.1	0.5	1.4
8:30AM	w/e Jobless Claims (k)	209	230	232
1:00PM	7-Yr Note Auction (bl)	29		
Friday, Apr 27				
8:30AM	Q1 GDP Advance (%)	2.3	2.0	2.9
10:00AM	Apr U Mich 1Yr Inf Final (%)	2.7		2.7
10:00AM	Apr U Mich 5-Yr Inf Final (%)	2.5		2.4
10:00AM	Apr U Mich Sentiment Final (ip)	98.8	98.0	97.8

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

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