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Scary Low Housing Numbers? Not Exactly

There's no question that some housing markets around the country are showing signs of cooling. Price reductions are starting to show up again after an extended absence, the average home is staying on the market a bit longer, and inventory is finally coming up from the lowest levels in decades.

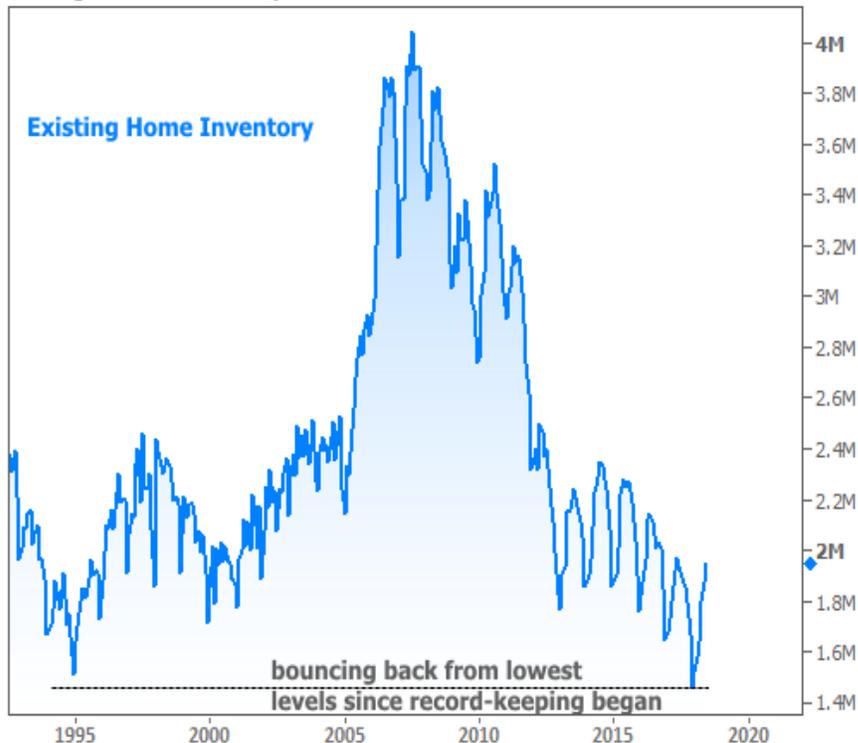
To top it all off, this week's new construction numbers unexpectedly **remained near 10-month lows**. Combine that with rising rates, an expected seasonal slowdown in sales, as well as uncertainty about how long the current economic expansion will last, and it's more than fair to wonder if the housing market is in trouble.

But before you panic, consider the following facts:

INVENTORY

Yes, it's rising--especially for existing homes--but that's arguably a **GOOD** thing. Existing home inventory had been on an unsustainable path lower. The bounce reflects much-needed cooling of what had/has been a lopsided sellers' market.

Existing Homes -- Inventory



National Average Mortgage Rates



	Rate	Change	Points
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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	4.4030	+0.0050
30 YR Treasury	4.5640	0.0000

Pricing as of: 7/1 4:49AM 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 BIG DROP IN HOUSING STARTS

Technically, there wasn't a big drop this week's (July's data). It was the last report (June's data) that had the big drop. This week's report simply kept housing starts at unexpectedly low levels (analysts were calling for a decent bounce).

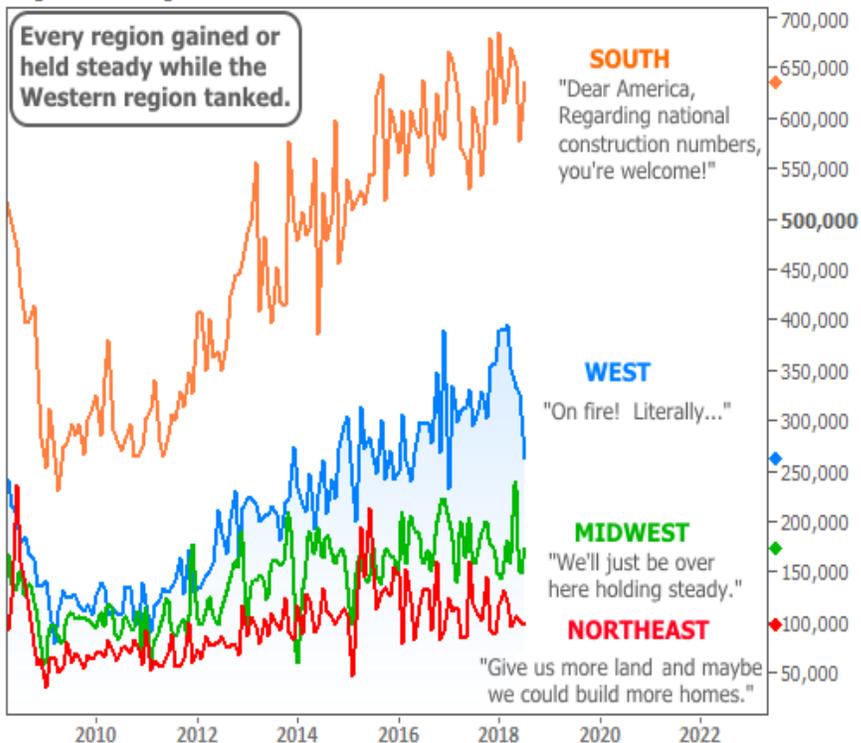
What is a "housing start" anyway? Think of it as the groundbreaking phase of home construction. Building permits come first and tend to be a bit less volatile. After all, a permit is mostly paperwork whereas groundbreaking depends on weather, labor, materials, etc. That occasionally results in construction numbers like those seen in the past 2 reports.

Housing Starts vs Building Permits



So **how do we know** if a big drop in housing starts can be chalked up to temporary variables? Many times, the easiest approach is to look at the numbers region by region. [Last time](#), wild weather and flash floods in the Midwest dragged the numbers down. This time, the Midwest bounced back while the Western region took a turn feeling the effects from extreme weather (drought, high temps, wildfires).

Regional Housing Starts

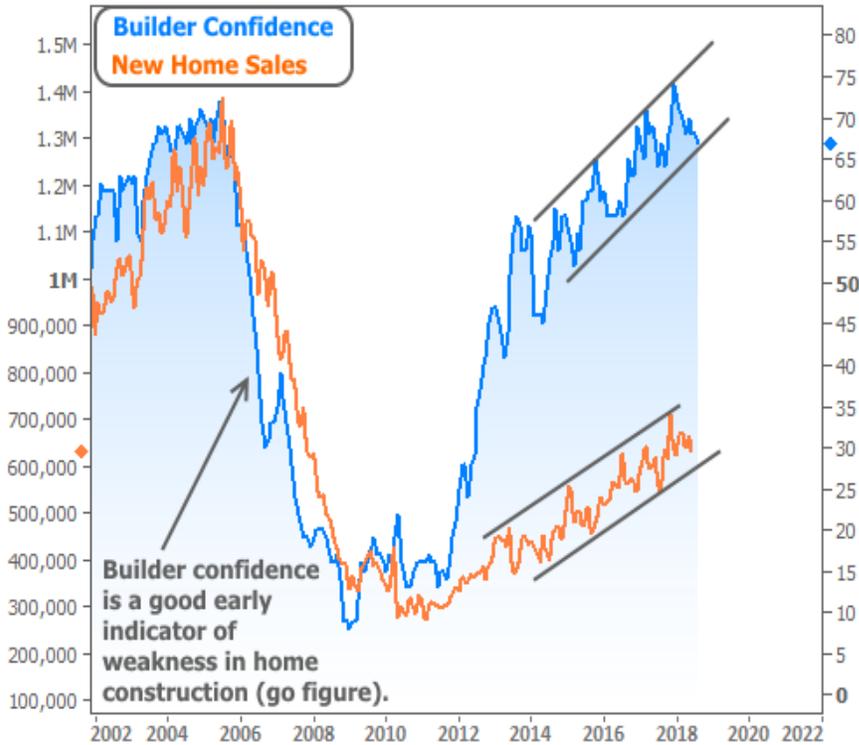


BUILDER CONFIDENCE

When we're pondering the fate the housing market, it's good to check in with builders. Confidence levels among builders are a **good early indicator** for new home sales. Incidentally, this week also brought the monthly builder confidence data, and while it's not skyrocketing back above recent long-term highs, it's definitely not painting the same picture as housing starts.

The following chart shows the persistent uptrend in builder confidence (via the NAHB's Housing Market Index) overlaid with New Home Sales (Census Bureau).

Builder Confidence vs New Home Sales

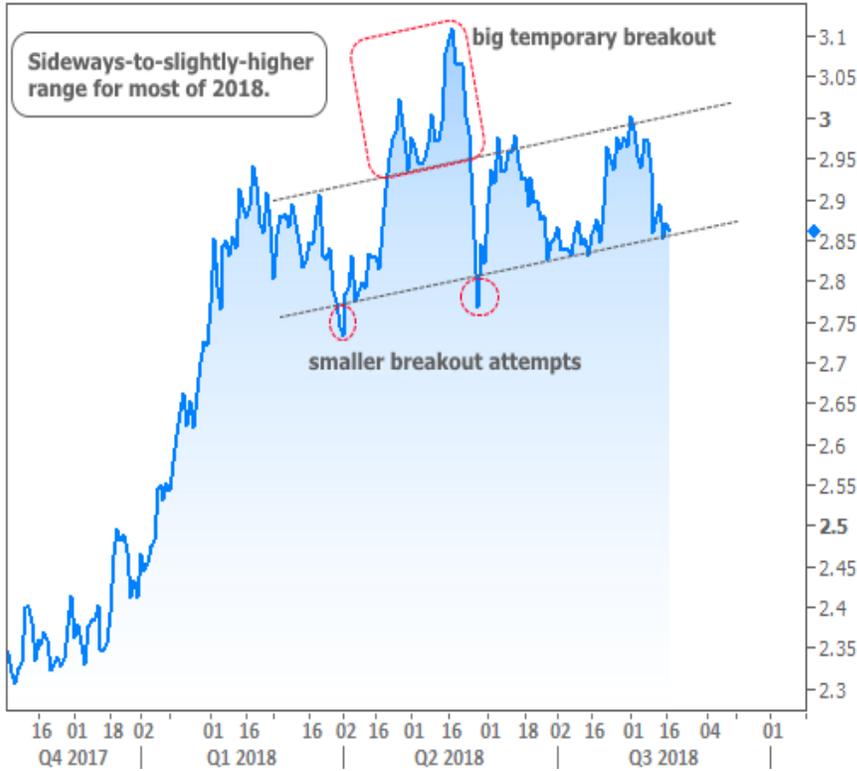


Bottom line: it's fair to discuss a 'leveling-off' in home sales. Certainly, the housing market isn't looking as invincible as it did a year or two ago. But that sort of invincibility isn't ideal. The pace of home price appreciation wasn't sustainable, and it still isn't. We're also seeing some of the effects of interest rates that have held near long-term highs fairly consistently.

INTEREST RATES

Rates have been doing fairly well over the past two weeks thanks to global economic jitters. But those jitters only add up to minor course corrections in the bigger picture. If we take a step back, we can see rates are moving sideways to slightly higher, despite a few attempts to break away from a fairly regular trend.

10yr Treasury Yield



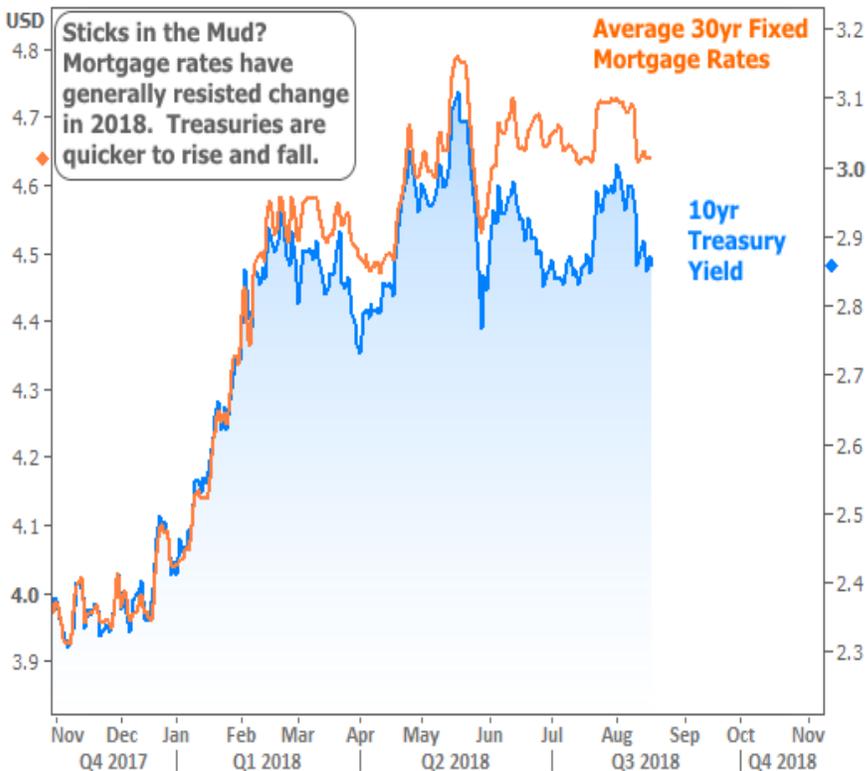
To put the global economic issues in perspective, consider that Turkish Lira and Chinese equities were two of this week's key stories. What happens if we overlay those indicators on the same chart of interest rates? If you look hard, there are a few examples of correlation, but Treasuries are definitely doing their own thing.

10yr Treasury Yield



Contrary to popular belief, mortgage rates aren't based on US Treasuries, though there is plenty of correlation. That means mortgage rates can also do their own thing at times. This is usually hard to spot, because they tend to move in lock-step with Treasuries, but if we look at them side by side, we can see mortgage rates have been more reluctant to return to February's levels compared to 10yr Treasury yields.

Treasuries vs Rates



This can eventually change, but until it does, sideways-to-higher rates aren't doing any favors for the housing market. Then again, that **could depend** on your definition of "favors." To whatever extent the housing market was too hot and needed to cool off a bit, mortgage rates near 7-year highs are happy to help.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Aug 14				
8:30AM	Jul Import prices mm (%)	0.0	0.1	-0.4
8:30AM	Jul Export prices mm (%)	-0.5	0.2	0.3
Wednesday, Aug 15				
7:00AM	w/e MBA Purchase Index	225.5		233.1
7:00AM	w/e Mortgage Refinance Index	927.5		927.6
8:30AM	Jul Retail Sales (%)	0.5	0.1	0.5
8:30AM	Aug NY Fed Manufacturing	25.60	20.00	22.60
8:30AM	Q2 Productivity Preliminary (%)	2.9	2.3	0.4

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	Q2 Labor Costs Preliminary (%)	-0.9	0.3	2.9
9:15AM	Jul Industrial Production (%)	0.1	0.3	0.6
9:15AM	Jul Capacity Utilization (%)	78.1	78.2	78.0
10:00AM	Aug NAHB housing market indx	67	67	68
10:00AM	Jun Business Inventories (%)	0.1	0.1	0.4
Thursday, Aug 16				
8:30AM	Jul House starts mm: change (%)	0.9		-12.3
8:30AM	Jul Building permits: number (ml)	1.311	1.310	1.292
8:30AM	Jul Housing starts number mm (ml)	1.168	1.260	1.173
8:30AM	Jul Build permits: change mm (%)	1.5		-0.7
8:30AM	Aug Philly Fed Business Index	11.9	22.0	25.7
8:30AM	w/e Jobless Claims (k)	212	215	214
Friday, Aug 17				
10:00AM	Aug Consumer Sentiment	95.3	98.0	97.9
Wednesday, Aug 22				
7:00AM	w/e MBA Purchase Index	232.1		225.5
7:00AM	w/e Mortgage Refinance Index	982.7		927.5
10:00AM	Jul Existing home sales (ml)	5.34	5.40	5.38
10:00AM	Jul Exist. home sales % chg (%)	-0.7	0.6	-0.6
Thursday, Aug 23				
8:30AM	w/e Jobless Claims (k)	210	214	212
9:00AM	Jun Monthly Home Price yy (%)	6.5		6.4
Friday, Aug 24				
8:30AM	Jul Durable goods (%)	-1.7	-0.5	0.8
8:30AM	Jul Nondefense ex-air (%)	1.4	0.4	0.2

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

