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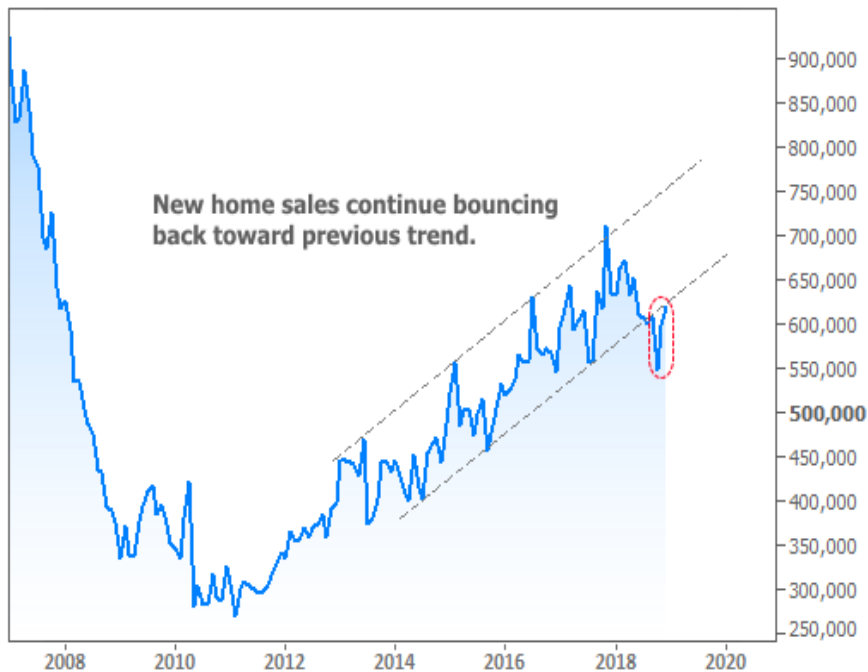
## Housing Pops; Rates Drop

Things were starting to look pretty scary for housing up until a few weeks ago. There was a chance that **some** of the weakness was temporary. Last week's strong Pending Home Sales report provided some hope, but we didn't have any other big housing reports to validate the hope... until now.

New Home Sales were as low as 549k at the end of 2018. This was well below the post-crisis trend of improvement. A strong number at the end of January had to be taken with a **grain of salt** because it pertained to November's sales, not to mention the fact that this data series is notoriously prone to revisions.

This week brought us December's New Home Sales data, and while there was a negative revision to that strong November number, it fell into a nice line leading back to the previous trend as seen in the chart below. Granted, we're just now back to the lower boundary of that growth trend, but things could definitely be worse.

**New Home Sales**



In a separate report from the Census Bureau, **New Residential Construction** showed a similar uptick for Building Permits and Housing Starts (which refers to the breaking of ground on new construction).

## 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

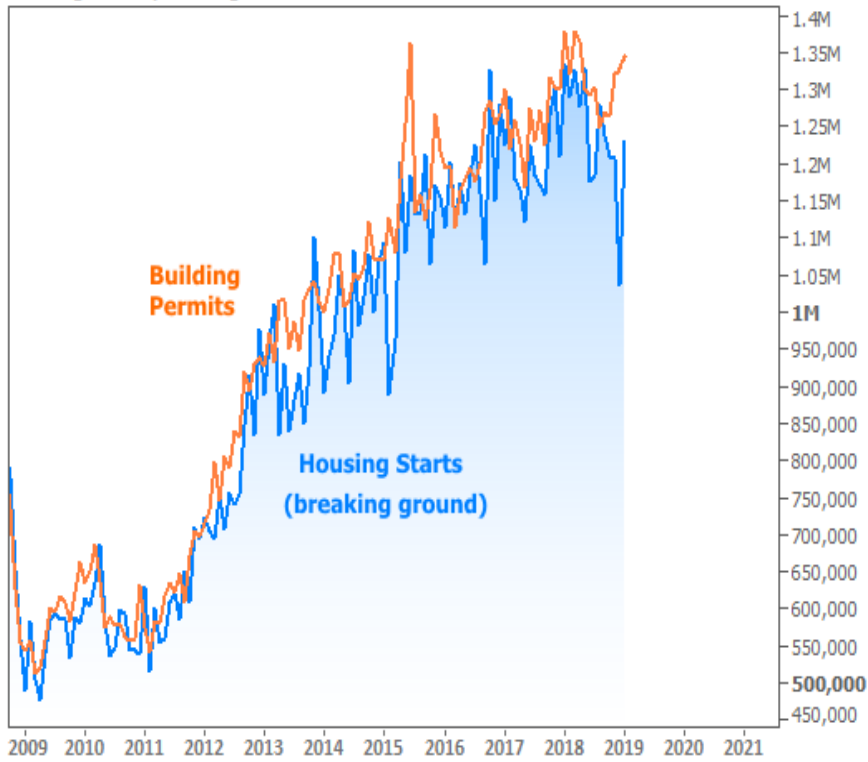
	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3961	-0.0019
30 YR Treasury	4.5659	+0.0019

Pricing as of: 7/1 2:47AM EST

## Recent Housing Data

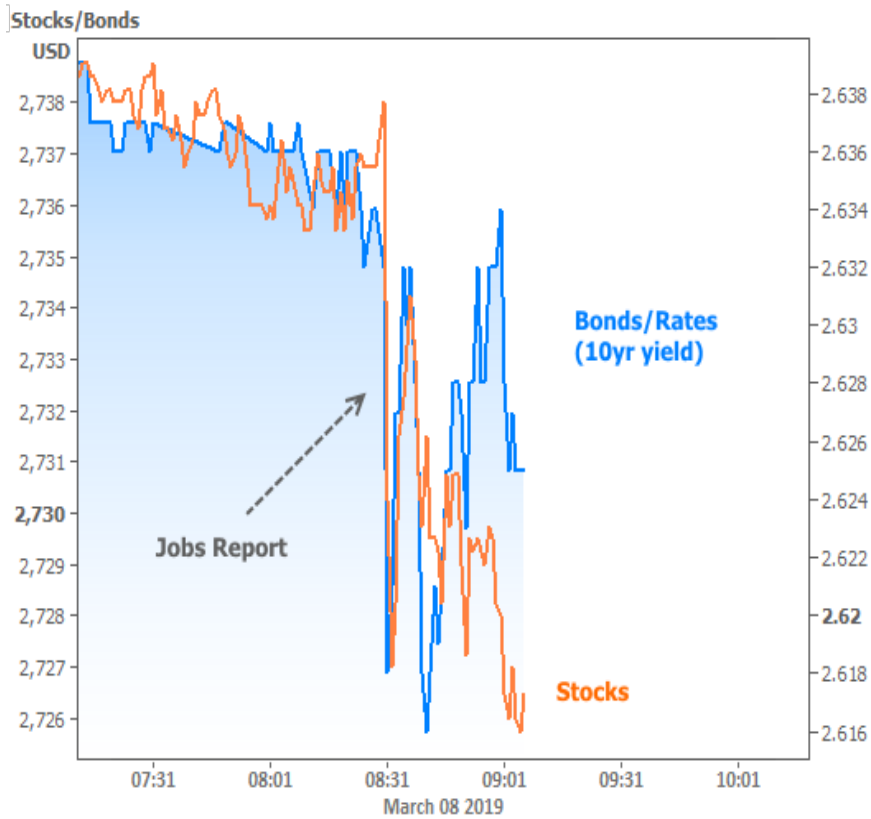
		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

Housing Starts / Building Permits



At least part of the equation for the housing slump and recovery has been interest rates. **Unlike** stocks, which have closed much of the gap to 2018 highs, rates remain near the **lowest levels** in more than a year. Part of the reason for this is a softening in economic data. A strong economy can support higher rates, so economic weakness tends to coincide with rates falling.

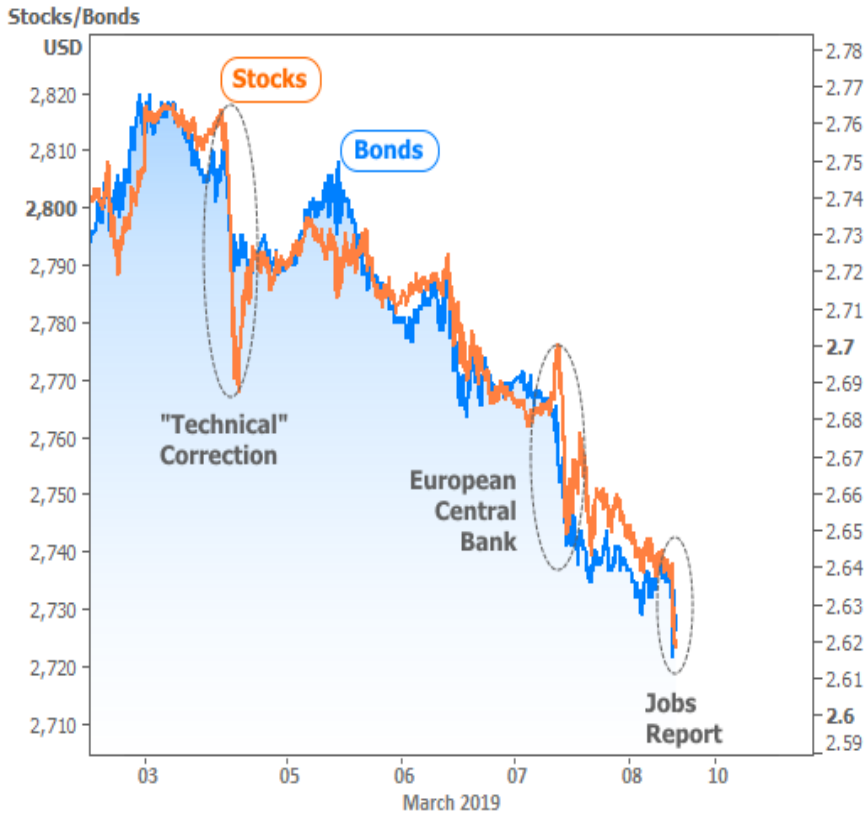
The Employment Situation (aka the "jobs report") is the most important piece of economic data as far as interest rates are concerned. When it's weaker than expected, rates tend to fall. Friday's jobs report was **incredibly weak!** Rates clearly should have fallen in response. They did exactly that at first, but paradoxically bounced higher as the morning continued.



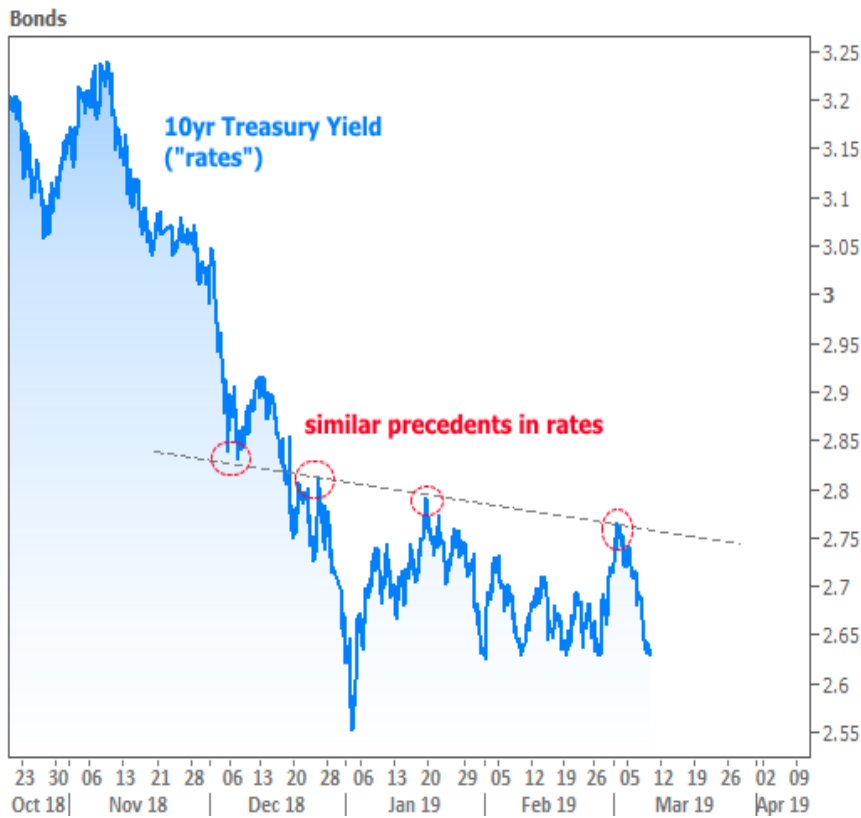
Stocks were included in the chart above to show the correlation that's frequently seen surrounding surprising economic data. Logically, bad economic news could prompt investors to sell stocks and buy bonds (**buying** bonds = lower rates). So why did some investors start **selling** bonds (pushing the blue line higher) even though stocks continued to fall?

It's a bit anticlimactic to consider, but rates may simply have had enough of a good thing for the week. Thank central banks for that!

Economic data may paint a picture and suggest a logical range for interest rates, but more often than not, it's central bank policy changes that cause the bigger movements inside those ranges. Both the Fed and the ECB (European Central Bank) have been fairly friendly toward bonds/rates recently. This week, it was the ECB's turn. Thursday's ECB Announcement and press conference helped rates improve at their fastest pace of the week.

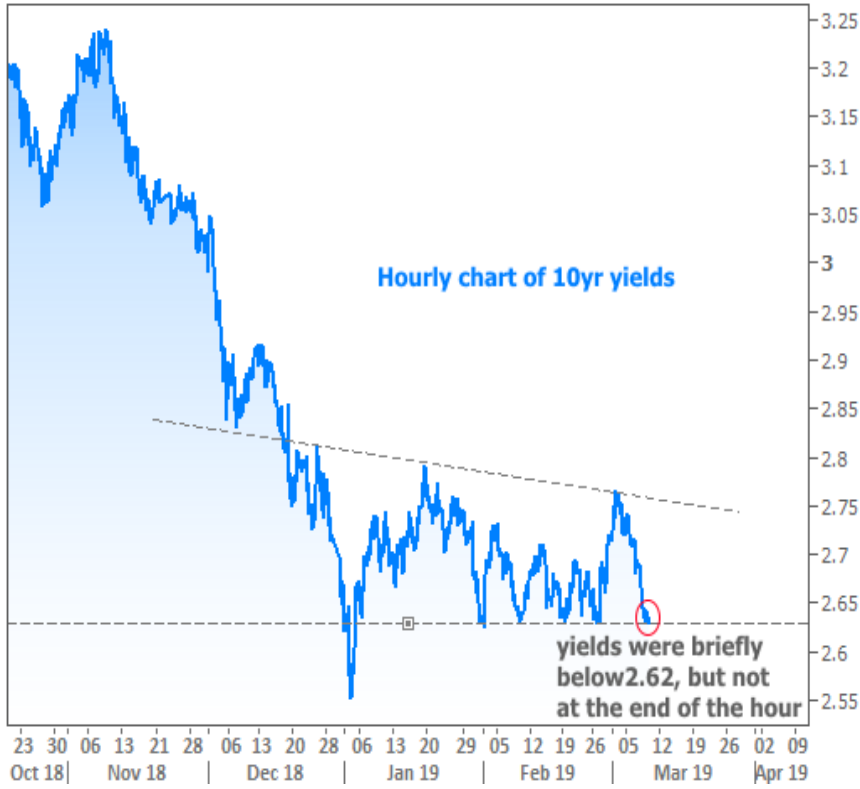


Notice the reference to a **"technical correction"** in the chart above. This refers to trading that disregards fundamental data/news/events and instead relies only on the chart patterns for decision making. For instance if stocks/rates hit a certain ceiling multiple times, investors might assume another bounce will result in a similar amount of movement. As a result, they may trade in the implied direction as soon as it looks like other traders are doing the same thing. This likely contributed to ceilings in stock prices and bond yields ("rates") early this week.



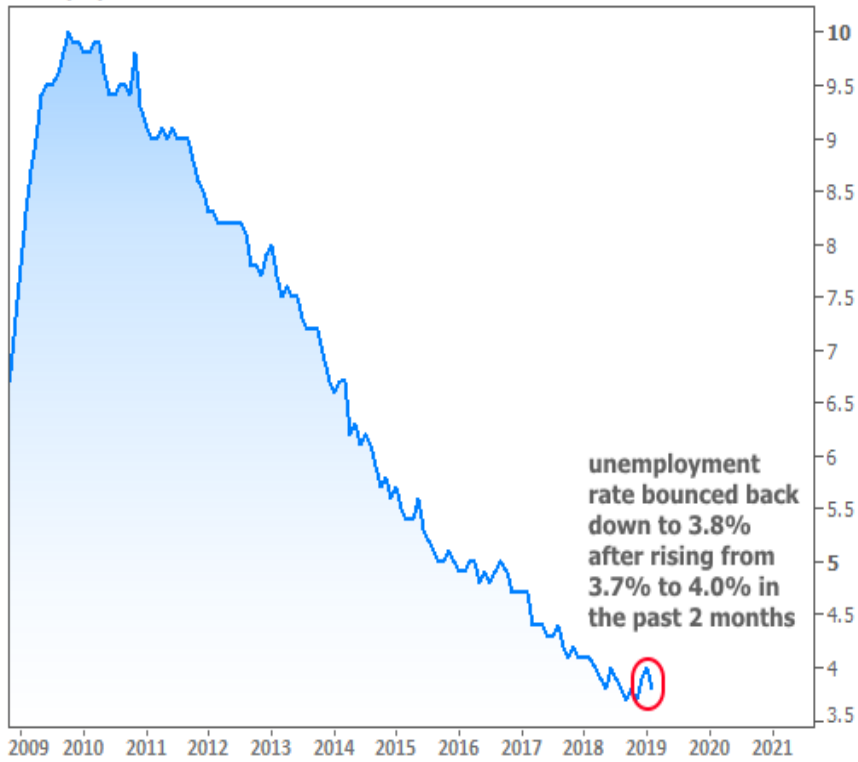
Just like there are technical ceilings, we also frequently see technical **floors**. To bring the discussion full circle, we could also argue that rates **resisted** a bigger move lower after the jobs report because it would have meant breaking below such a floor.

Bonds

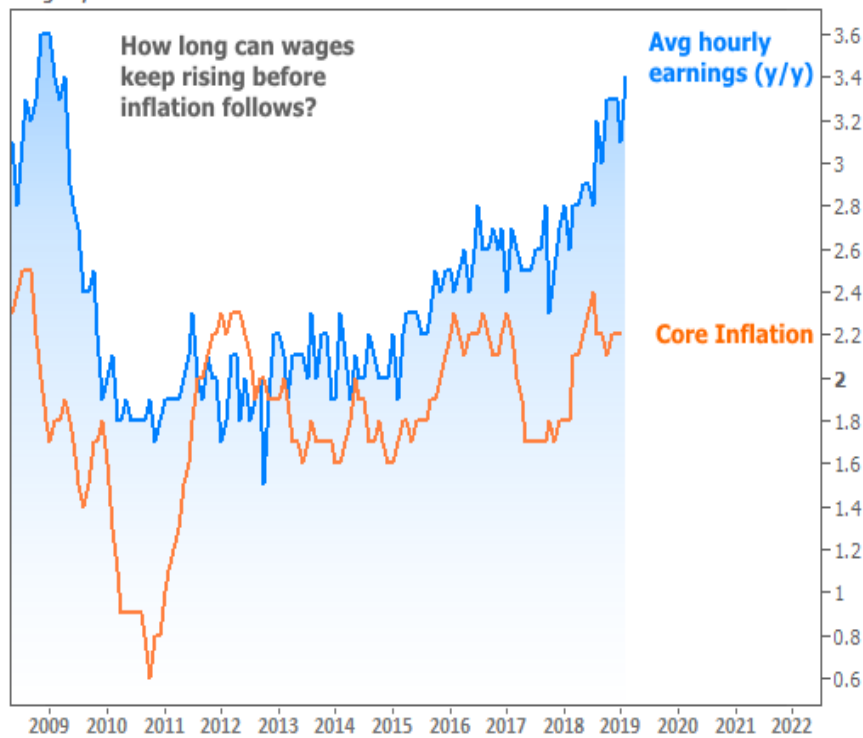


Despite the evidence for technical resistance, not everyone will be satisfied with that explanation. In their defense, it really is **a lot to ask** to believe chart patterns caused rates to ignore such a huge drop in the jobs count. For those left with raised eyebrows, consider the internal components of the jobs report. Not only did the **unemployment rate** fall back to 3.8%, but wage growth rose to another **post-crisis high**. Inflation may not be a huge concern at the moment, but investors will increasingly have to ask themselves how much higher wages can go without inflation eventually being pulled higher (higher inflation puts upward pressure on rates).

Unemployment Rate



Wages / Inflation



We won't get any more central bank **bombshells** in the week ahead, but that's only because the Fed is in a communications blackout in advance of its next big policy announcement in the following week. We will, however, get another round of fairly important economic data, and we've been looking toward this mid-March time frame for investors to become more willing to react to the data after taking things with a grain of salt surrounding the government shutdown. **Bottom line:** rate volatility could just be getting started.

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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Monday, Mar 04</b>				
10:00AM	Dec Construction spending (%)	-0.6	0.2	0.8
<b>Tuesday, Mar 05</b>				
10:00AM	Feb ISM N-Mfg PMI	59.7	57.3	56.7
10:00AM	Dec New home sales-units mm (ml)	0.621	0.600	0.657
10:00AM	Dec New home sales chg mm (%)	+3.7	-8.7	16.9
<b>Wednesday, Mar 06</b>				
7:00AM	w/e MBA Purchase Index	240.5		247.0
7:00AM	w/e Mortgage Refinance Index	1110.9		1133.8
8:15AM	Feb ADP National Employment (k)	183	189	213
<b>Thursday, Mar 07</b>				
8:30AM	w/e Jobless Claims (k)	223	225	225
<b>Friday, Mar 08</b>				
8:30AM	Feb Average earnings mm (%)	0.4	0.3	0.1
8:30AM	Feb Non-farm payrolls (k)	20	180	304
8:30AM	Feb Unemployment rate mm (%)	3.8	3.9	4.0
8:30AM	Jan Building permits: number (ml)	1.345	1.289	1.326
8:30AM	Jan Build permits: change mm (%)	1.4		0.3
8:30AM	Jan House starts mm: change (%)	+18.6		-11.2
8:30AM	Jan Housing starts number mm (ml)	1.230	1.197	1.078
<b>Monday, Mar 11</b>				
8:30AM	Jan Retail Sales (%)	0.2	0.0	-1.2
<b>Tuesday, Mar 12</b>				
8:30AM	Feb Core CPI (Annual) (%)	+2.1	2.2	2.2
<b>Wednesday, Mar 13</b>				
7:00AM	w/e Mortgage Refinance Index	1108.3		1110.9
7:00AM	w/e MBA Purchase Index	250.8		240.5
8:30AM	Jan Durable goods (%)	0.4	-0.5	1.2
8:30AM	Jan Nondefense ex-air (%)	0.8	0.1	-1.0
8:30AM	Feb Core Producer Prices YY (%)	+2.5	2.6	2.6
<b>Thursday, Mar 14</b>				
8:30AM	w/e Jobless Claims (k)	229	225	223
<b>Friday, Mar 15</b>				
9:15AM	Feb Industrial Production (%)	0.1	0.4	-0.6
10:00AM	Mar 1yr Inflation Outlook (%)	2.4		2.6

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important



Date	Event	Actual	Forecast	Prior
10:00AM	Mar 5yr Inflation Outlook (%)	2.5		2.3
10:00AM	Mar Consumer Sentiment	97.8	95.3	93.8
<b>Wednesday, Apr 10</b>				
1:00PM	10-yr Note Auction (bl)	24		
<b>Thursday, Apr 11</b>				
1:00PM	30-Yr Bond Auction (bl)	16		

## 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**

