



**Mike Baker**

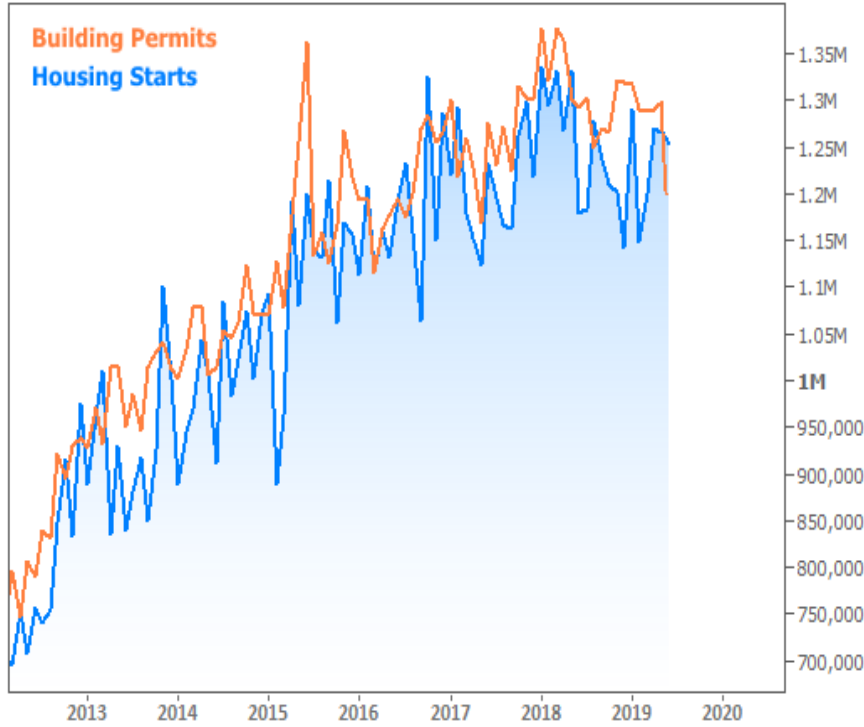
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## The Other Side of This Week's Scary Housing News

This week's most prevalent housing market headlines were quick to mention the abrupt drop in Building Permits to the lowest levels in 2 years. Other headlines pointed out that it was the quickest move lower in more than 2 years. Both statements are true. So is it time to stick a fork in the housing market? Not exactly...

Housing Starts vs Building Permits



While there was indeed a big drop in this week's Residential Construction report (for June), the nuances are worth considering. Most notably, separating single family construction from multi-family reveals the latter to be the only culprit. In fact, single family permits **actually improved** in June!

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
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

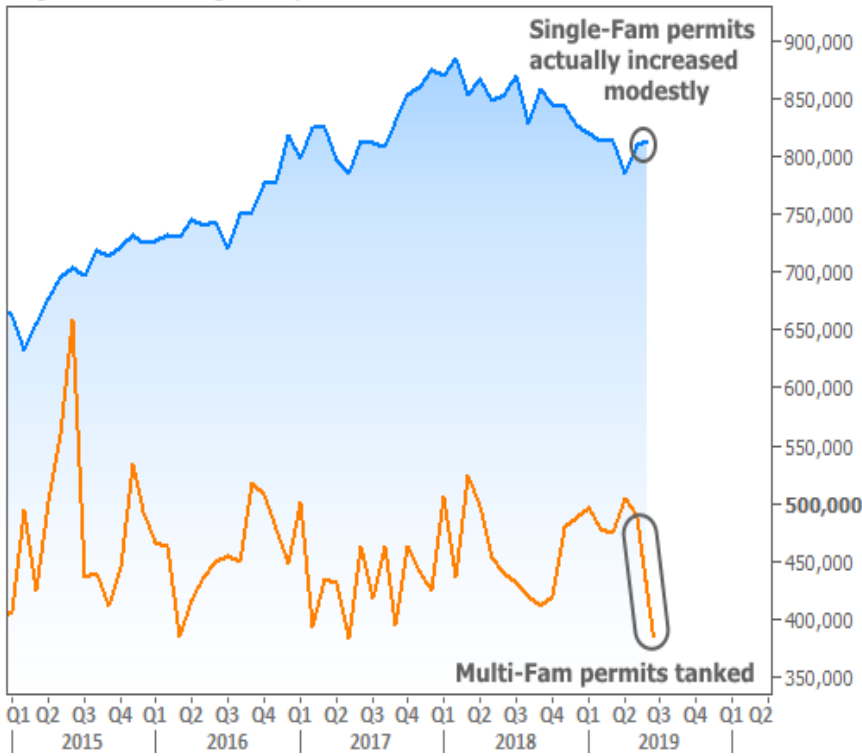
	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3951	-0.0029
30 YR Treasury	4.5645	+0.0005

Pricing as of: 7/1 2:45AM 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%

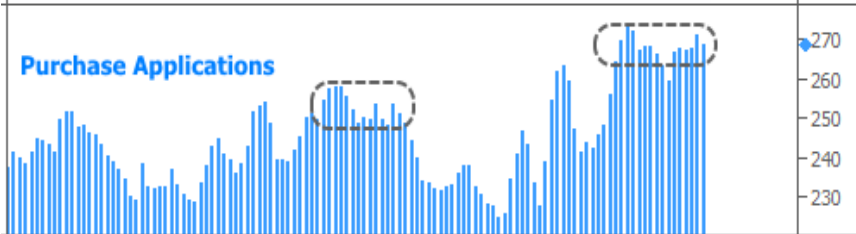
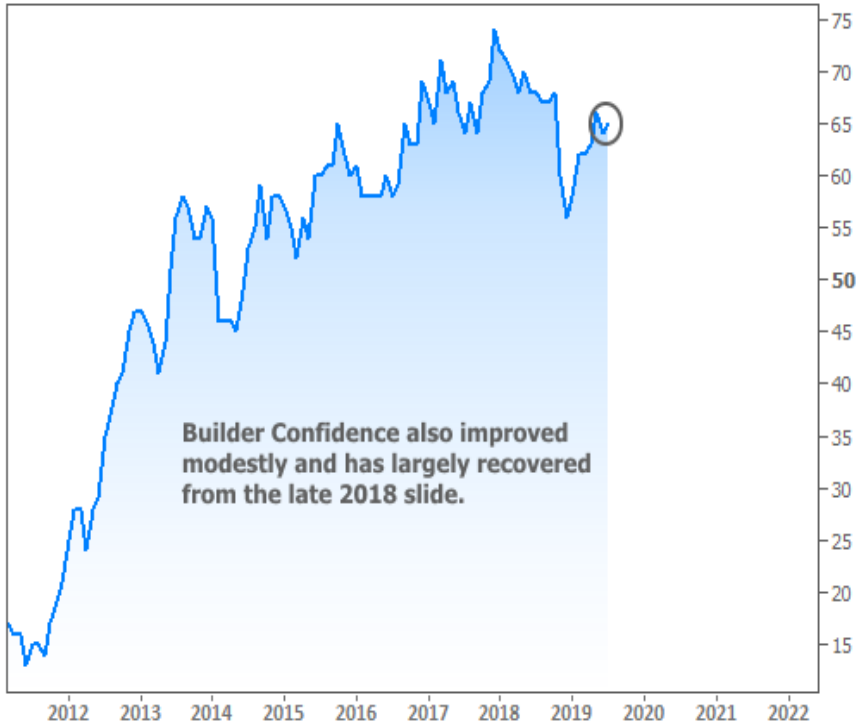
single fam vs non-single-fam permits



It's too soon to say if this is indicative of a broader or longer-lasting decline in the multi-family sector as the drop is just inside the range that's persisted for almost 5 years. It would be more troubling to see permits break below that range. Even then, this sector **doesn't** historically tell us anything about the broader housing market that isn't already seen in single-family numbers.

Elsewhere in this week's housing market data, there wasn't anything nearly as tricky to sort out. The National Association of Homebuilders reported an **uptick in builder confidence**. And the Mortgage Bankers Association released another solid week of application data. Strong refi demand makes good sense considering rates are holding near long-term lows. It's also refreshing to see purchase applications holding closer to springtime highs compared to the same seasonal "second wind" in 2018.

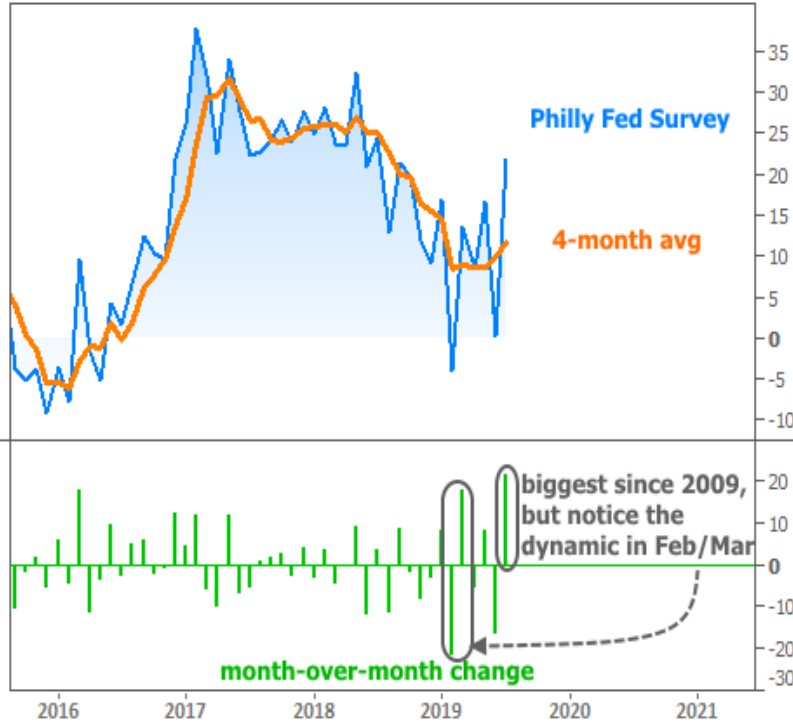
Builder Confidence



Away from housing, other economic data was even stronger, and that presented a risk for mortgage rates. Economic data and mortgage rate movement go hand in hand. A stronger economy puts upward pressure on rates. A contracting economy helps rates move lower. While this is far from the only source of inspiration, it's indirectly linked to other major sources of inspiration (like Fed policy). Paradoxically, rates managed to move a bit **lower** this week despite an exceptionally **strong** economic report. What's up with that?

The Philadelphia Federal Reserve district publishes a highly regarded report on the manufacturing outlook each month (dubbed simply "The Philly Fed Survey"). It **crushed** expectations on Thursday. True to form, the bond market weakened at first, thus suggesting higher rates. But bonds quickly found their footing. This likely had to do with the fact that last month's Philly Fed survey was almost equally as weak. In other words, this month's big beat mostly served to wash out last month's big miss. The same pattern was seen in February and March this year. Either way, the 4-month moving average smooths the volatility out nicely. At best, it's suggesting the late-2018 deceleration in manufacturing may have hit bottom.

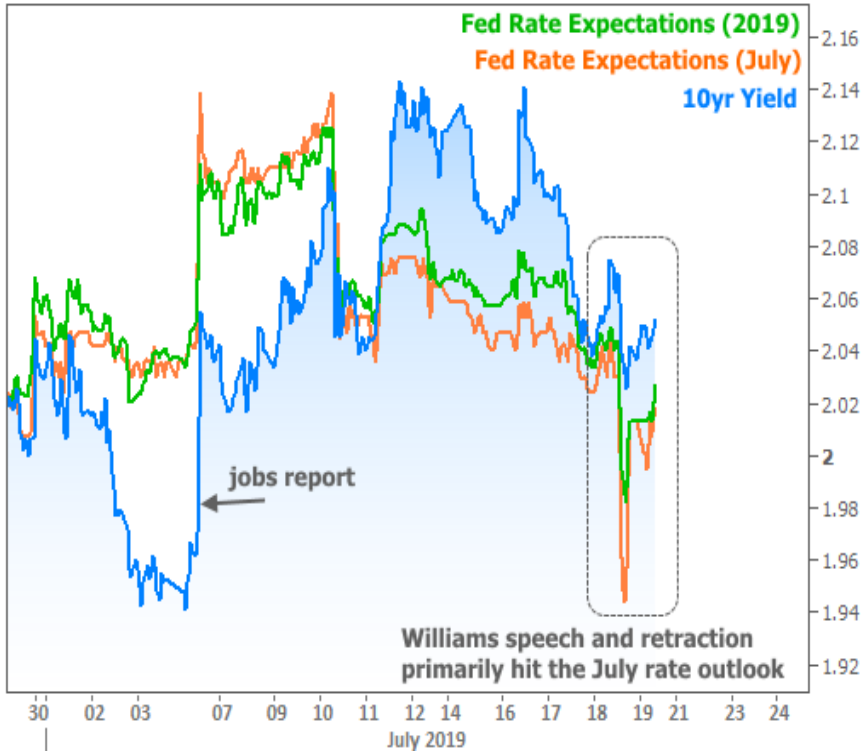
Philly Fed Survey



But manufacturing isn't the only game in town. On the same day, a member of the Federal Reserve (San Francisco Fed President Williams) shared a few bold comments that some investors took as an indication that the Fed could cut rates by 0.50% at the end of the month as opposed to the 0.25% that is already a foregone conclusion.

Fed rate expectations have a bigger impact on shorter-term rates like Treasury bills and 2yr notes, but longer-term rates like mortgages and 10yr Treasuries also benefit. Additionally, there are different measurements of Fed rate expectations. The farther out we look, the more they'll correlate with longer-term rates. The following chart shows the relative movement in Fed rate expectations (lower = more likely to cut or to cut by bigger amounts).

Rates vs Rate Cut Expectations



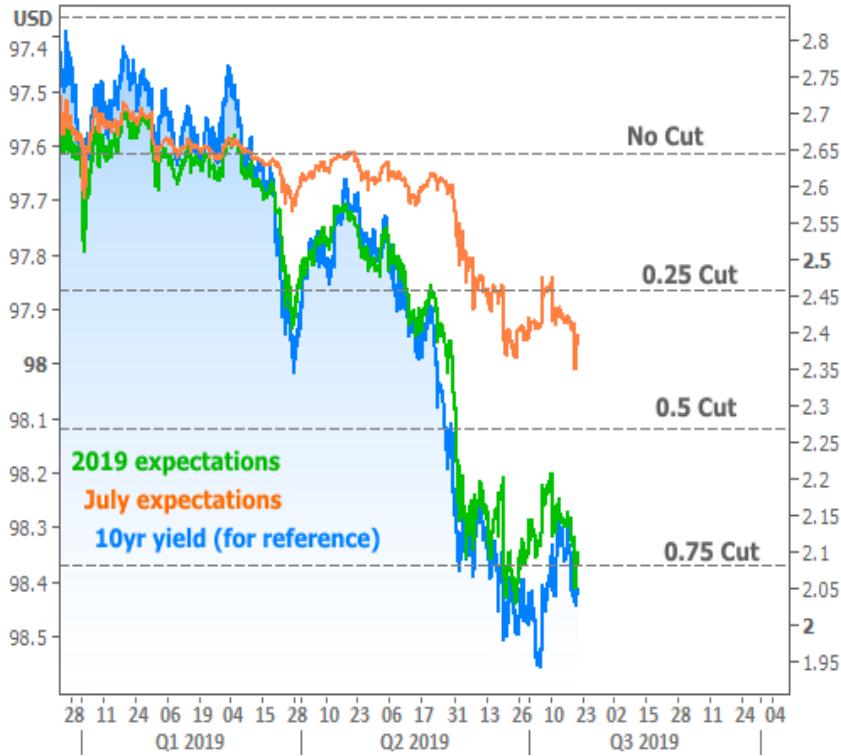
If we change the scaling a bit, we can see things have been fairly calm for 2019's rate outlook in the past month while investors debate the size of July's rate cut.

Rates vs Rate Cut Expectations



Finally, here are the same indicators with **no adjustments for scaling**. Rather, the horizontal lines correspond to certain levels for the Fed Funds Rate. Bottom line: the market is 100% certain of a 0.25% rate cut on July 31st. The only debate was whether the Fed might cut by 0.50%. There's broader agreement on rates moving another 0.5% lower by the end of the year (likely via 2 more cuts of 0.25% each).

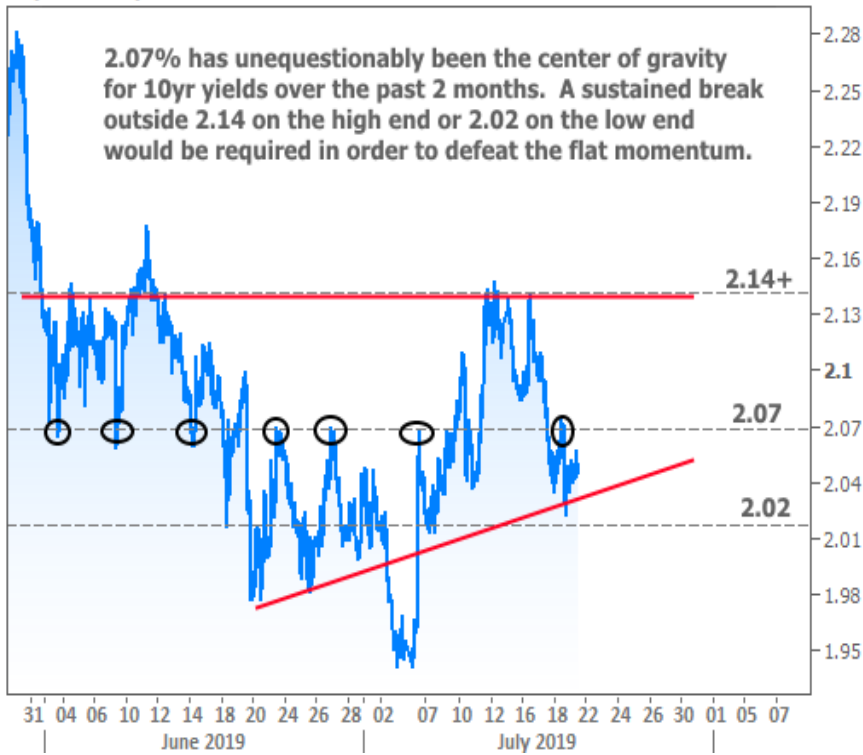
Rates vs Rate Cut Expectations



With all the discussion (here and elsewhere) about impending Fed rate cuts, it's very important to remember that mortgage rates (and pretty much any other rate based on securities that can be traded in real time) have already adjusted for what they think will happen in the future. They'd be foolish not to. This concept was discussed in much greater detail in last week's newsletter. The takeaway is that the Fed could cut its rate this month and **mortgage rates could then move higher**.

For now though, rates are biding their time in a range surrounding long-term lows. The 10yr Treasury yield is the quintessential benchmark for longer-term rates, and a few yield levels can help us gauge the beginning of the next move.

10yr Treasury Yield



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Monday, Jul 15</b>				
8:30AM	Jul NY Fed Manufacturing	4.30	2.00	-8.60
<b>Tuesday, Jul 16</b>				
8:30AM	Jun Retail Sales (%)	0.4	0.1	0.5
8:30AM	Jun Import prices mm (%)	-0.9	-0.7	-0.3
8:30AM	Jun Export prices mm (%)	-0.7	-0.2	-0.2
9:15AM	Jun Industrial Production (%)	0.0	0.1	0.4
9:15AM	Jun Capacity Utilization (%)	77.9	78.1	78.1
10:00AM	Jul NAHB housing market indx	65	64	64
<b>Wednesday, Jul 17</b>				
7:00AM	w/e MBA Purchase Index	265.1		275.6
7:00AM	w/e Mortgage Refinance Index	1827.3		1799.7
8:30AM	Jun House starts mm: change (%)	-0.9		-0.9
8:30AM	Jun Housing starts number mm (ml)	1.253	1.261	1.269
8:30AM	Jun Building permits: number (ml)	1.220	1.300	1.299
8:30AM	Jun Build permits: change mm (%)	-6.1		0.7
<b>Thursday, Jul 18</b>				

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	Jul Philly Fed Business Index	21.8	5.0	0.3
8:30AM	w/e Jobless Claims (k)	216	215	209
<b>Friday, Jul 19</b>				
10:00AM	Jul 5yr Inflation Outlook (%)	2.6		2.3
10:00AM	Jul 1yr Inflation Outlook (%)	2.6		2.7
10:00AM	Jul Consumer Sentiment	98.4	98.5	98.2
<b>Tuesday, Jul 23</b>				
9:00AM	May Monthly Home Price yy (%)	+5.0		5.2
9:00AM	May Monthly Home Price mm (%)	+0.1		0.4
10:00AM	Jun Existing home sales (ml)	5.27	5.33	5.34
10:00AM	Jun Exist. home sales % chg (%)	-1.7	-0.2	2.5
1:00PM	2-Yr Note Auction (bl)	40		
<b>Wednesday, Jul 24</b>				
7:00AM	w/e MBA Purchase Index	260.8		265.1
7:00AM	w/e Mortgage Refinance Index	1789.8		1827.3
10:00AM	Jun New home sales chg mm (%)	7	6.0	-7.8
10:00AM	Jun New home sales-units mm (ml)	0.646	0.660	0.626
1:00PM	5-Yr Note Auction (bl)	41		
<b>Thursday, Jul 25</b>				
8:30AM	Jun Durable goods (%)	2.0	0.7	-1.3
8:30AM	w/e Jobless Claims (k)	206	219	216
1:00PM	7-Yr Note Auction (bl)	32		
<b>Friday, Jul 26</b>				
8:30AM	Q2 GDP Advance (%)	2.1	1.8	3.1



## 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**

