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Huge Housing Rebound, All-Time Low Rates, But At What Cost?

This week's economic data included the **biggest-ever** gain in Pending Home Sales, a leading indicator for the housing market. Meanwhile, mortgage rates pushed down to new all-time lows yet again.

But at what cost?

The **most pessimistic** way to explain the surge in home sales is to say it was only made possible by the record-setting **declines** in the past few months.



That's mostly true, but it **fails to give credit** to what the industry and government officials have been doing to help jump start economic activity. Would sales bounce back like this without all-time low mortgage rates and a stock market recovery (both made possible by emergency intervention from the Federal Reserve)? Would consumers be as comfortable spending money without the promise of additional fiscal stimulus and other support programs already in place?

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	4.3902	-0.0078
30 YR Treasury	4.5578	-0.0062

Pricing as of: 7/1 12:49AM EST

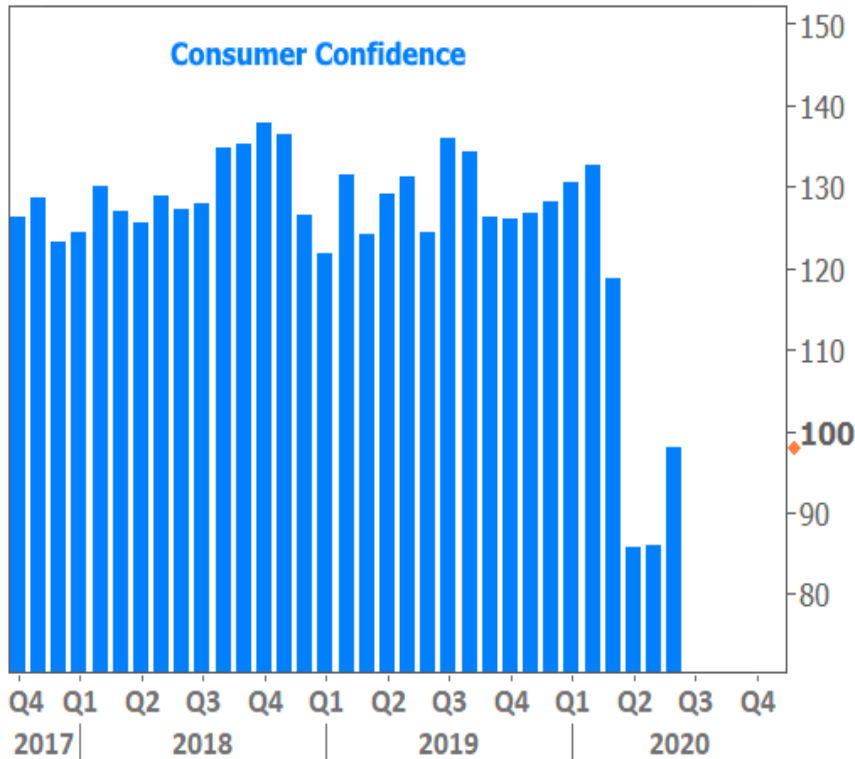
Recent Housing Data

		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%

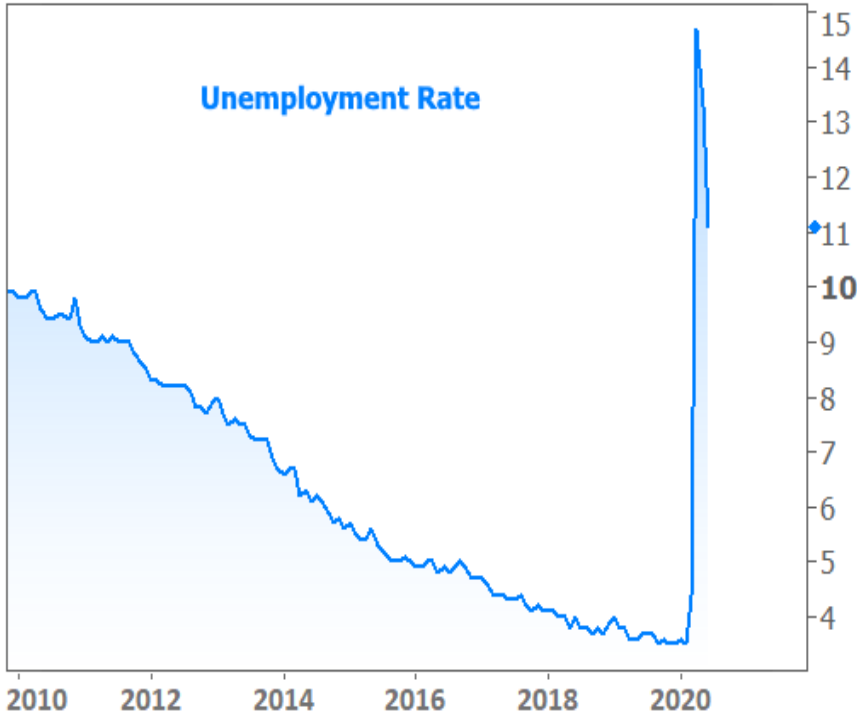
While we can't say exactly how big the impact would be if we removed those helping hands, we have to assume things would be worse without them, at least in the here and now. Critics contend that the emergency programs could cause issues in the future, but as is **always** the case with emergency support from the Fed or the US government, the preference is to avoid **present day** pain even if it simply delays the inevitable.

It's also important to keep in mind that we're really only talking about the **early stages** of an economic recovery. Many other economic indicators suggest we've only taken a small bite out of the broader damage caused by coronavirus.

For instance, consumer confidence jumped **much higher**, but it's **nowhere near** pre-coronavirus levels.

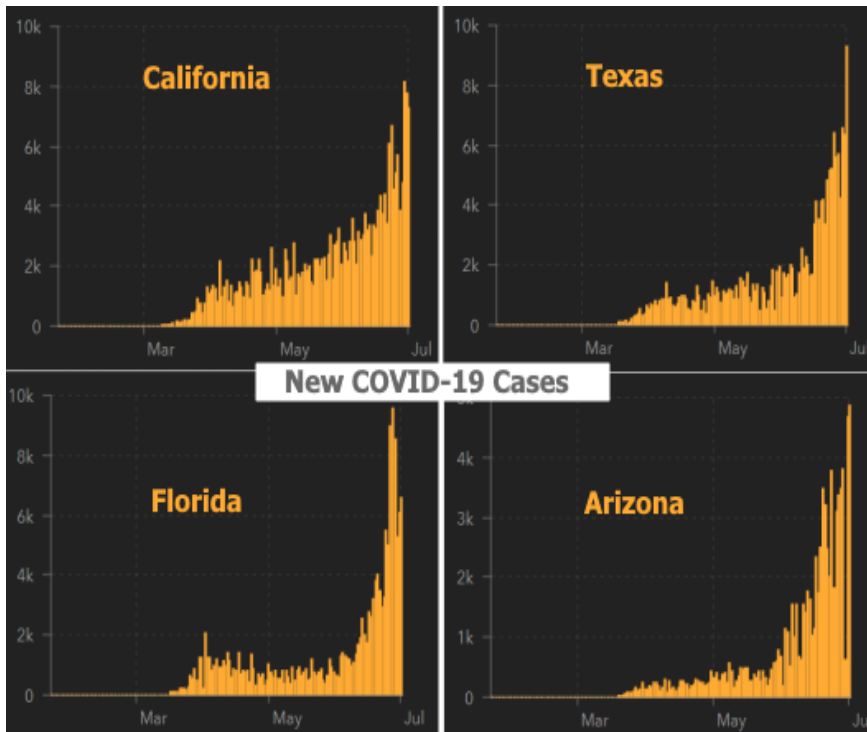


The unemployment rate fell **much** more than economists expected, but it remains at levels that would be considered **borderline catastrophic** relative to recent precedent.

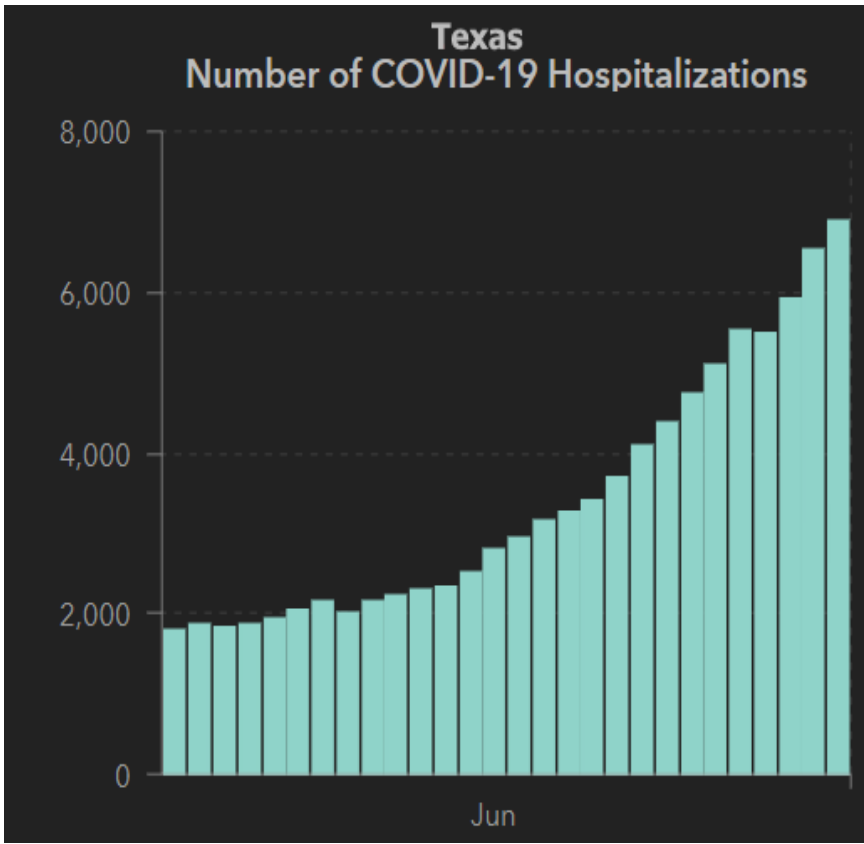


The **true test** for an economic rebound will be **HOW MUCH** of the recent precedent can be recovered. The jury is very much out on that one, and it's going to take plenty of time for that to change.

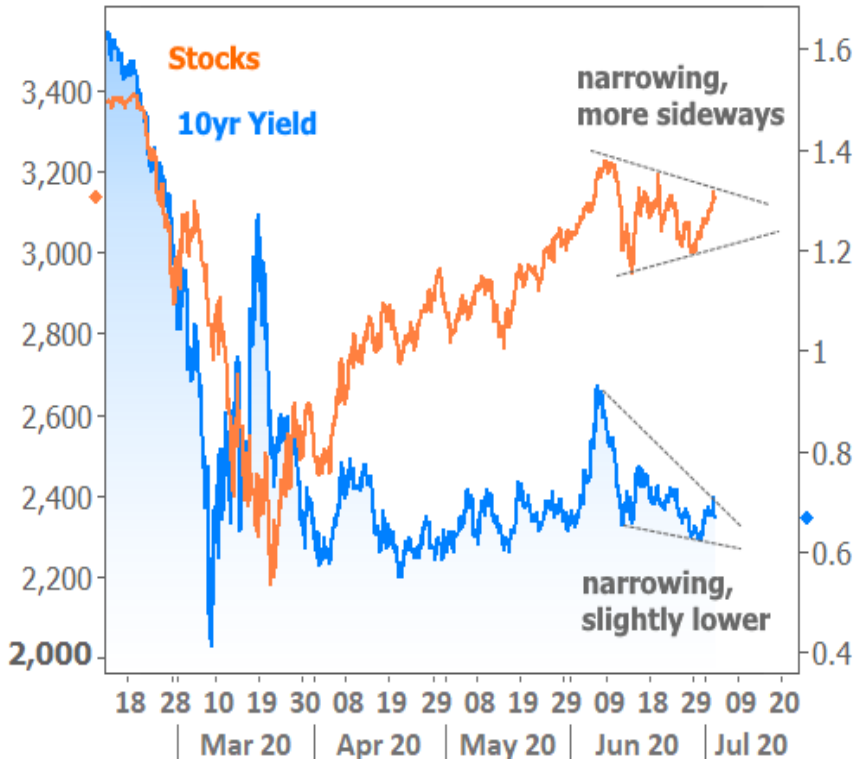
Financial markets know this. They've settled into the role of **spectators in the battle** between coronavirus numbers and economic progress. Several states have been in the spotlight recently, serving as a warning that it may not be a simple task to reopen local economies without risking an unacceptable increase in case counts.



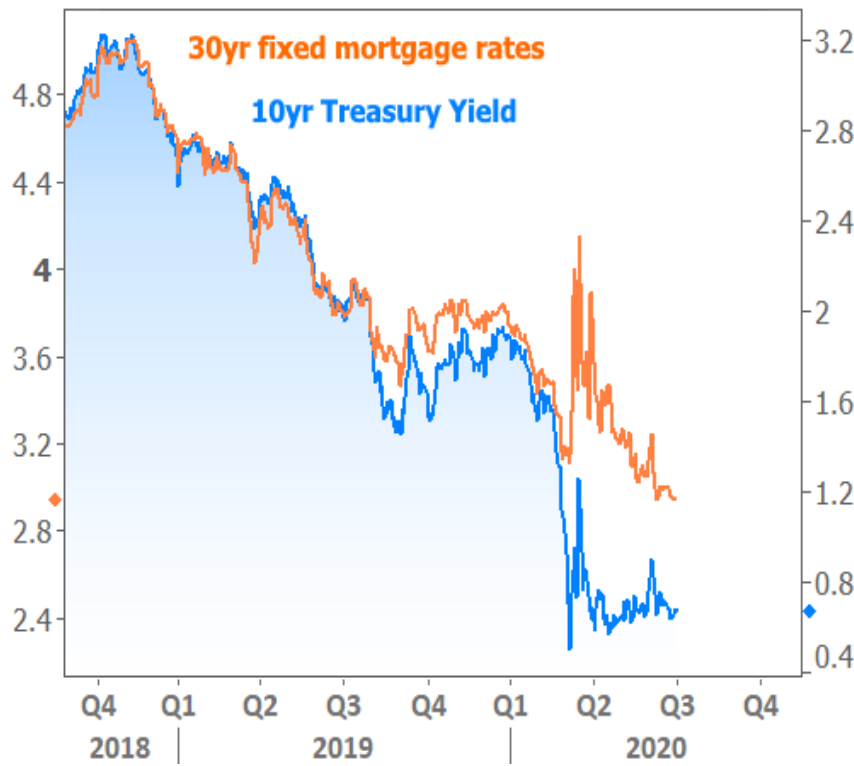
And yes, we should all be cognizant of the nuances created by **increased testing** capacity. That's why the focus has shifted from case counts to include positive test rates and hospitalizations. In some cases, increased testing explains most of the surge. But in general, the states with troubling increases in numbers are seeing hospitalizations ramp up as well.



As the correlation between economic reopening and these covid numbers came to the forefront in June, both sides of the financial market (equities/stocks and debt/bonds/rates) **halted** their prevailing momentum and circled the wagons. In other words, stocks were surging, but since early June, they've been sideways in a narrower range. The bond market is also consolidating, but with slight bias toward lower rates.

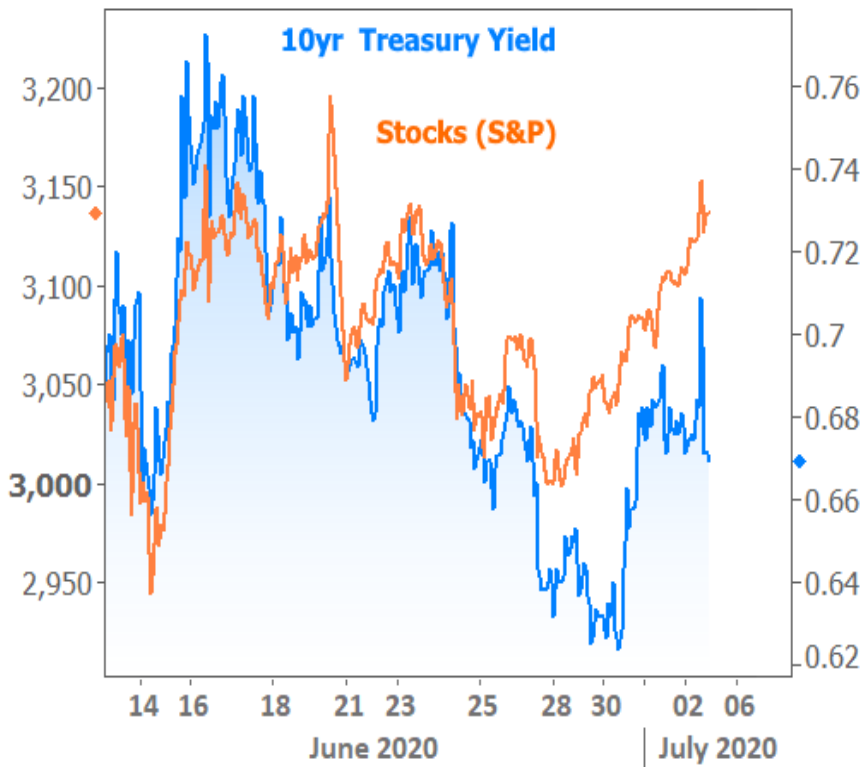


10yr Treasury yields are historically an excellent indicator for mortgage rates. They still are to some extent, but it's important to remember that mortgage rates did so much worse than Treasuries in March that they've had some **extra room to improve** recently. That's why mortgage rates were able to hit all-time lows yet again this week even as 10yr yields remain well above their recent lows.



One word of caution on the chart above. It may **look** like mortgage rates (orange line) are destined to rejoin the blue line, but there are several reasons that they'll have a hard time doing that. At the very least, it would take months and months. Simply put, the chart does **not** guarantee additional improvements in mortgage rates or that they would be immune to rising Treasury yields.

Financial markets closed early on Thursday in observance of Independence Day and will be **fully closed on Friday**. When trading resumes next week, we can expect stocks and bonds to continue taking cues from each other as they both watch the debate between economic performance and coronavirus numbers. The following chart shows the correlation between stocks and bonds that we tend to see on most days.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jun 29				
10:00AM	May Pending Home Sales (%)	+44.3	18.9	-21.8
10:00AM	May Pending Sales Index	99.6		69.0
Tuesday, Jun 30				
9:00AM	Apr CaseShiller 20 yy (%)	+4.0	4.0	3.9
9:45AM	Jun Chicago PMI	36.6	45.0	32.3
10:00AM	Jun Consumer confidence	98.1	91.8	86.6
Wednesday, Jul 01				
7:00AM	w/e Mortgage Refinance Index	3359.2		3434.6

Event Importance:

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

Date	Event	Actual	Forecast	Prior
7:00AM	w/e MBA Purchase Index	308.7		312.7
8:15AM	Jun ADP National Employment (k)	2369	3000	-2760
10:00AM	Jun ISM Manufacturing PMI	52.6	49.5	43.1
10:00AM	May Construction spending (%)	-2.1	1.0	-2.9
Thursday, Jul 02				
8:30AM	Jun Non-farm payrolls (k)	4800	3000	2509
8:30AM	Jun Unemployment rate mm (%)	11.1	12.3	13.3
8:30AM	w/e Jobless Claims (k)	1427	1378	1480
8:30AM	w/e Continued jobless claims (ml)	19.290	18.950	19.522
10:00AM	May Factory orders mm (%)	8.0	8.9	-13.0
Monday, Jul 06				
10:00AM	Jun ISM N-Mfg PMI	57.1	50.1	45.4
10:00AM	Jun ISM N-Mfg Bus Act	66.0	49.0	41.0
Wednesday, Jul 08				
3:00PM	May Consumer credit (bl)	-18.28	-15.50	-68.78
Thursday, Jul 09				
10:00AM	May Wholesale inventories mm (%)	-1.2	-1.2	-1.2
Friday, Jul 10				
8:30AM	Jun Core Producer Prices YY (%)	0.1	0.4	0.3

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

