



**Mike Baker**

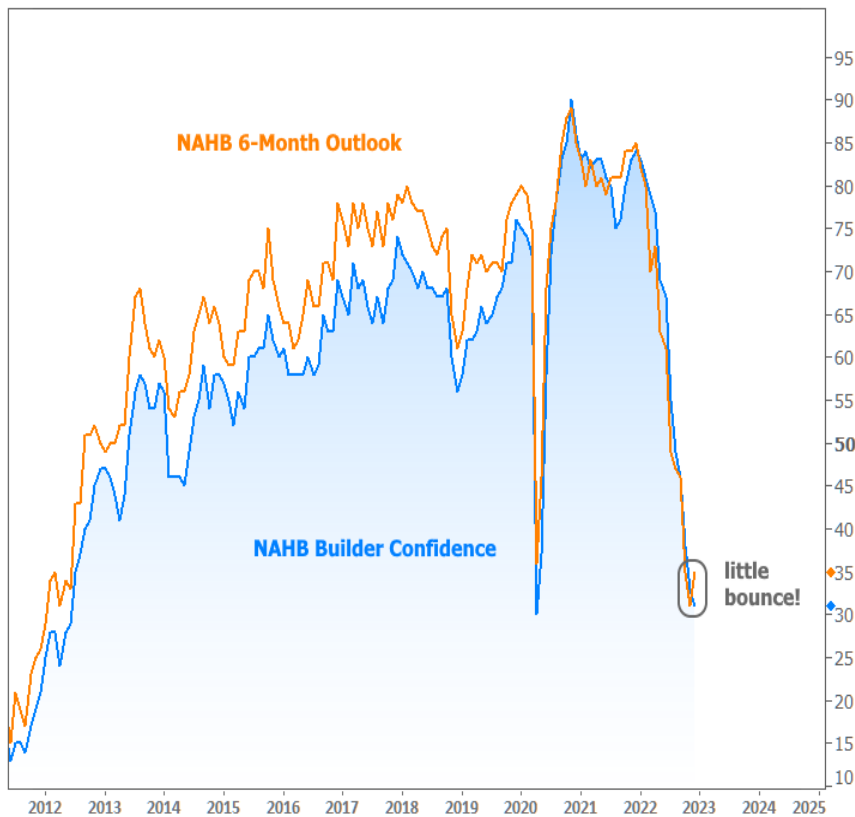
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## Mixed Signals in Housing Data and Small-Scale Volatility in Rates

The last two weeks of December are unlike almost any time of year in terms of market movement and what we should read into it, but there were several housing-related reports that are worth considering as we head into the new year.

The National Association of Homebuilders (NAHB) published its builder confidence numbers on Monday. Overall confidence (aka "headline") dropped for the 12th straight month to nearly the lowest level in more than a decade. There was a small glimmer of hope in the 6-month outlook which moved higher from last month and rose above headline confidence index for the first time all year. The more we see developments like this in the data, the more it would speak to a bottoming-out process for housing market weakness.



## 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

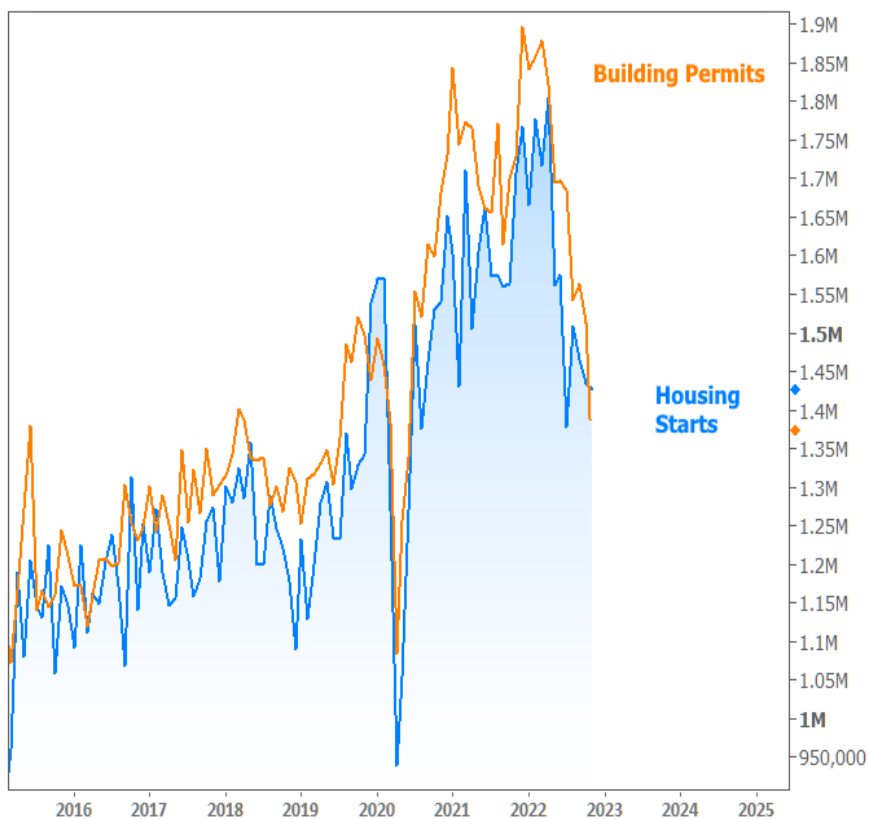
	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3980	+0.1111
30 YR Treasury	4.5640	+0.1383

Pricing as of: 6/28 5:59PM 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%

Other housing-related data conveyed mixed signals as well. A day later, the government's New Residential Construction report showed a resilience in housing starts (the ground-breaking phase of construction) juxtaposed with a sharp decline in new building permits.



There are many layers of complexity underlying those numbers, and there are different conclusions to be gleaned depending on perception. In the shorter term, there's no doubt the housing correction has been swift. But in the bigger picture, one might consider this correction to be payback for the uncanny boom of the past 2 years. After all, housing starts are still running well above roughly a decade of the pre-covid years.

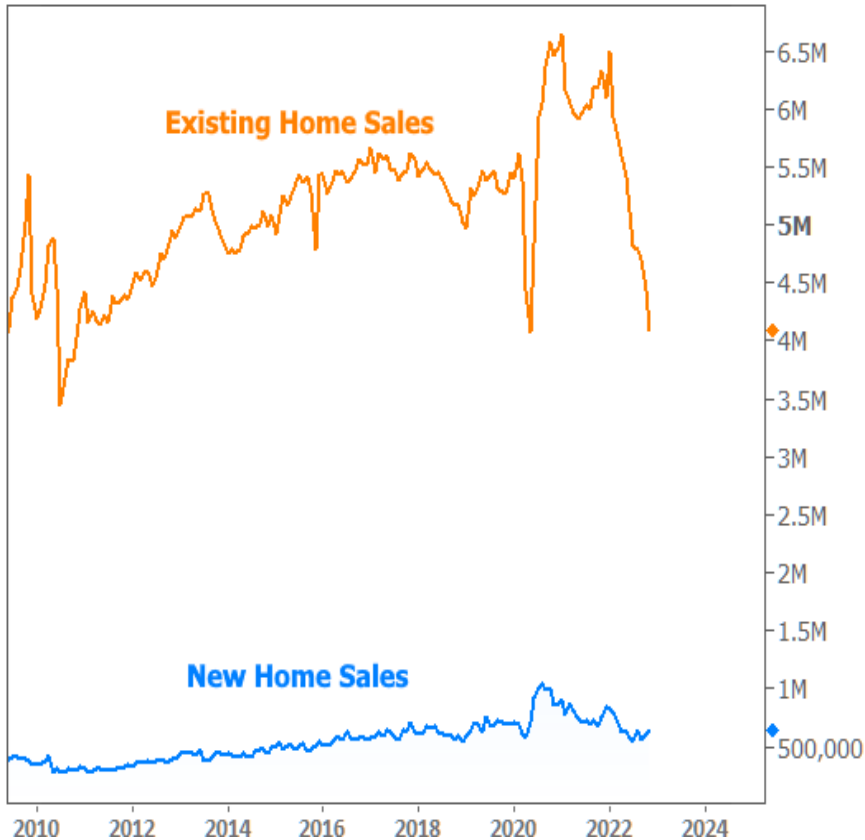
Speaking of things depending on perception, let's compare two other housing reports that came out this week: New vs Existing Home Sales.



At first glance, it looks like new home sales are holding up quite well whereas existing home sales have fallen off a cliff. That's actually not entirely untrue. Builders are eager to sell new homes whereas homeowners are extremely hesitant to sell their existing homes (thus giving up their lower mortgage rate and being faced with the prospect of higher prices and higher rates on their next home). That hesitation is apparent in the extremely low inventory levels of existing homes (notably very different than the financial crisis when inventory exploded).



The other factor that allows such a disparate performance in New vs Existing homes is the relative size of the two markets. Here's how the exact same numbers look when charted on the same axis.

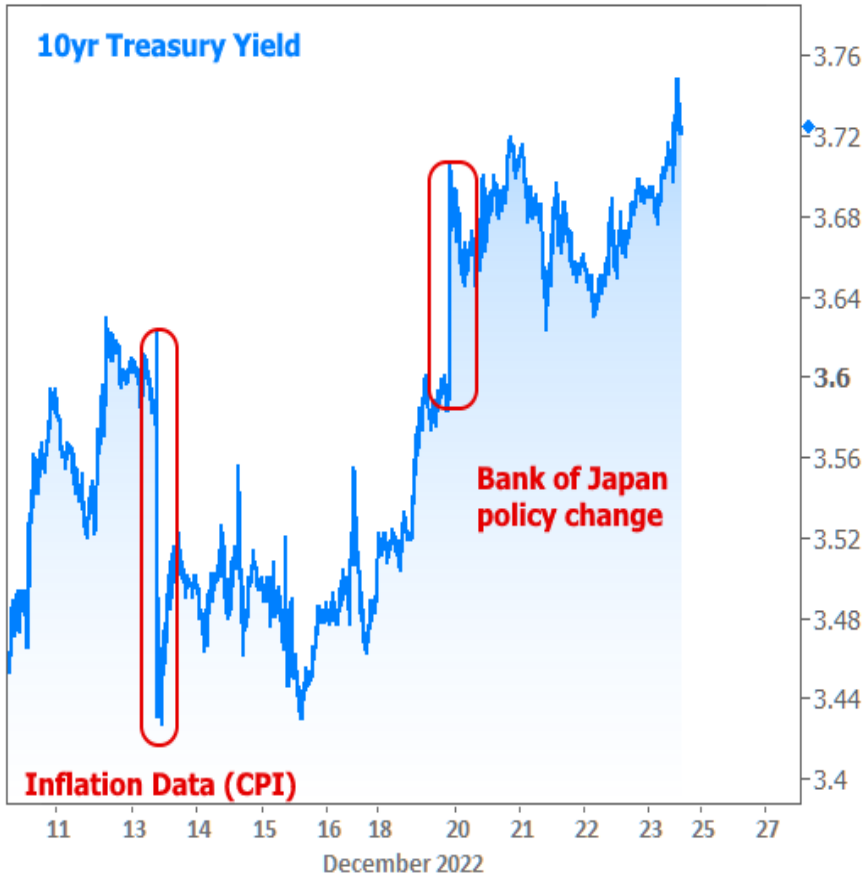




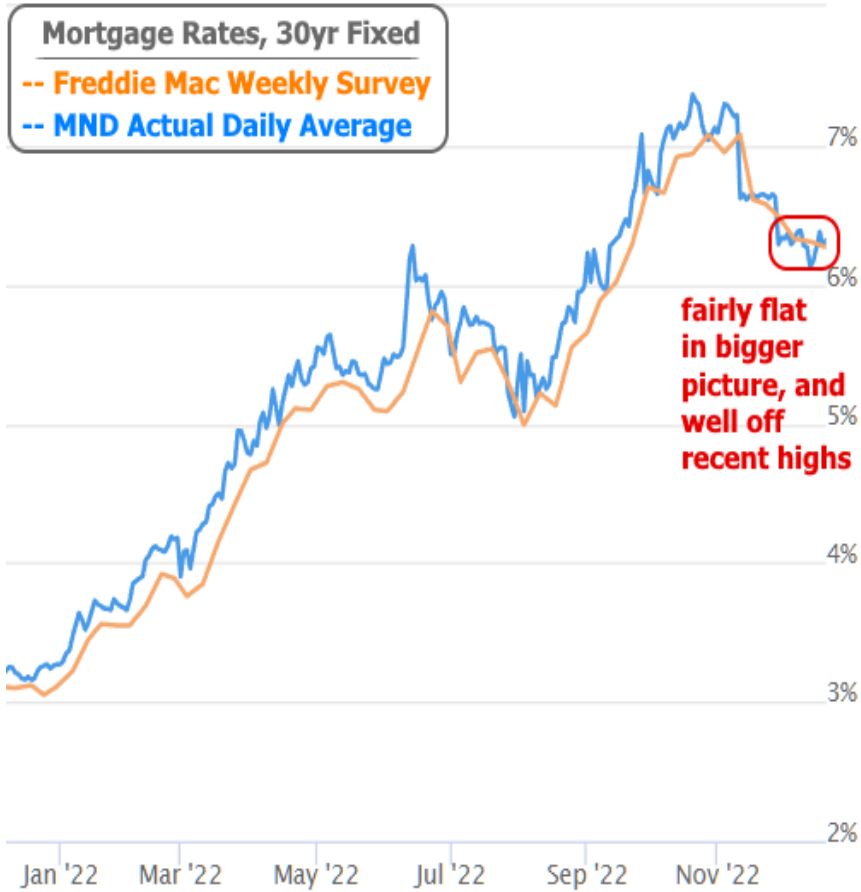
In other words, new home sales are so small by comparison that the discrepancy isn't as hard to reconcile. It doesn't take too much success on the part of a few big homebuilders to cause some resilience in the blue line.

Shifting gears to financial markets, we see a similar phenomenon during the last two weeks of December. Trading activity winds down in such a way that each trader left in the office has a bigger impact on trading levels than they would during a busier time of year. This played out on Tuesday when the bond market reacted to an unexpected policy change from the Bank of Japan.

The chart below shows 10yr Treasury yields (a benchmark for all longer term rates in the US) losing nearly as much as they'd gained after last week's inflation report. On any other week of the year, it would be unfathomable to see foreign central bank policy affect rates in the US as much as a hotly anticipated CPI report.

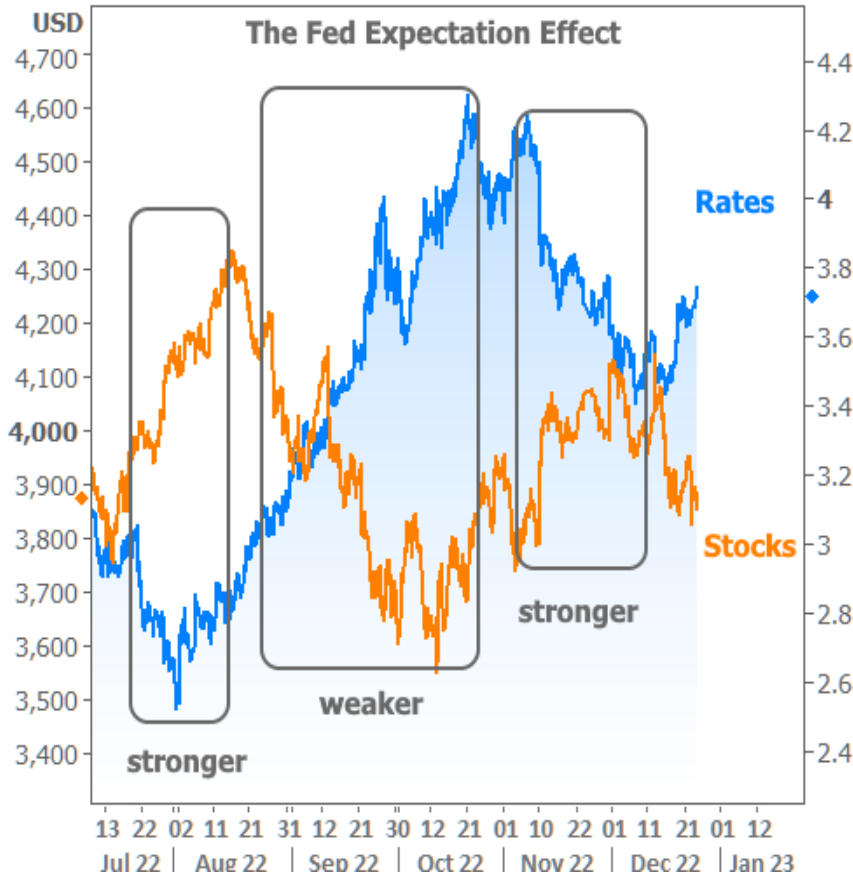


Thankfully, the volatility in the chart above represents only a small cross-section of the roads we've recently traveled. That's even more apparent for mortgage rates. True, the average lender raised rates fairly quickly to start the week, but after offsetting that move with last week's improvements, December looks somewhat flat in the bigger picture and still much lower than the recent highs.



Heading into the new year, markets will continue to focus on economic data that speaks to the Federal Reserve's policy outlook. Inflation data is the most important in this regard, but other economic indicators shouldn't be ignored. In general, higher inflation and stronger economic growth is bad for both stocks and bonds. Vice versa for cooler inflation and a cooling economy.

The Fed expectation effect is readily apparent in charts with stock prices and bond yields (aka "rates") tending to move in opposite directions depending on what the data suggests the Fed will do. Both improved in July when data faltered. Then stocks tumbled while rates spiked heading into the fall months due to resilience in economic data and upside surprises in inflation. The last two months of cooler inflation data have been the key drivers behind the Nov/Dec recovery.



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**Recent Economic Data**

Date	Event	Actual	Forecast	Prior
<b>Monday, Dec 19</b>				
10:00AM	Dec NAHB housing market indx	31	34	33
<b>Tuesday, Dec 20</b>				
8:30AM	Nov House starts mm: change (%)	-0.5		-4.2
8:30AM	Nov Housing starts number mm (ml)	1.427	1.400	1.425
8:30AM	Nov Building permits: number (ml)	1.342	1.485	1.512
8:30AM	Nov Build permits: change mm (%)	-11.2		-3.3
<b>Wednesday, Dec 21</b>				
7:00AM	w/e MBA Refi Index	371.4		350.5
7:00AM	w/e MBA Purchase Index	182.5		182.6
10:00AM	Nov Exist. home sales % chg (%)	-7.7	-5.4	-5.9
10:00AM	Nov Existing home sales (ml)	4.09	4.20	4.43
10:00AM	Dec Consumer confidence	108.3	101.0	100.2
<b>Thursday, Dec 22</b>				

**Event Importance:**

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
8:30AM	Q3 GDP Final (%)	3.2	2.9	2.9
8:30AM	w/e Jobless Claims (k)	216	222	211
10:00AM	Nov Leading index chg mm (%)	-1.0	-0.4	-0.8
<b>Friday, Dec 23</b>				
8:30AM	Nov Durable goods (%)	-2.1	-0.6	1.1
8:30AM	Nov Core PCE Inflation (y/y) (%)	4.7	4.7	5.0
10:00AM	Dec Sentiment: 1y Inflation (%)	4.4		4.6
10:00AM	Nov New Home Sales (ml)	0.640	0.600	0.632
10:00AM	Dec Consumer Sentiment (ip)	59.7	59.1	59.1
10:00AM	Dec Sentiment: 5y Inflation (%)	2.9		3.0
10:00AM	Nov New Home Sales (%) (%)	+5.8	-4.7	7.5
<b>Tuesday, Dec 27</b>				
9:00AM	Oct Case Shiller Home Prices-20 y/y (%)	8.6	8.2	10.4
9:00AM	Oct CaseShiller Home Prices m/m (%)	-0.5	-1.1	-1.2
9:00AM	Oct FHFA Home Prices y/y (%)	9.8		11.0
9:00AM	Oct FHFA Home Price Index m/m (%)	0.0		0.1
1:00PM	2-Yr Note Auction (bl)	42		
<b>Wednesday, Dec 28</b>				
7:00AM	w/e MBA Purchase Index			182.5
7:00AM	w/e MBA Refi Index			371.4
10:00AM	Nov Pending Sales Index	73.9		77.1
10:00AM	Nov Pending Home Sales (%)	-4.0	-0.8	-4.6
1:00PM	5-Yr Note Auction (bl)	43		
<b>Thursday, Dec 29</b>				
8:30AM	w/e Jobless Claims (k)	225	225	216
1:00PM	7-Yr Note Auction (bl)	35		
<b>Friday, Dec 30</b>				
9:45AM	Dec Chicago PMI	44.9	40.0	37.2
<b>Wednesday, Jan 18</b>				
1:00PM	20-Yr Bond Auction (bl)	12		

## 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**

