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Why Housing And Rates Are Mostly Ignoring Trade War Drama

This week's most prevalent financial headlines focused on the risk of a global **trade war** as the White House took its first official steps toward raising tariffs on goods imported from China. Although the stock market seemed to care quite a bit, interest rates and housing data were relatively unfazed. Here's why:

Right off the bat, we can **table the discussion** on housing data. This week's tariff news could't possibly have an effect on this week's housing data because the housing reports cover the months of January and February. Even then, when we're talking about things like home prices and home sales, tariffs and trade wars wouldn't be at the top of a list of concerns.

In the event that tariffs are raised on goods used in home construction, there could be some effect on home prices and builder margins, but we'll cross that bridge if we come to it. Even then, home sales numbers and home prices have been a **shining beacon of stability** in spite of headwinds.

Inventory has been one of the biggest headwinds--mainly for the existing homes market. But this week's Existing Home Sales report showed a moderate **improvement** of 3.0% month-over-month, easily maintaining an annual pace well over 5 million units--something they've been able to do every month since November 2015.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	**0.00**	0.00
15 Yr. Fixed	6.33%	**+0.01**	0.00
30 Yr. FHA	6.33%	**+0.01**	0.00
30 Yr. Jumbo	7.05%	**0.00**	0.00
5/1 ARM	6.58%	**0.00**	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	**-0.09**	0.00
15 Yr. Fixed	6.05%	**-0.11**	0.00

Rates as of: 7/22

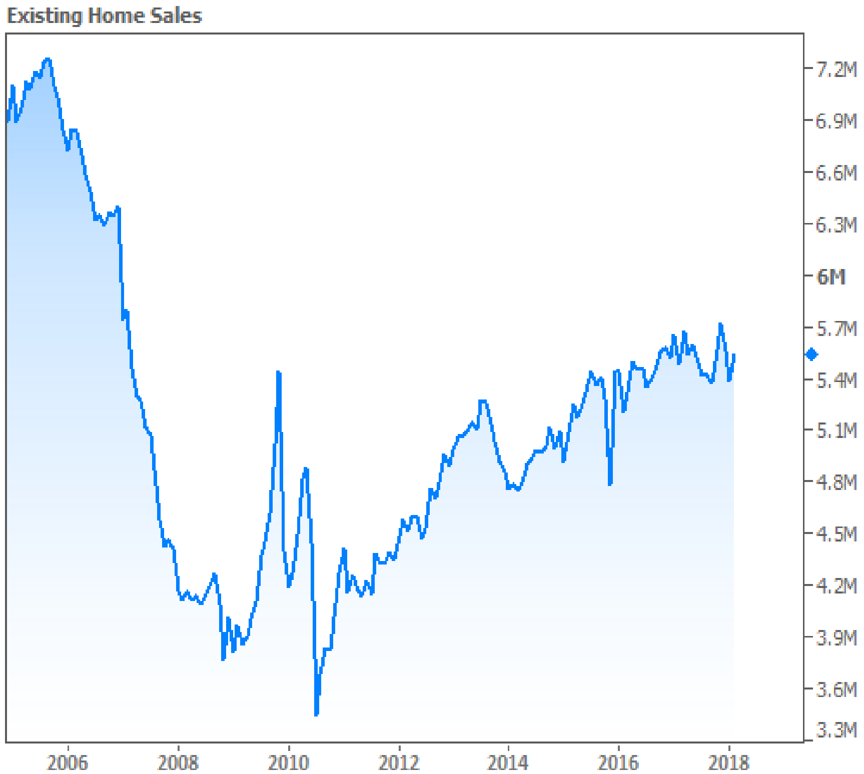
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	**-0.01**
MBS GNMA 5.5	99.78	**+0.00**
10 YR Treasury	4.2515	**-0.0010**
30 YR Treasury	4.4706	**-0.0019**

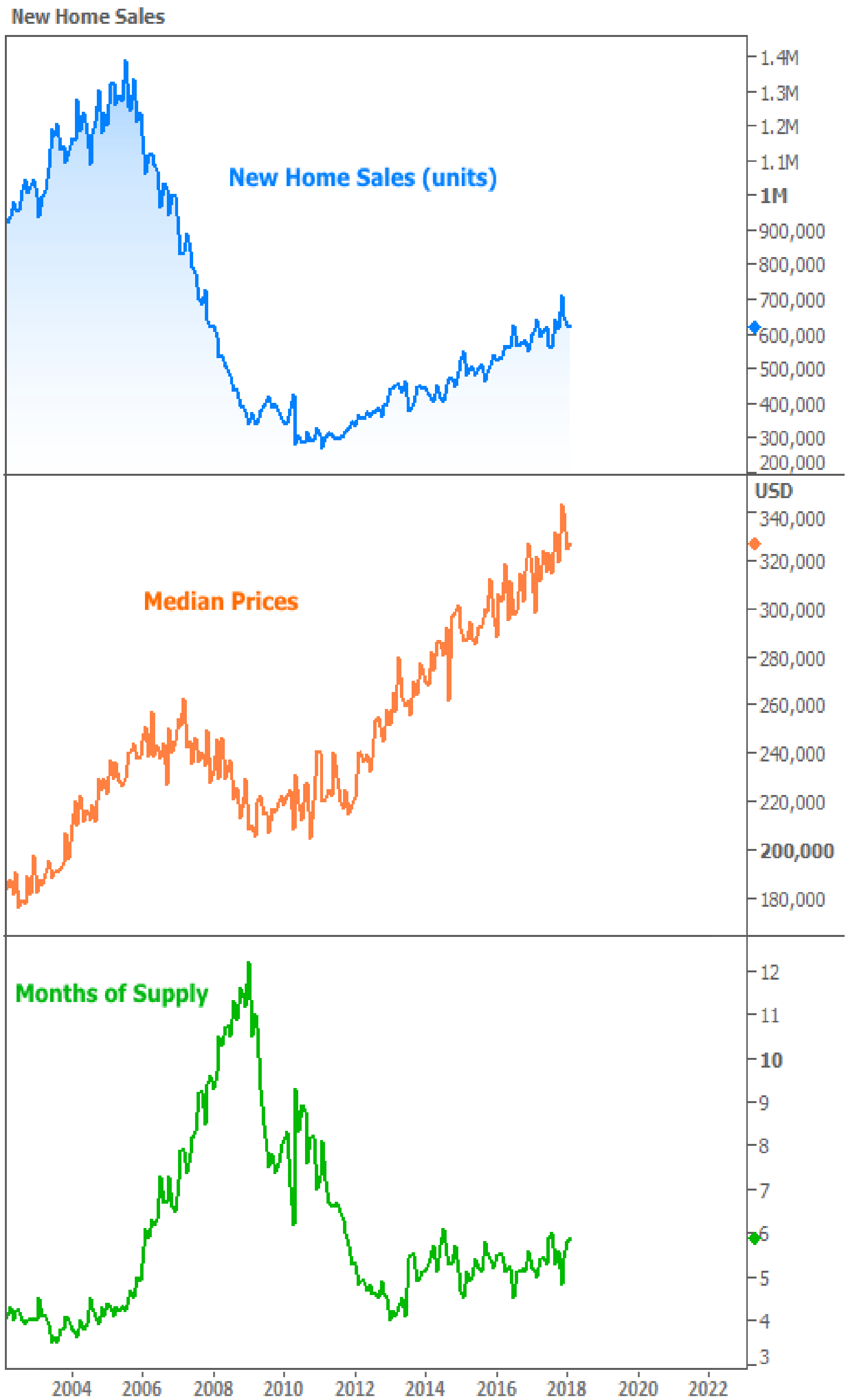
Pricing as of: 7/23 3:01AM EST

Recent Housing Data

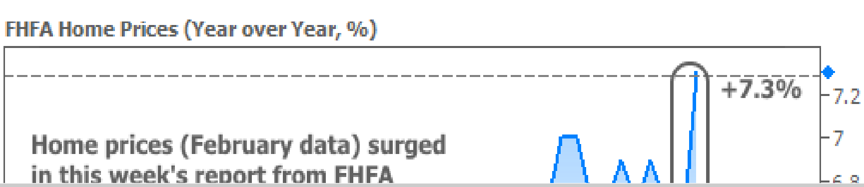
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

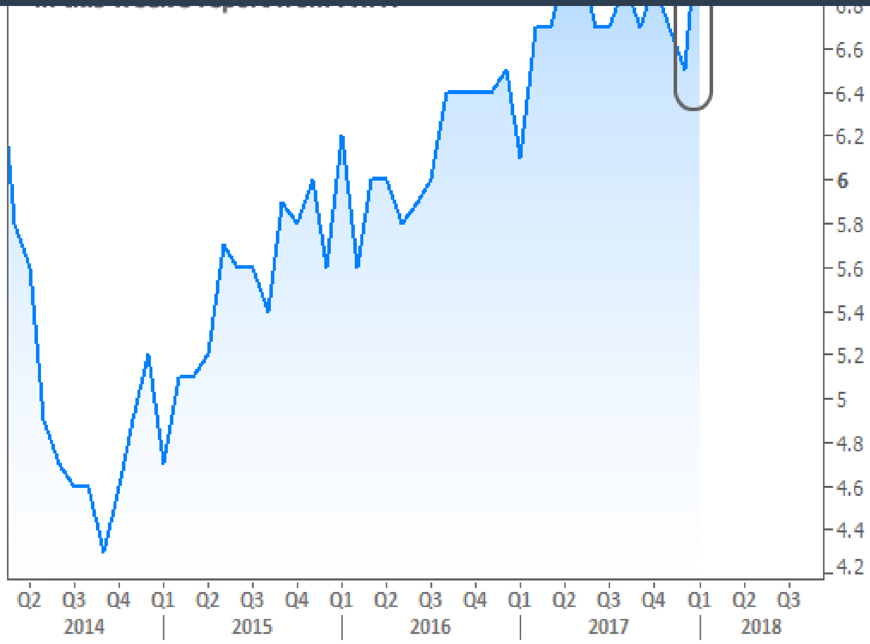


Supply has been **far less of an issue** for the **New Homes** market. As such, this week's New Home Sales numbers were easily able to remain in their 6-year uptrend despite falling 0.6% from the previous month.

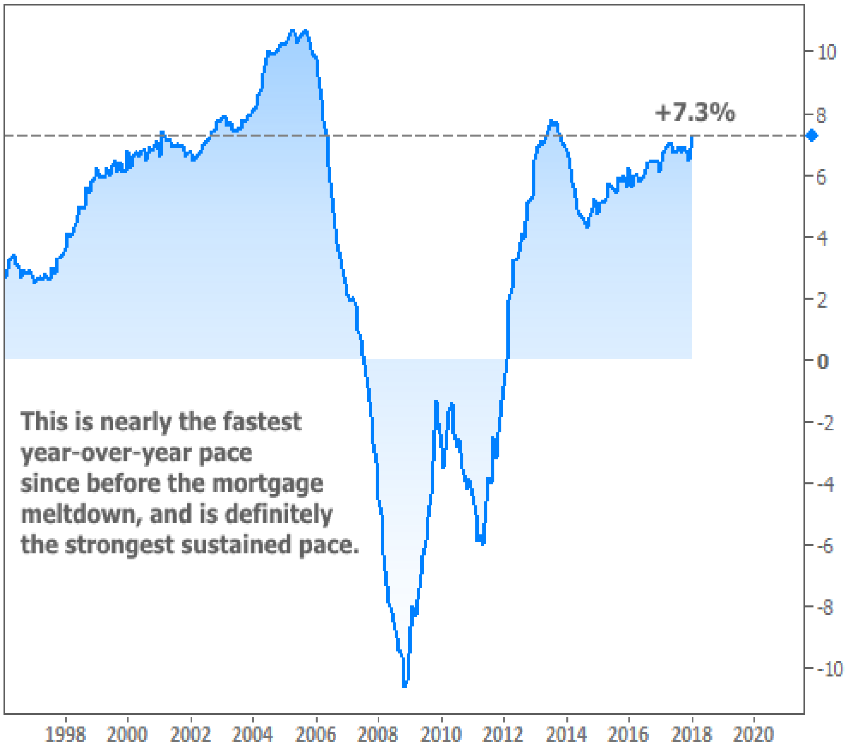


The most noticeable departure from recent norms was seen in FHFA's report on January's home prices. Depending on the source, we've seen year-over-year home price appreciation running in the mid-to-upper 6% range. Now, for the first time in more than 2 years, FHFA is reporting **appreciation over 7%**. It was also the biggest month-over-month jump in more than 5 years.

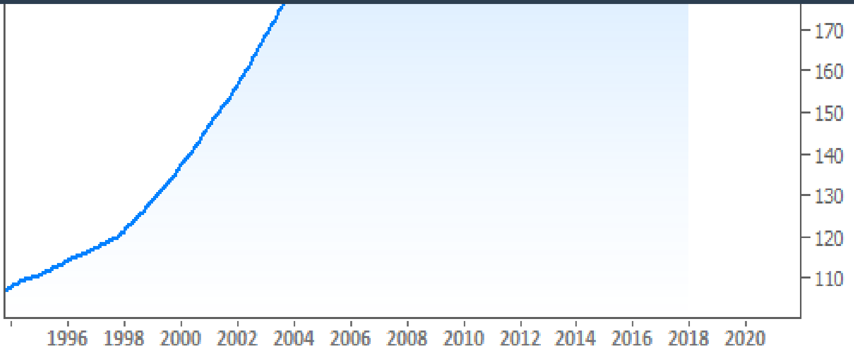




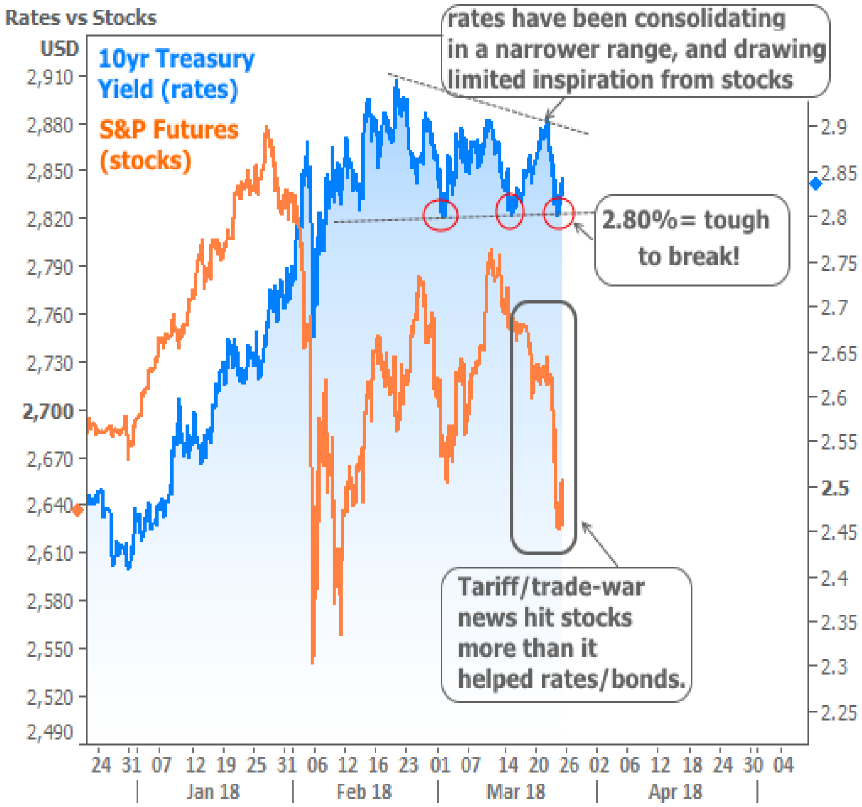
FHFA Home Prices (Year over Year, %)



FHFA Home Prices (outright, index)



With housing-related data not being timely enough to show any ill effects from the trade war narrative, let's take a look at some of the **inputs** for the housing market that **can** actually respond in real-time: interest rates and stock prices.



As the chart suggests, the trade war news **hit stocks the hardest** this week, and it didn't really hit bonds (rates) much at all. I mention stocks as an input for housing only because a certain amount of stock market weakness can decrease the wealth effect for homebuyers who own stocks, thus having a potential effect on prices and sales. This, too, is a bridge we'll cross if we come to it. The current losses aren't quite big enough to open that discussion.

But **rates always matter** to those in the housing and mortgage markets. Using 10yr Treasury yields as a proxy for all longer-term fixed rates (like mortgages!), we see a 3rd straight bounce at 2.80%. At the same time, rates have been just as hesitant to go much higher than 2.90% recently. This sort of consolidation begs the question: will the **floor or ceiling** give way first?

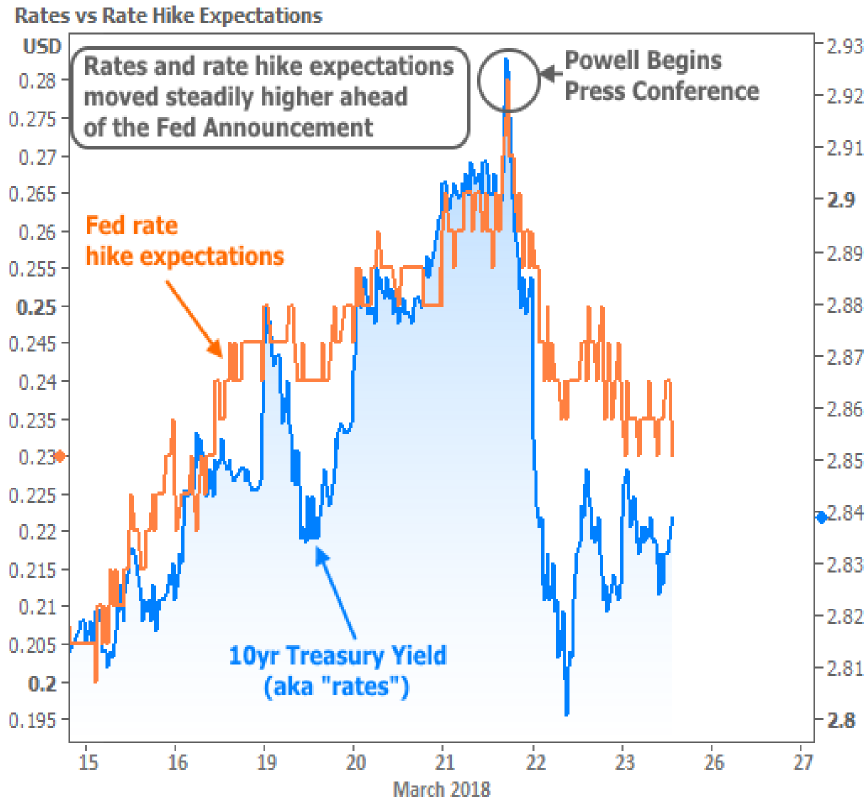
Even if we do see the 2.80% floor broken, rates will have a **very hard time** returning to levels seen in 2017 for reasons we've discussed at length in previous newsletters. One of those reasons is the Federal Reserve's policy outlook. In that regard, this week was potentially a big deal because it brought Jerome Powell's first press conference as Fed Chair as well as an update on the Fed's rate hike outlook--something we only get 4 times a year.

Bond traders were apprehensive ahead of Wednesday's Fed events. They began to push rates higher late last week and that trend continued all the way through Wednesday afternoon. The new rate hike outlook confirmed the Fed is now **almost 50/50** on hiking rates **4 times** this year instead of 3. As such, the few moments following the release of that data saw this week's rates rise to their highest levels since late February--nearly matching 4-year highs.

Half an hour later, Powell began fielding reporters' questions and bond traders **liked what they heard**. Here are a few key **comments from Powell that helped:**

- He sees only gradual upward pressure on inflation, saying there's "no sense in the data" that inflation is close to breaking the Fed's 2% target (inflation pushes rates higher)
- He wants to take a "middle ground" approach to tightening policy (tighter policy pushes rates higher)
- He still sees the neutral rate (the Fed Funds Rate that keeps the unemployment rate and inflation perfectly flat) as being "quite low." (If he saw a high neutral rate, it would imply more/faster rate hikes
- He sees only moderate financial stability risks (if he saw high risks, it would imply more/faster rate hikes)

As this week's final chart shows, there's a **strong correlation** between the market's Fed rate hike expectations and the real-time movement in benchmark lending rates (like the 10yr yield). The top pane of the chart leaves no doubt that Powell's press conference was this week's biggest turning point.



The bottom pane is **food for thought.** It shows rate hike expectations breaking higher than 10yr yields. And it's here that we're probably seeing some of the positive effects on rates from the negative stock/tariff news. In other words, perhaps without the big stock losses and trade war concern, rates would have been more willing to move higher.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Mar 21				
7:00AM	w/e Mortgage Refinance Index	1107.7		1159.3
7:00AM	w/e MBA Purchase Index	249.9		246.5
10:00AM	Feb Existing home sales (ml)	5.54	5.40	5.38
10:00AM	Feb Exist. home sales % chg (%)	3.0	0.5	-3.2
2:00PM	N/A FOMC rate decision (%)	1.500 - 1.750	1.625	1.375
2:30PM	Powell News Conference			
Thursday, Mar 22				
8:30AM	w/e Jobless Claims (k)	229	225	226
9:00AM	Jan Monthly Home Price mm (%)	0.8		0.3
Friday, Mar 23				
8:30AM	Feb Durable goods (%)	3.1	1.5	-3.6
8:30AM	Feb Nondefense ex-air (%)	1.8	0.8	-0.3
10:00AM	Feb New home sales chg mm (%)	-0.6	4.4	-7.8
10:00AM	Feb New home sales-units mm (ml)	0.618	0.623	0.593
Monday, Mar 26				
1:00PM	2-Yr Note Auction (bl)	30		
Tuesday, Mar 27				
9:00AM	Jan CaseShiller 20 yy (%)	+6.4	6.2	6.3
10:00AM	Mar Consumer confidence	127.7	131.0	130.8
1:00PM	5-Yr Note Auction (bl)	35		
Wednesday, Mar 28				
7:00AM	w/e Mortgage Market Index	401.3		383.0
8:30AM	Q4 GDP Final (%)	2.9	2.7	2.5
10:00AM	Feb Pending Sales Index	107.5		104.6
10:00AM	Feb Pending Home Sales (%)	3.1	2.1	-4.7
1:00PM	7-Yr Note Auction (bl)	29		
Thursday, Mar 29				
8:30AM	Feb Personal Income (%)	0.4	0.4	0.4
8:30AM	Feb Consumer Spending (Consumption) (%)	0.200	0.200	0.200
8:30AM	Feb Core PCE (y/y) (%)	1.600	1.600	1.500
9:45AM	Mar Chicago PMI	57.4	62.0	61.9
10:00AM	Mar U Mich Sentiment Final (ip)	101.4	102.0	102.0
Friday, Mar 30				
12:00AM	Good Friday			

Event Importance:

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

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its “Proposed Criteria for Evaluating Home Buyer Contract Forms” on Tuesday. The 15 criteria focus on the contracts’ form — whether the documents are readable and understandable — and content — whether they are fair to homebuyers.

-the document’s expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
-the right to terminate the contract
-the disclosure that compensation is negotiable
-the broker’s compensation clearly stated and that the buyer broker can’t receive additional compensation for facilitating a sale
-that any additional fees, such as for showing a home, will be deducted from the broker’s commission if there is a successful sale
-that the commission is due only if there is a successful closing
-that buyers have an obligation — for no longer than 60 days, CFA recommends — to pay a broker who earlier showed them a home they purchased after the contract ended
-seller concessions paid directly to buyers
-dual agency not pre-approved by the contract
-an explanation of how a broker treats different buyer clients interested in the same property
-that buyers should not be required to first go through mediation or arbitration if they have a complaint

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