



**Tom Payne**

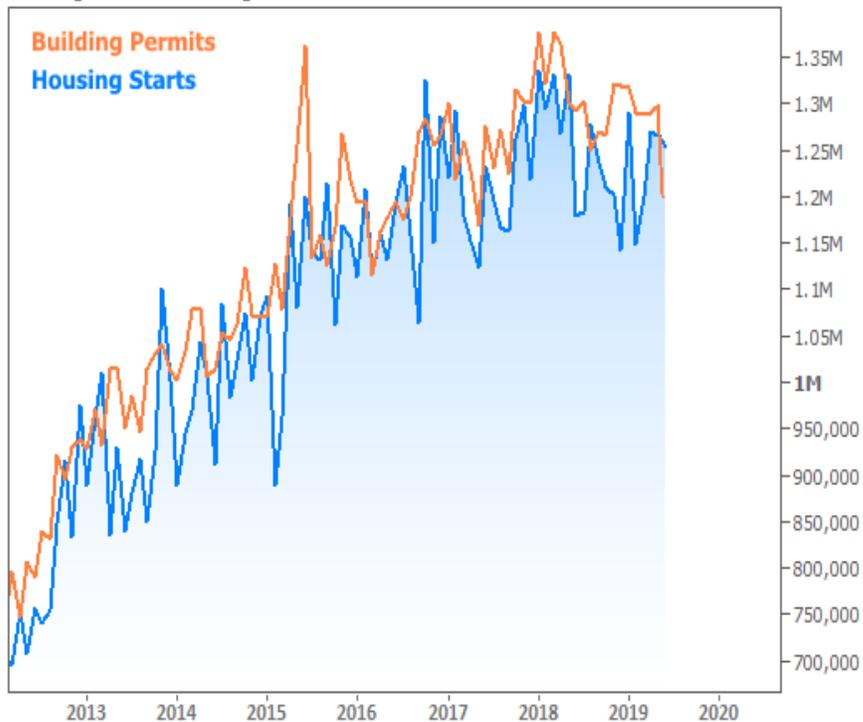
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## The Other Side of This Week's Scary Housing News

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	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
<b>Freddie Mac</b>			
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

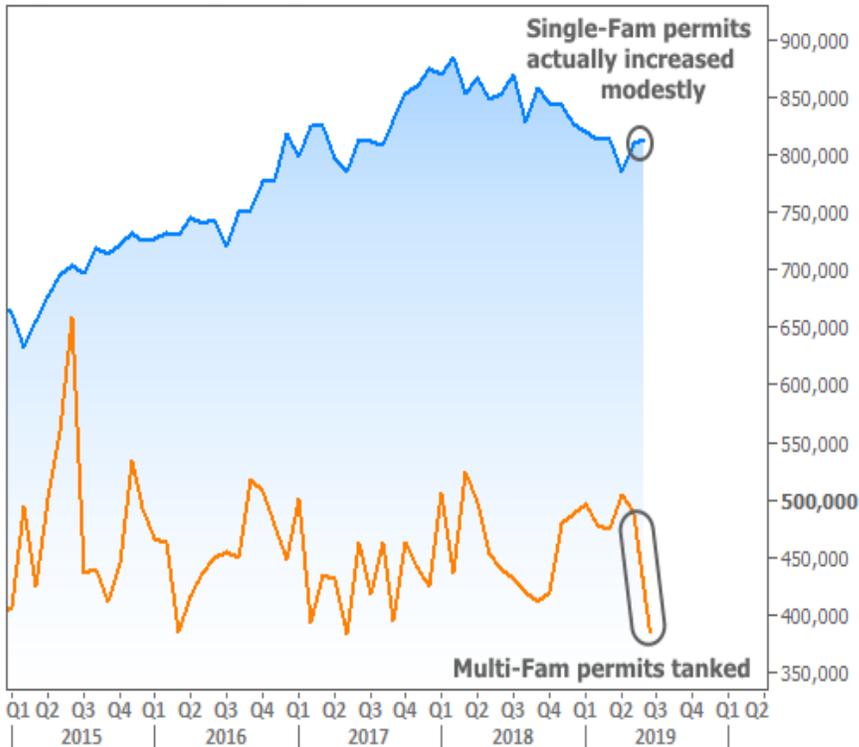
	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2379	-0.0146
30 YR Treasury	4.4561	-0.0164

Pricing as of: 7/23 12:40AM 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%

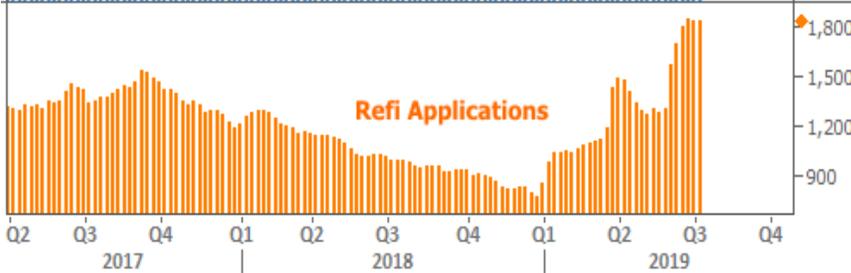
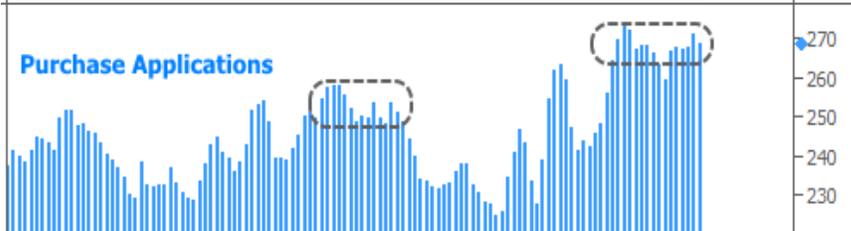
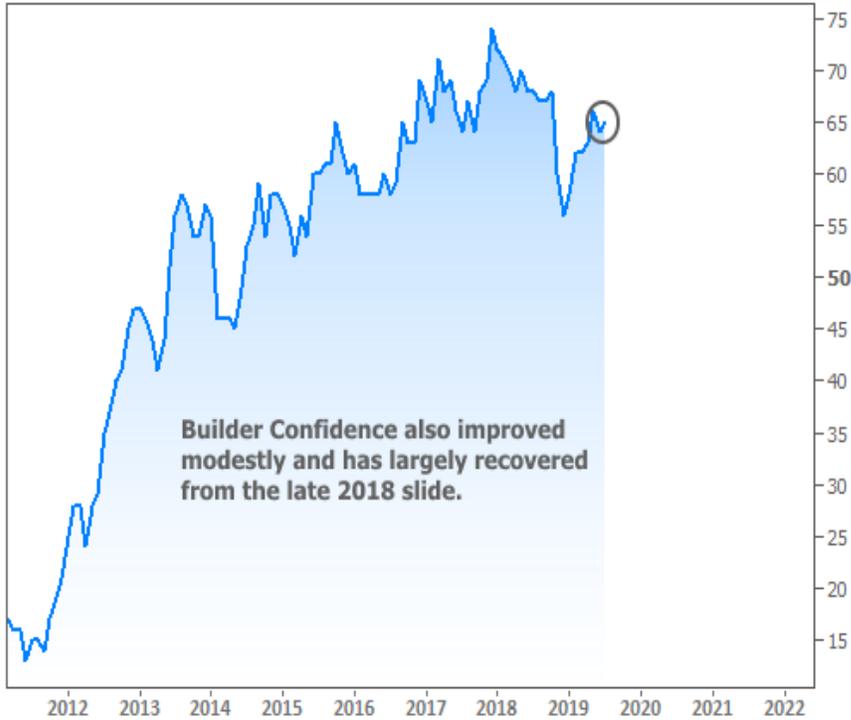
single fam vs non-single-fam permits



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.

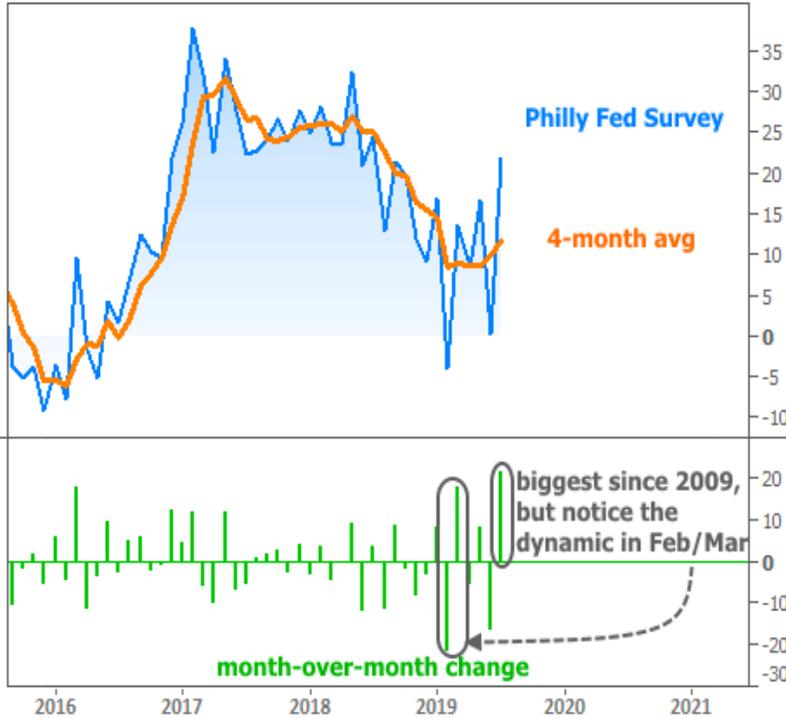
Builder Confidence



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.

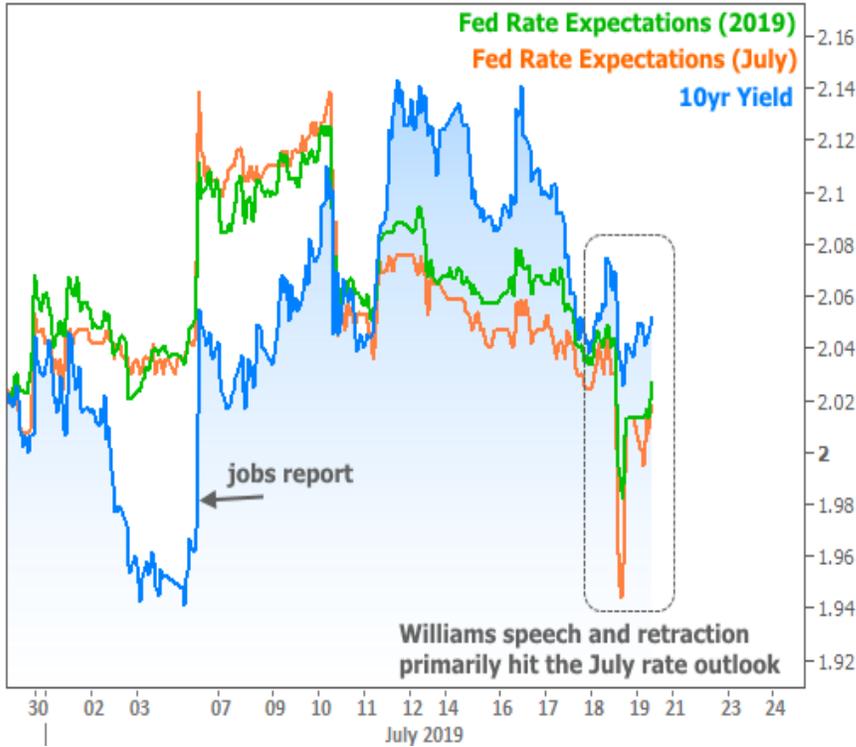
Philly Fed Survey



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.

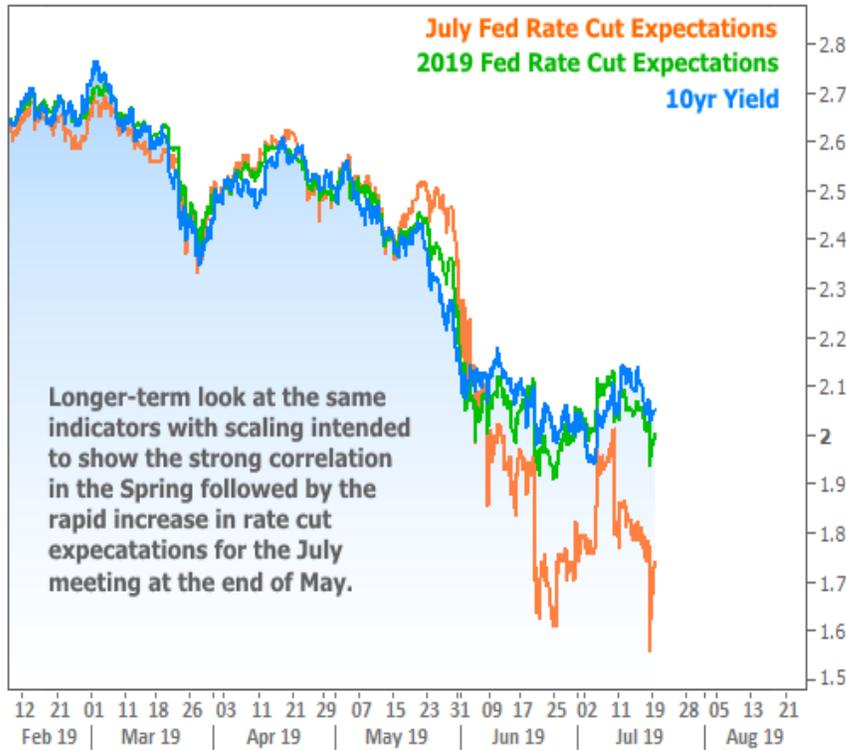
Fed rate expectations have a bigger impact on shorter-term rates like Treasury bills and 2yr notes, but longer-term rates like mortgages and 10yr Treasuries also benefit. Additionally, there are different measurements of Fed rate expectations. The farther out we look, the more they'll correlate with 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



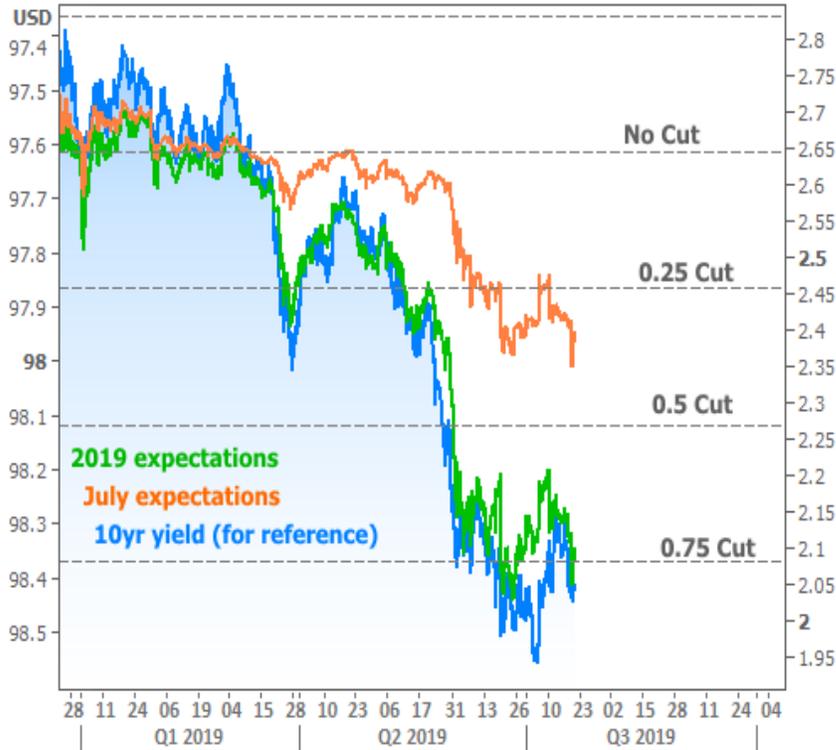
If we change the scaling a bit, we can see things have been fairly calm for 2019's rate outlook in the past month while investors debate the size of July's rate cut.

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

## 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

Contact me for more information. 702-303-0243 or [TPayne@loandepot.com](mailto:TPayne@loandepot.com)

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