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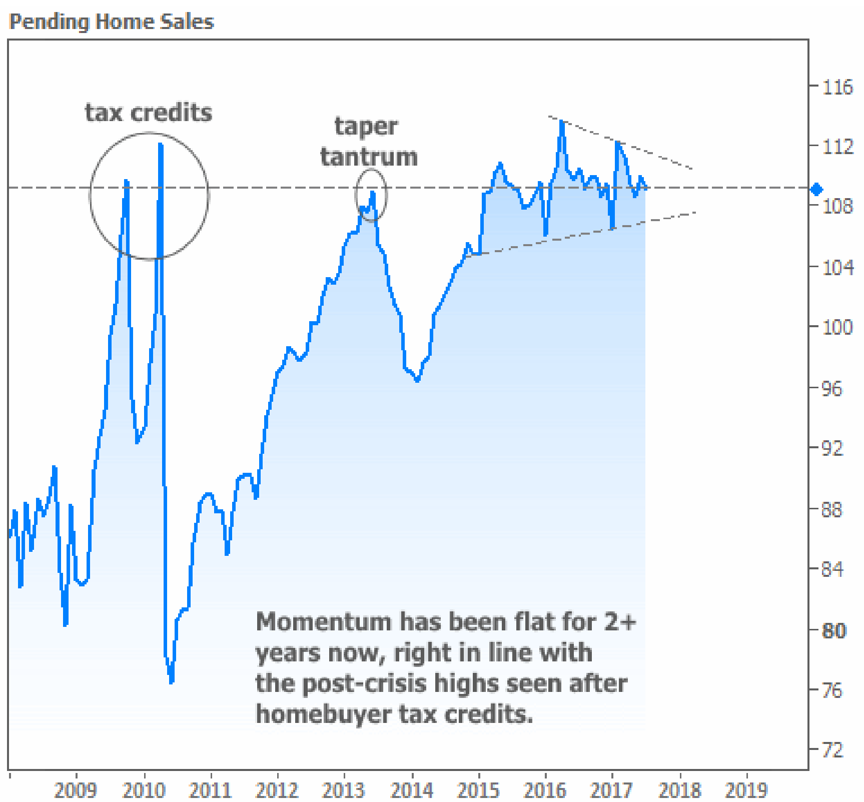
Time To Be Concerned About Housing and Rates?

In the natural world and financial markets alike, September is a month of **transition**. This particular September holds some risks for the recently strong performance in mortgage rates. Meanwhile home sales numbers are increasingly sluggish. Both are threats that should be taken seriously, but it's too soon to be overly concerned.

When it comes to housing metrics, it's hard to adjust one's level of concern from **week to week** considering key reports come out once per **month**. It really takes 3-4 months at a minimum to even begin talking about a shift toward slower sales.

That said, if **stagnation** is the sort of thing that concerns you, **buckle up**. We don't need 3-4 months to observe stagnation because it's already here--at least in terms of Pending Home Sales. That's not NEW news, but this week's report added to 2+ years of evidence.



National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.03%	+0.01	0.00
15 Yr. Fixed	6.44%	+0.01	0.00
30 Yr. FHA	6.48%	-0.02	0.00
30 Yr. Jumbo	7.25%	0.00	0.00
5/1 ARM	7.02%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.87%	-0.57	0.00
15 Yr. Fixed	6.13%	-0.63	0.00

Rates as of: 6/25

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%

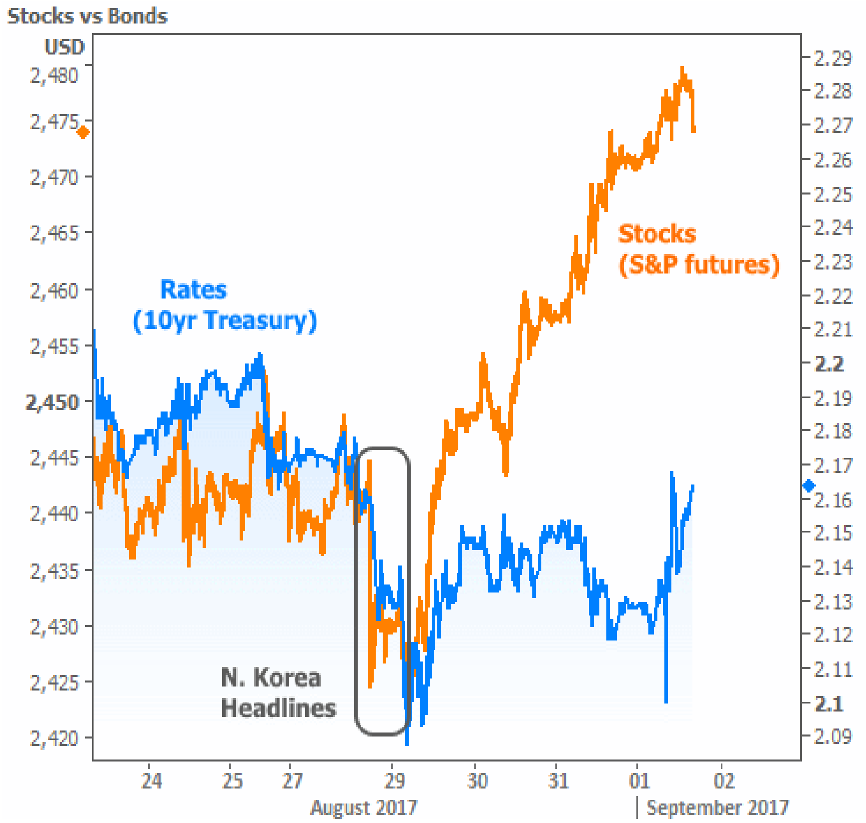
Pending Home Sales data is expressed in the form of an **index**. It differs slightly from final sales figures, but it's highly correlated, not to mention more timely. Think of it as a sneak peak at home sales momentum over the next 2 months.

With the index **persistently** running into the same ceiling throughout the recovery, it's fair to wonder if we're witnessing some sort of new normal. In other words, when the Pending Homes Index is around 110, is that about as good as housing gets anymore?

As you're likely tired of hearing, the answer to that question will be a function of INVENTORY. If you know someone who has shopped for a home recently, chances are they're **not complaining** about an overabundance of great options that meet their needs and budget.

Don't assume that inventory issues exist in a vacuum though. They're part of an ecosystem that involves the broader economy. By the time we consider that there's some level of **"intangible real estate shellshock"** left over from the financial crisis, we can appreciate that there's no single solution to the inventory problem. Ultimately it will take a bunch of smaller solutions that promote confidence and mobility. That will take time.

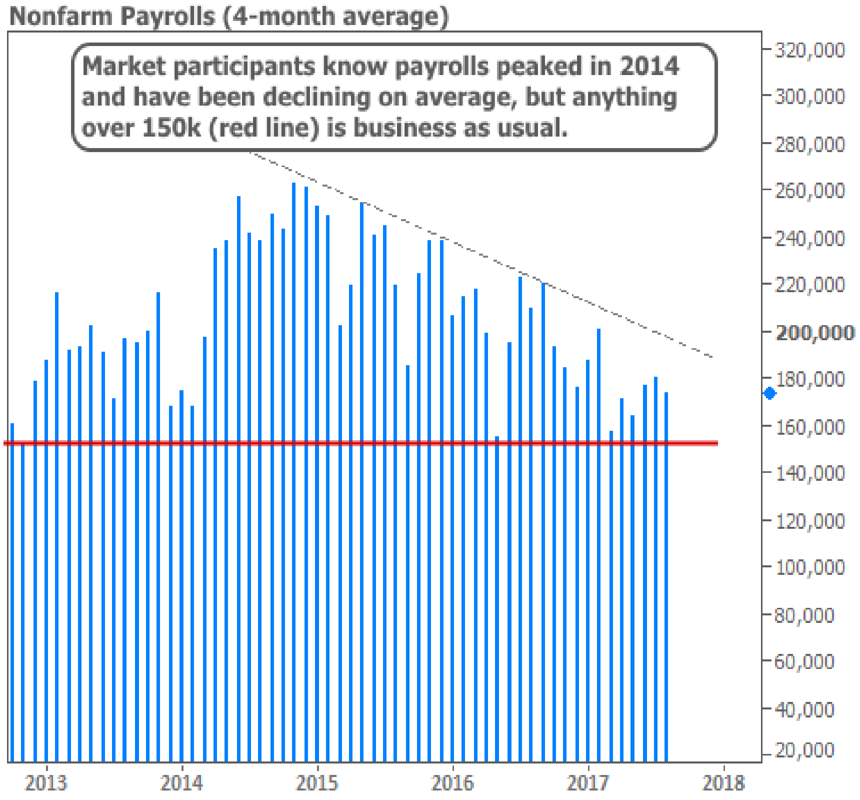
Mortgage rates have certainly been doing their part to **grease the skids** for prospective homebuyers. Rates hit the best levels of the year yet again this week. The catalyst was the news of a North Korean missile being spotted over Japan on Monday evening. The reaction on Tuesday morning was crystal clear (sharply lower rates and stock prices), but markets quickly began calming down (i.e. "moving higher")--especially stocks.



As seen in the chart, rates remained reasonably calm until the end of the week. Interestingly enough, the move toward higher rates on Friday followed a rather **weak** Employment Situation (the big jobs report that historically influences rates more than any other economic report). Weak jobs data would normally **help** rates move lower, so **what gives?!**

Simply put, payroll counts **aren't very interesting** these days. The post-crisis expansion has seen an impressively long streak of above-average job growth (less impressive in light of the job destruction during the Great Recession, but I digress). Payroll numbers have room to move around in their current range without sending any major warnings about the economy.

After topping out in 2014, payrolls have been gradually consolidating with the lower readings right around the level seen in this week's report. We'd need to see that number fall **outside** these converging lines before market participants would get too worked up about it.

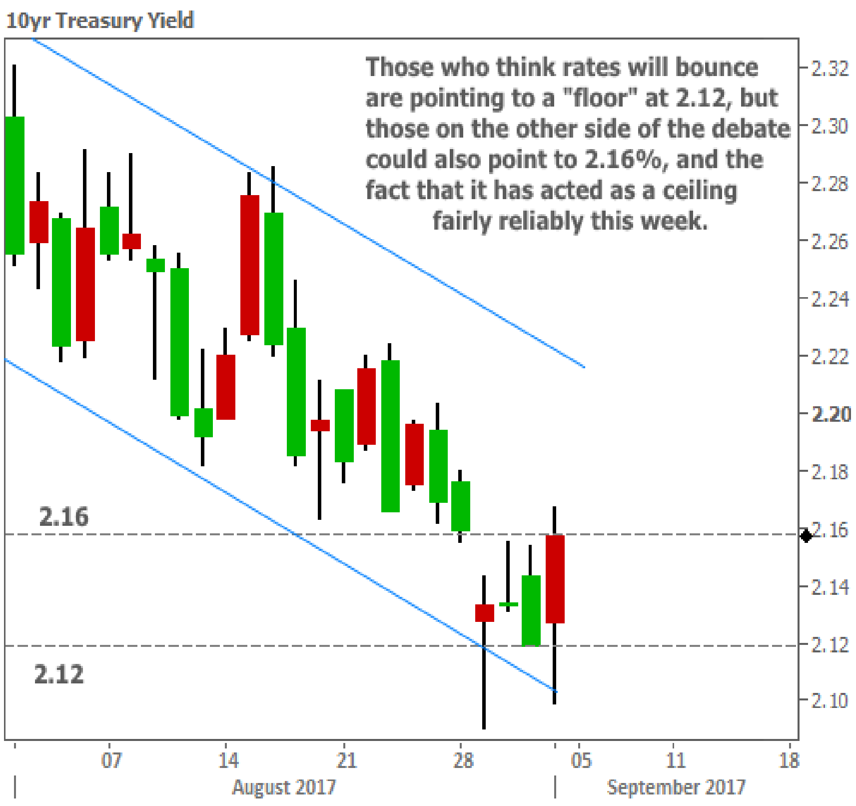


Inflation is **another story**. We know an **absence** of inflation is preventing the Fed from aggressively removing accommodation (i.e. hiking rates and decreasing its bond holdings) and that's a key reason that rates have been able to stay relatively low in 2017.

To whatever extent inflation continues inexplicably moving toward recent lows, it's hard to be too terribly concerned about a **massive** bounce in rates. But traders are perfectly happy to be concerned about **smaller** bounces in rates. Such concerns played a role in this week's bounce.

Simply put, the trend of improvement in rates has been stable for long enough that some traders figure it's time for a bit of a correction. The "lows of the year" seem like as good a place as any for that bounce to occur. But it's not a one-sided argument. More than a few traders continue to believe the rate rally can continue. They showed their support by buying bonds this week whenever yields rose to the 2.16% technical level highlighted in last week's newsletter.


10yr Treasury Yield
The bigger picture shows linear improvement in rates since early July.
2.16
2.12
2.65
2.60
2.55
2.50
2.45
2.40
2.35
2.30
2.25
2.20
2.15
2.10
2.05
2.00
1.95
1.90
16 03 17 01 16 01 16 03 17 01 16 01 18
Mar 17 Apr 17 May 17 Jun 17 Jul 17 Aug 17 Sep 17


10yr Treasury Yield
Those who think rates will bounce are pointing to a "floor" at 2.12, but those on the other side of the debate could also point to 2.16%, and the fact that it has acted as a ceiling fairly reliably this week.
2.16
2.12
2.32
2.30
2.28
2.26
2.24
2.22
2.20
2.18
2.16
2.14
2.12
2.10
07 14 21 28 05 11 18
August 2017 September 2017

Apart from being light on economic data, **next week** is shortened by the Labor Day holiday. With Congress returning to work on the debt ceiling and the European Central Bank potentially ready to comment on its bond buying program on Thursday, we're looking at a few big, isolated events against a backdrop of otherwise calm and inconsequential trading. This is a recipe for volatility, but not a guarantee. We're looking at the end of September (following the Fed Announcement on the 20th) before the bigger moves become possible.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Aug 28				
11:30AM	2-Yr Note Auction (bl)	26		
1:00PM	5-Yr Note Auction (bl)	34		
Tuesday, Aug 29				
10:00AM	Aug Consumer confidence	122.9	120.3	121.1
1:00PM	7-Yr Note Auction (bl)	28		
Wednesday, Aug 30				
8:15AM	Aug ADP National Employment (k)	237	183	178
8:30AM	Q2 GDP Prelim (%)	3	2.7	2.6
Thursday, Aug 31				
8:30AM	Jul Personal Income (%)	0.4	0.3	0.0
8:30AM	Jul Consumer Spending (Consumption) (%)	0.3	0.4	0.1
8:30AM	Jul Core PCE (y/y) (%)	1.4		1.5
8:30AM	w/e Jobless Claims (k)	236	242	234
9:45AM	Aug Chicago PMI	58.9	58.5	58.9
10:00AM	Jul Pending Home Sales (%)	-0.8	0.5	1.5
Friday, Sep 01				
8:30AM	Aug Non-farm payrolls (k)	156	180	209
8:30AM	Aug Unemployment rate mm (%)	4.4	4.3	4.3
8:30AM	Aug Average earnings mm (%)	0.1	0.2	0.3
10:00AM	Aug U Mich Sentiment Final (ip)	96.8	97.4	97.6
10:00AM	Aug ISM Manufacturing PMI	58.8	56.5	56.3
Tuesday, Sep 05				
10:00AM	Jul Factory orders mm (%)	-3.3	-3.3	3.0
Wednesday, Sep 06				
7:00AM	w/e Mortgage Market Index	420.5		407.2
8:30AM	Jul International trade mm $ (bl)	-43.7	-44.6	-43.6
10:00AM	Aug ISM N-Mfg PMI	55.3	55.4	53.9
Friday, Sep 08				
10:00AM	Jul Wholesale inventories mm (%)	+0.6		0.4

Event Importance:

No Stars = Insignificant
Low
Moderate
Important
Very Important

Date	Event	Actual	Forecast	Prior
3:00PM	Jul Consumer credit (bl)	+18.50	15.10	12.40

About Rohan

Named Austin Business Journal's 2014, 2015, 2016, 2017, 2018 and 2019 Top 25 Mortgage Producer

Buying a home is an important milestone in everyone's life. My objective is to be your trusted advisor when you and your family decide to take this step. Having worked for over a decade in several areas including Financial Representative and Branch Manager, I have helped hundreds of members realize their financial dreams. With over 15yrs of extensive financial knowledge and real estate experience, I can help you reach your financial goals of owning a home or refinancing your existing home. I am committed to providing the level of service that our members deserve and I will guide you through the entire Home Loan process. On a personal level, I love spending my free time outdoors with my wife, Natalie and two young kids, Ezra and Lincoln.

Here is what some of my members have said about me and my service:

"Rohan and Tammy, No one knows more than you, how big hassle house buying is. But you both made it this process as smooth as possible. We both thank you from bottom of our heart for helping us in buying our first house and making the process as smooth as possible. Thank you very much for your support. One of the best customer support we had ever got."

"Rohan was awesome, very professional, and responsive. "

"Rohan and Jeff were extremely helpful and made our mortgage process easy."

"We were very happy with the entire process. Rohan was an absolute pleasure to deal with!

"He was always available. We appreciated the attention given. We would recommend Rohan and UFCU to anyone!"

"I was worried about meeting the closing date due to underwriting but Rohan was very reassuring and everything went smoothly. Very impressed with my first mortgage experience."

"Rohan put us at great ease through the whole process. He was always available and answered all of our questions patiently. He is simply the best and I strongly recommend to anyone looking for a home loan."

Rohan Kothare