US Housing Market Weekly

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Housing Data Already Reflecting Rate Spike? This Time Might Be Different

The timing of 2016's massive spike in interest rates sets us up to see a **big shift** in the tone of housing and mortgage-related data in 2017. There is already a wide variety of opinions on the matter--most of them fairly dire. How warranted are they?

When something in financial markets (including housing and mortgages) has been "good" for a long time, it's natural to wonder when that might change. Even before rates spiked at the end of 2016, several major reports on home prices and sales suggested things **might be leveling-off**. The rate spike only validates the concern.

In other words, if we were already wondering if prices, sales, and mortgage applications might be taking a turn for the worse, doesn't the rate spike essentially **seal the deal?**

Yes, no, and maybe.

Here's what we know for sure. Rising rates have **already** taken a noticeable toll on mortgage applications. While there was no new MBA application data this week, we've already seen enough evidence of the correlation. Beyond that, refi applications are always the first thing to fall when rates move higher.

At the end of November, Freddie Mac said that mortgage activity would be **"crushed"** by rising rates. Freddie's economists cited the 2013 taper tantrum as precedent for said crushing.

Freddie failed to account for the fact that refi applications were almost twice as high before the taper tantrum than they were before the election. In other words, we **don't have as far to fall** before getting to the bottom of the long-term range. Yes, applications will be just as scarce at current rates, but much of the shift may have already happened.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.44%	+0.01	0.00
15 Yr. Fixed	6.85%	+0.01	0.00
30 Yr. FHA	6.92%	+0.02	0.00
30 Yr. Jumbo	7.62%	0.00	0.00
5/1 ARM	7.41%	+0.01	0.00
Freddie Mac			
30 Yr. Fixed	7.10%	-0.34	0.00
15 Yr. Fixed	6.39%	-0.37	0.00

Rates as of: 4/19

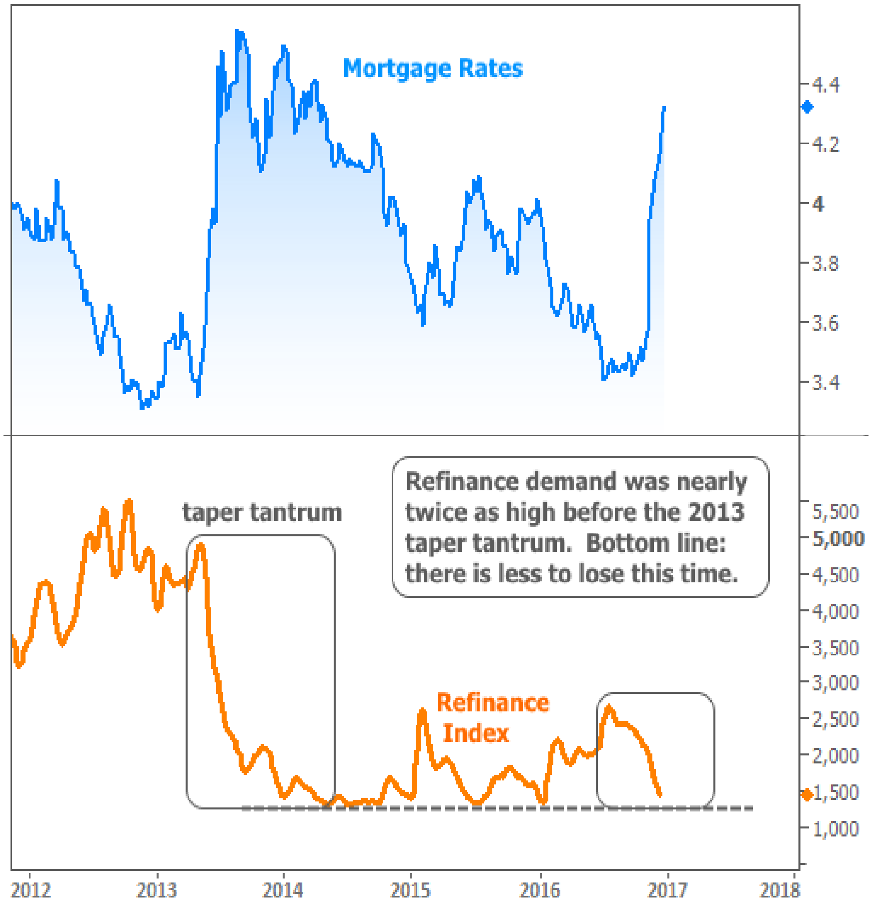
Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.32	+0.02
MBS GNMA 6.0	100.08	+0.02
10 YR Treasury	4.6222	-0.0043
30 YR Treasury	4.7101	-0.0217

Pricing as of: 4/19 5:04PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Apr 17	202.1	+3.27%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Feb	662K	+0.15%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

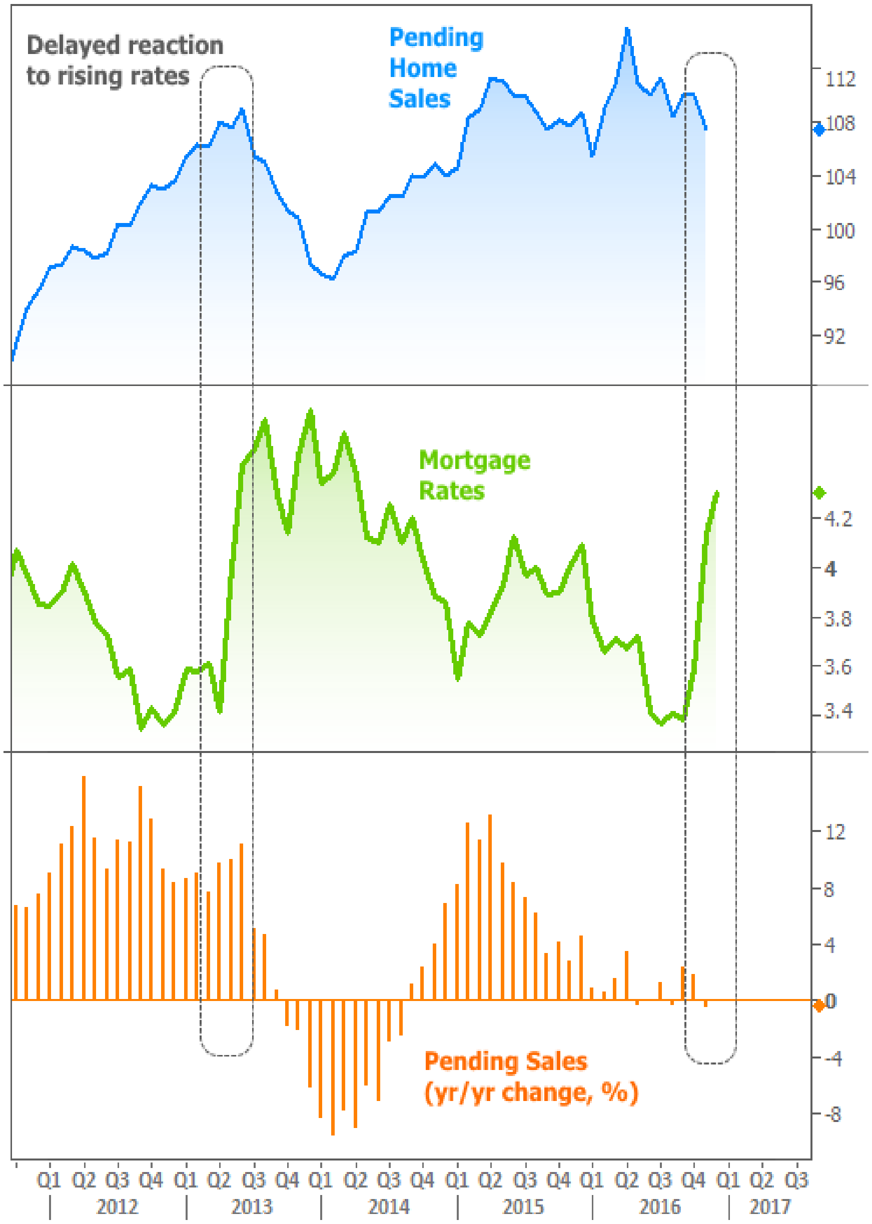


Less obvious and less immediate (and more contentious among pundits!) is the **effect on home sales**. Different reports speak to different aspects of home sales. Some are more timely than others. For instance, last week's Existing Home Sales report covered closed transactions in November. These **wouldn't** have been affected by the rate spike.

While it's true that rates have a far smaller impact on purchases compared to refis, there's **definitely** an effect. This time is no different, and this week's Pending Home Sales data from the National Association of Realtors already claims the "brisk upswing in mortgage rates" has "dispirited some would-be buyers."

The Pending Sales report is **much more timely** than Existing Sales, because it covers contract signings as opposed to closings. If any major report would show the effects of the rate spike, it's this one.

To be sure, **further declines in sales** are coming, but it remains to be seen if those declines are as sharp as they were in 2013. We enter the current rate spike with sales **already** stagnating (notice the flat year-over-year change in the chart below) and a well-established home price recovery. Contrast that to early 2013 when sales expanding quickly and prices were just showing signs of lift-off.



You might be noticing a theme here. Both in terms of refi applications and home sales, things were humming along at a much nicer pace before the taper tantrum. Coupled with fear that home prices wouldn't make a fuller recovery, we had more to lose. A **sharper correction made sense**. Because of this, 2017 is more of a wild card than a guaranteed "crushing" for mortgage activity.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Dec 27				
10:00AM	Dec Consumer confidence	113.7	109.0	107.1
1:00PM	2-Yr Note Auction (bl)			

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

Very Important

Date	Event	Actual	Forecast	Prior
Wednesday, Dec 28				
10:00AM	Nov Pending homes index	107.3		110.0
1:00PM	5-Yr Note Auction (bl)			
Thursday, Dec 29				
8:30AM	w/e Initial Jobless Claims (k)	265	265	275
1:00PM	7-Yr Note Auction (bl)			
Friday, Dec 30				
9:45AM	Dec Chicago PMI	54.6	57.0	57.6
Tuesday, Jan 03				
10:00AM	Nov Construction spending (%)	+0.9	0.6	0.5
10:00AM	Dec ISM Manufacturing PMI	54.7	53.6	53.2
Wednesday, Jan 04				
7:00AM	w/e Mortgage Market Index	358.5		358.0
8:15AM	Dec ADP National Employment (k)		170	216
9:45AM	Dec ISM-New York index	727.4		720.5
Thursday, Jan 05				
10:00AM	Dec ISM N-Mfg PMI	57.2	56.6	57.2
Friday, Jan 06				
8:30AM	Dec Non-farm payrolls (k)	+156	178	178
8:30AM	Dec Unemployment rate mm (%)	4.7	4.7	4.6

All Your Mortgage Needs, Professionally Delivered with a Personal Touch

Whether you're a first-time homebuyer hoping to navigate the process of buying a home so that it is a fun and anxiety-free process or a homeowner looking for refinance options that deliver more freedom and flexibility, I can help you analyze your current situation and find money saving options. With expertise in all areas of mortgage and financing, my hope is that once I become your mortgage partner, I'll stay your mortgage partner. With clients from A to Z, files never leave my hands or my desk. From start to finish, every step of the way, my goal is to keep the lines of communication open, provide complete and attentive service, and ensure the most seamless and satisfactory process possible.

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