



Mid Valley Financial

Mortgage Banker, Since 1985

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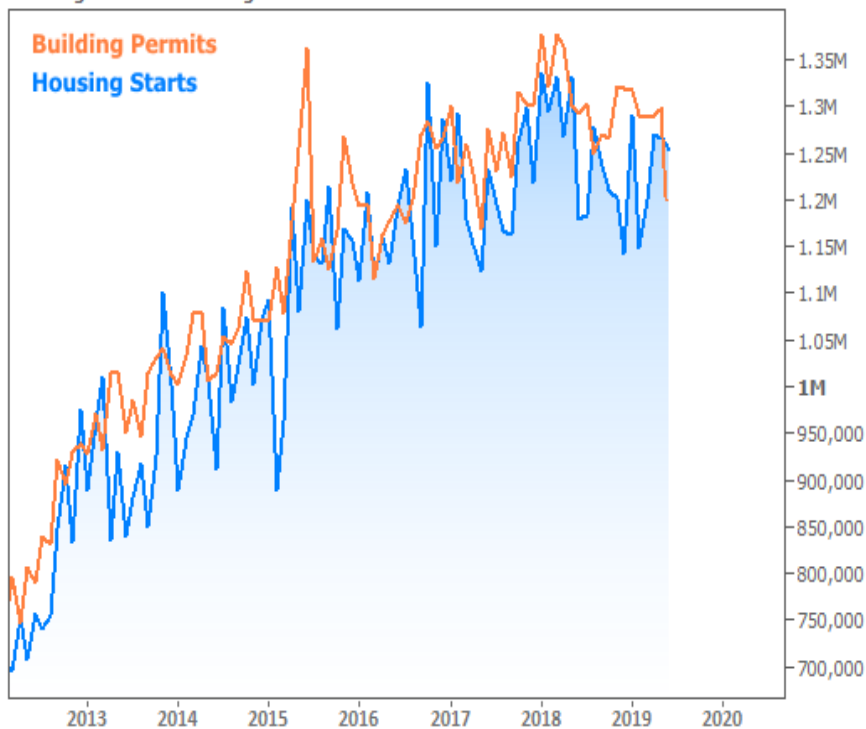
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The Other Side of This Week's Scary Housing News

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 |
|----------------------------|-------|--------|--------|
| Mortgage News Daily | | | |
| 30 Yr. Fixed | 7.45% | -0.07 | 0.00 |
| 15 Yr. Fixed | 6.86% | -0.05 | 0.00 |
| 30 Yr. FHA | 6.95% | -0.05 | 0.00 |
| 30 Yr. Jumbo | 7.64% | -0.04 | 0.00 |
| 5/1 ARM | 7.50% | -0.05 | 0.00 |

Freddie Mac

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 7.17% | -0.27 | 0.00 |
| 15 Yr. Fixed | 6.44% | -0.32 | 0.00 |

Rates as of: 4/26

Market Data

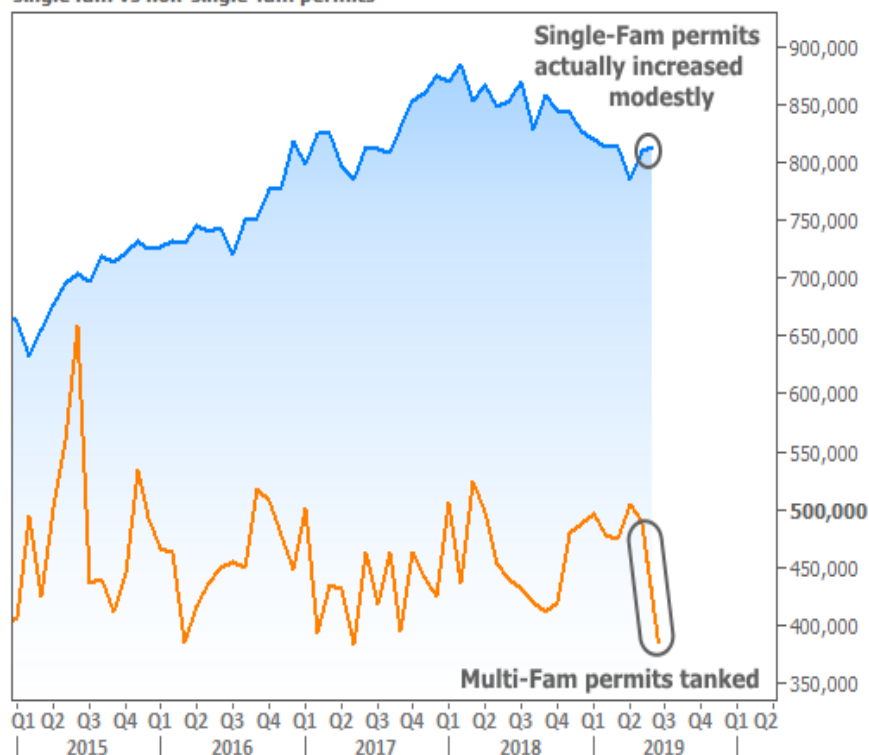
| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 6.0 | 99.37 | +0.30 |
| MBS GNMA 6.0 | 100.35 | +0.27 |
| 10 YR Treasury | 4.6645 | -0.0394 |
| 30 YR Treasury | 4.7739 | -0.0400 |

Pricing as of: 4/26 5:05PM EST

Recent Housing Data

| | | Value | Change |
|---------------------|--------|-------|---------|
| Mortgage Apps | Apr 24 | 196.7 | -2.67% |
| 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% |

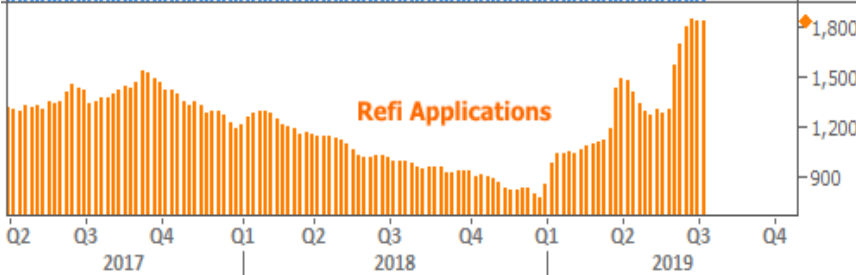
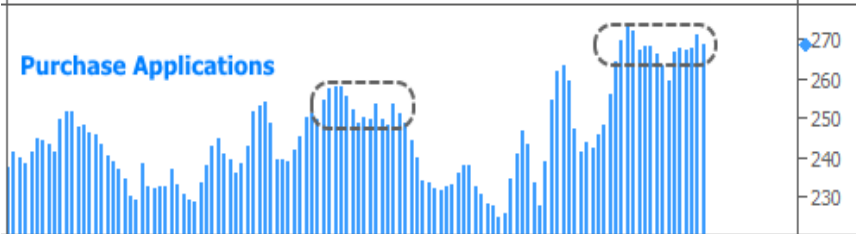
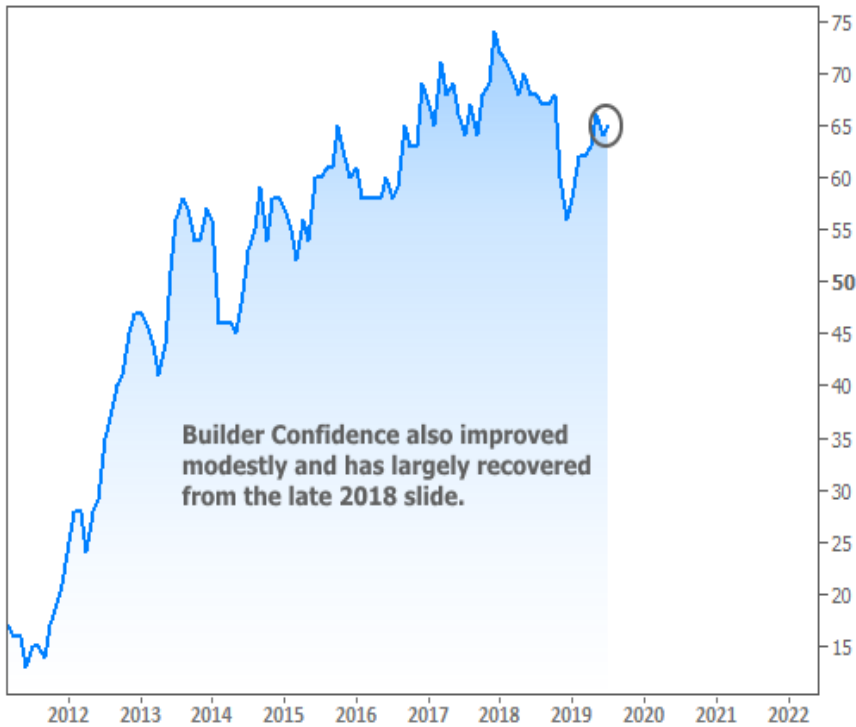
single fam vs non-single-fam permits



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.

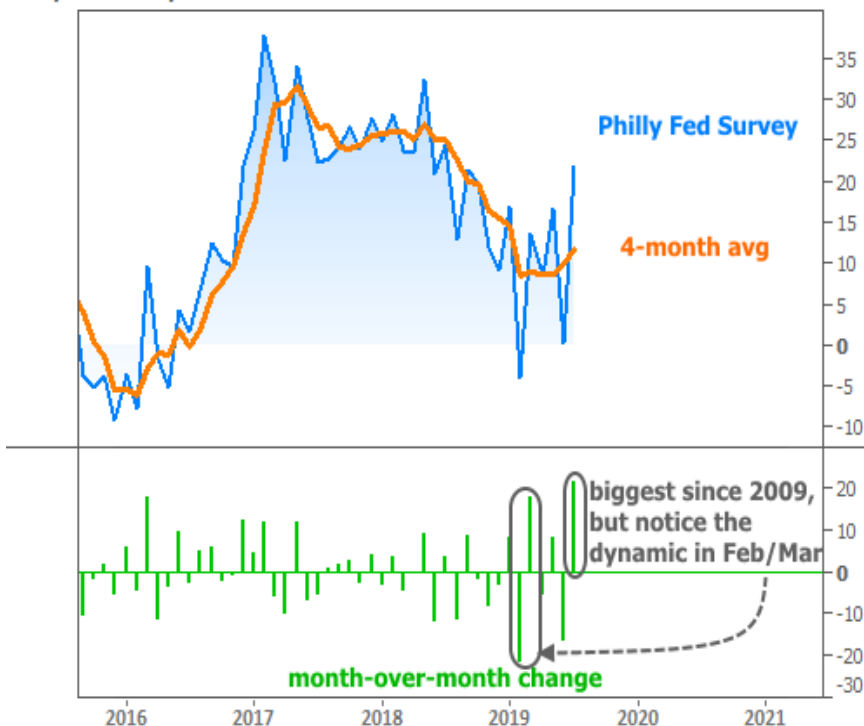
Builder Confidence



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?

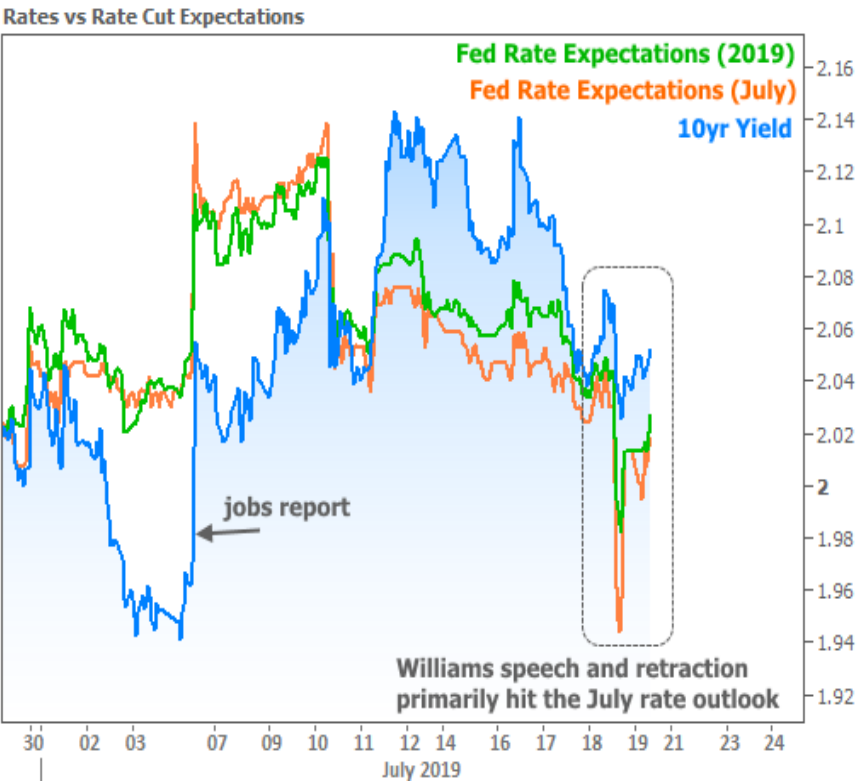
The Philadelphia Federal Reserve district publishes a highly regarded report on the manufacturing outlook each month (dubbed simply "The Philly Fed Survey"). It **crushed** expectations on Thursday. True to form, the bond market weakened at first, thus suggesting higher rates. But bonds quickly found 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

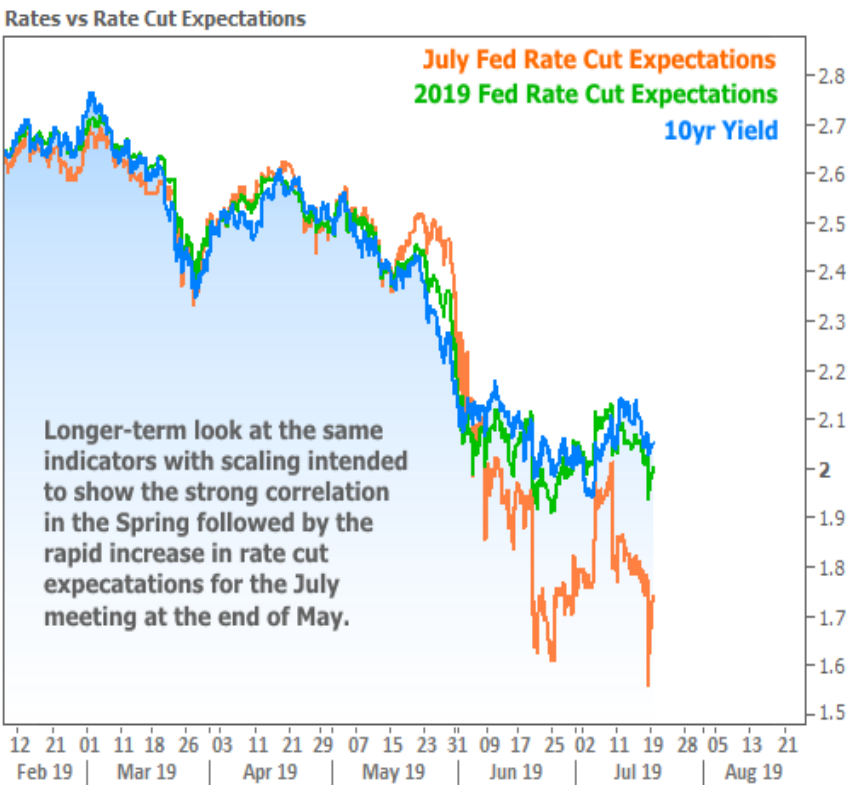


But manufacturing isn't the only game in town. On the same day, a member of the Federal Reserve (San Francisco Fed President Williams) shared a few bold comments that some investors took as an indication that the Fed could cut rates by 0.50% at the end of the month as opposed to the 0.25% that is already 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).

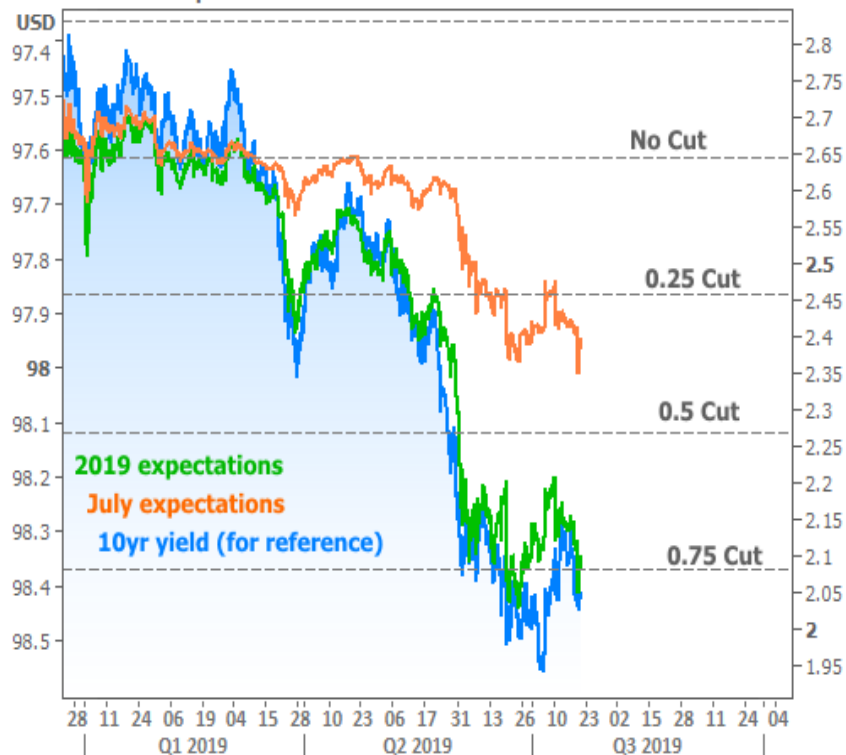


If we change the scaling a bit, we can see things have been fairly calm for 2019's rate outlook in the past month while investors debate the size of July's rate cut.



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).

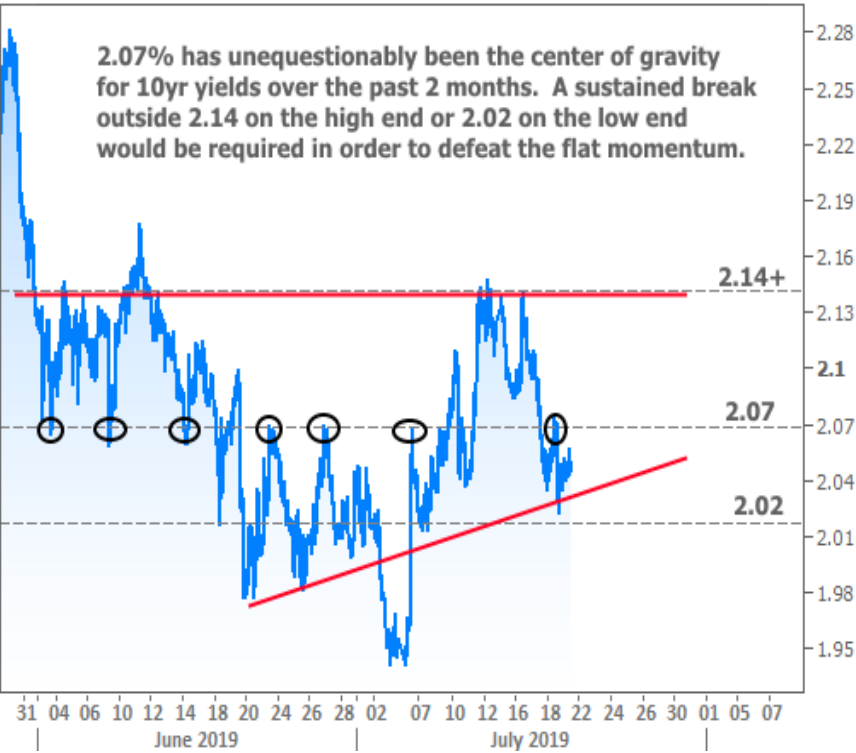
Rates vs Rate Cut Expectations



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 |
|-------------------|-----------------------------------|--------|----------|--------|
| Monday, Jul 15 | | | | |
| 8:30AM | Jul NY Fed Manufacturing | 4.30 | 2.00 | -8.60 |
| Tuesday, Jul 16 | | | | |
| 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 |
| Wednesday, Jul 17 | | | | |
| 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 |
| Thursday, Jul 18 | | | | |

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 |
| Friday, Jul 19 | | | | |
| 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 |
| Tuesday, Jul 23 | | | | |
| 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 | | |
| Wednesday, Jul 24 | | | | |
| 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 | | |
| Thursday, Jul 25 | | | | |
| 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 | | |
| Friday, Jul 26 | | | | |
| 8:30AM | Q2 GDP Advance (%) | 2.1 | 1.8 | 3.1 |

Who is Mid Valley Financial?

Mid Valley Financial, located in Fresno, CA, is the Central Valley's premier destination for a wide range of residential and commercial real estate loans. Our commitment to excellence has made us a trusted partner for property buyers and investors seeking tailored financial solutions.

****Why Choose Us:****

With a track record spanning back to our inception in 1985, we have established ourselves as a reliable and innovative lender. We proudly serve properties exclusively within California, having funded loans in all 58 counties of the state. Our deep-rooted experience enables us to navigate complex loan scenarios with expertise and efficiency.

****Our Approach:****

At Mid Valley Financial, we prioritize your financial goals. Whether you're a first-time homebuyer, envisioning your dream property, refinancing an existing mortgage, or looking to tap into your property's equity, our seasoned loan officers offer a wealth of knowledge and over 300 years of collective experience. We ensure that your funds are prepared when you need them, providing a smooth and swift loan process.

****Unlocking Possibilities:****

As one of California's leading direct lenders, we've streamlined the loan process, minimizing obstacles that often deter borrowers. Many of our clients receive approvals within an hour, showcasing our dedication to quick and hassle-free solutions.

****Your Journey with Us:****

Contact the MVF team today and let us put your journey to property ownership on cruise control. Our mission is to empower borrowers while fostering enduring and meaningful relationships. With highly competitive rates, a commitment to transparency, and a dedication to your financial success, Mid Valley Financial is your partner in realizing your real estate aspirations.

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