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Housing Market Weakness Depends on Perspective

This week's **biggest housing-related headline** was the drop to a 3-year low in Existing Home Sales. This is just the latest in a series of reports that suggests housing has turned some sort of scary corner. But drawing the line between fear and reality can be a matter of perspective.

Has housing data actually weakened in the past year? Undoubtedly! There's really **no denying or debating** that fact. But home sales dropped in a similar way in 2013 after the last comparable spike in interest rates only to go on to new long-term highs by the middle of 2015.

We **can't really know** if housing will recover in a similar way this time, and that's exactly the point! Nothing we've seen so far is much of a surprise in the context of the interest rate spike. In fact, if anything, the surprise is how **well** housing continued to do after the first phase of the rate spike in late 2016. It wasn't until the 2nd phase in 2018 that sales finally capitulated.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.33%	-0.12	0.00
15YR Fixed	6.89%	-0.10	0.00
30YR FHA	6.95%	-0.10	0.00
30YR Jumbo	7.44%	-0.06	0.00
7/6 SOFR	6.81%	-0.19	0.00
30YR VA	6.97%	-0.10	0.00

Rates as of: 11/20

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.51	+0.41
10 YR Treasury	4.9403	-0.1033
30 YR Treasury	5.3324	-0.0738

Pricing as of: 11/20 5:59PM EST

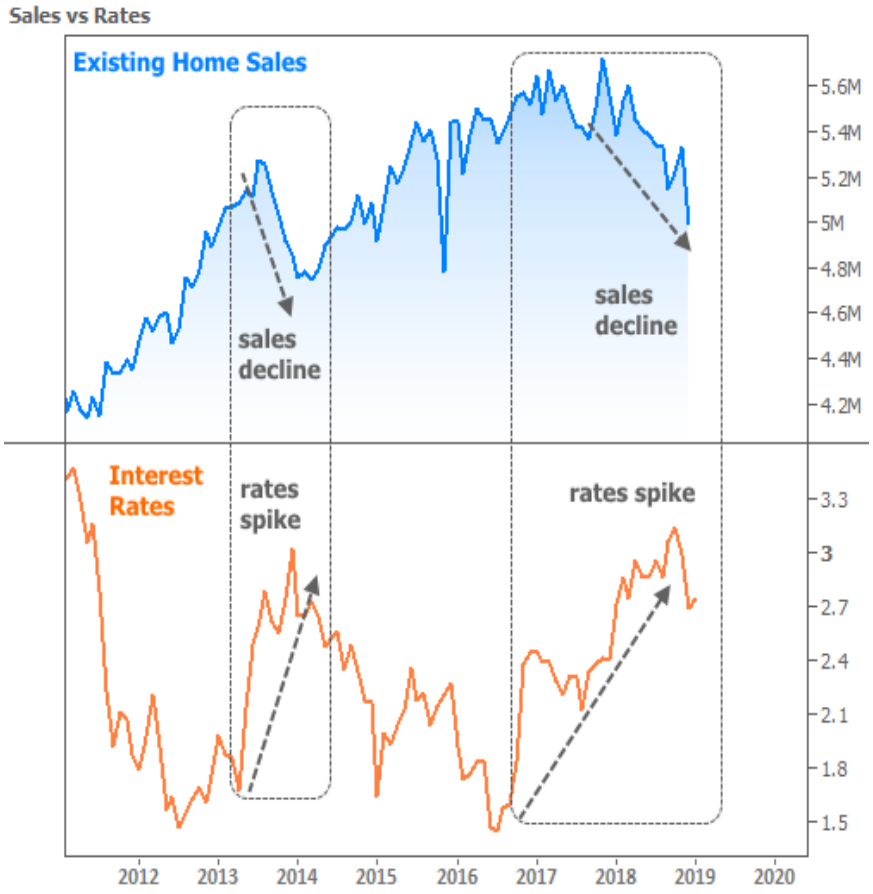
Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

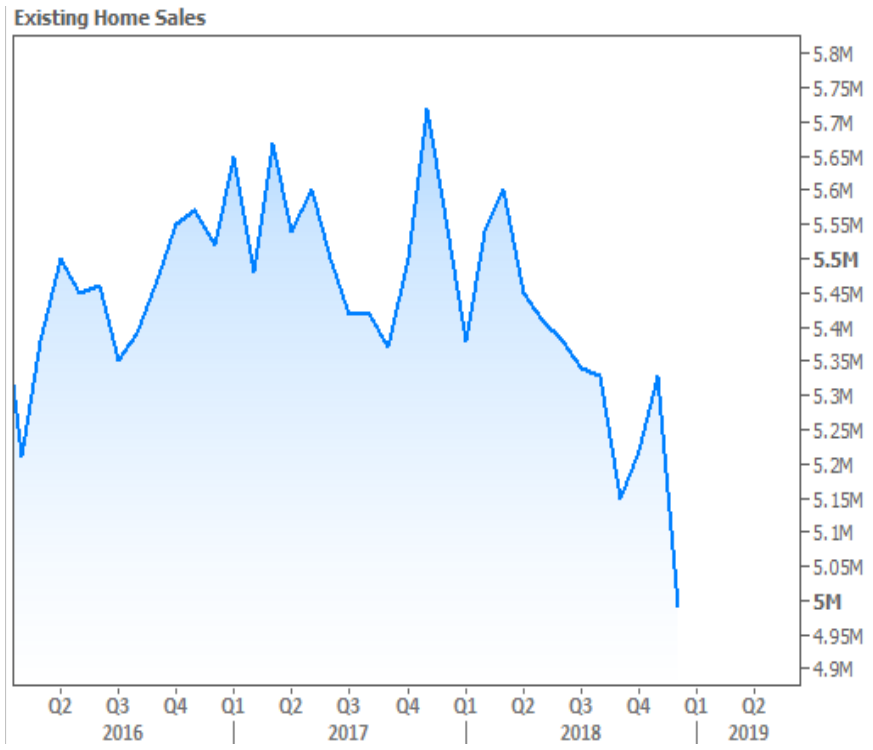
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Now forget the interest rate considerations above and simply focus on perspective and context. Just by changing the time period on the chart, we can paint **vastly different pictures**. The most downbeat pictures are those that compare current levels to the long-term highs seen in 2017.



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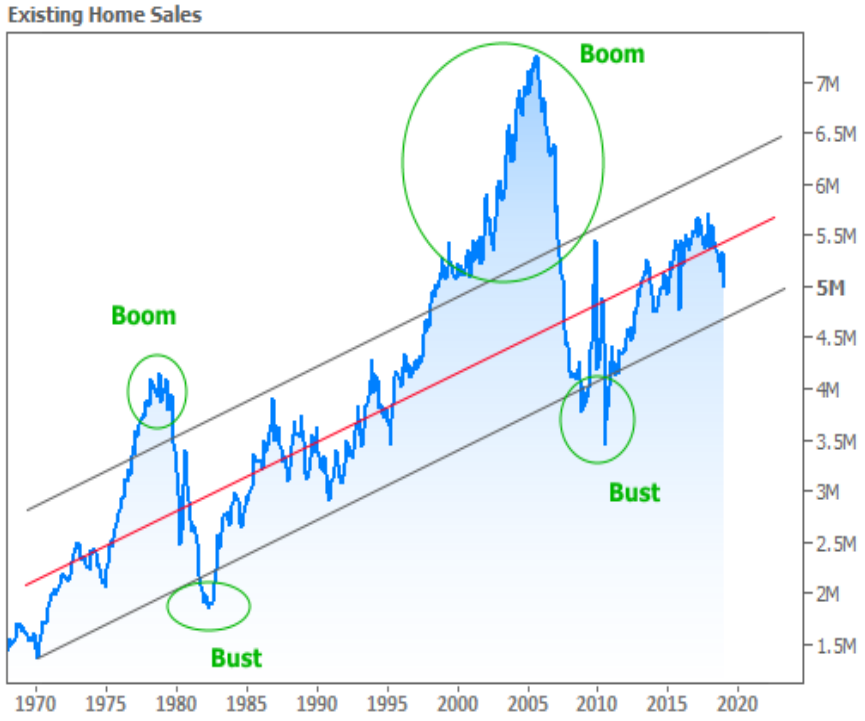
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Things change as we zoom out to wider points of view. This could still look a bit gloomy depending on your perspective, but much less so than the previous chart:



If we continue to zoom out, the longer-term trend emerges. In this chart, it's actually easier to make a case for housing market **strength**. The red line is a simple linear regression from before the 2000's housing boom. When sales are under that line, it signifies opportunity to improve. Additionally, it's reassuring to see that sales are **not** currently falling from one of their boom cycles (those have been the worst times for the housing market).

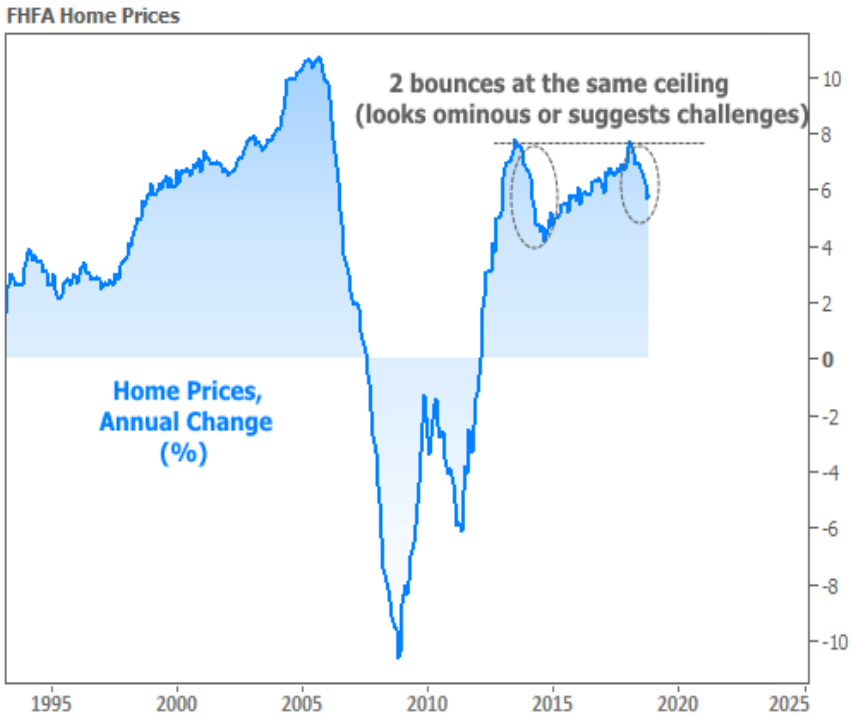


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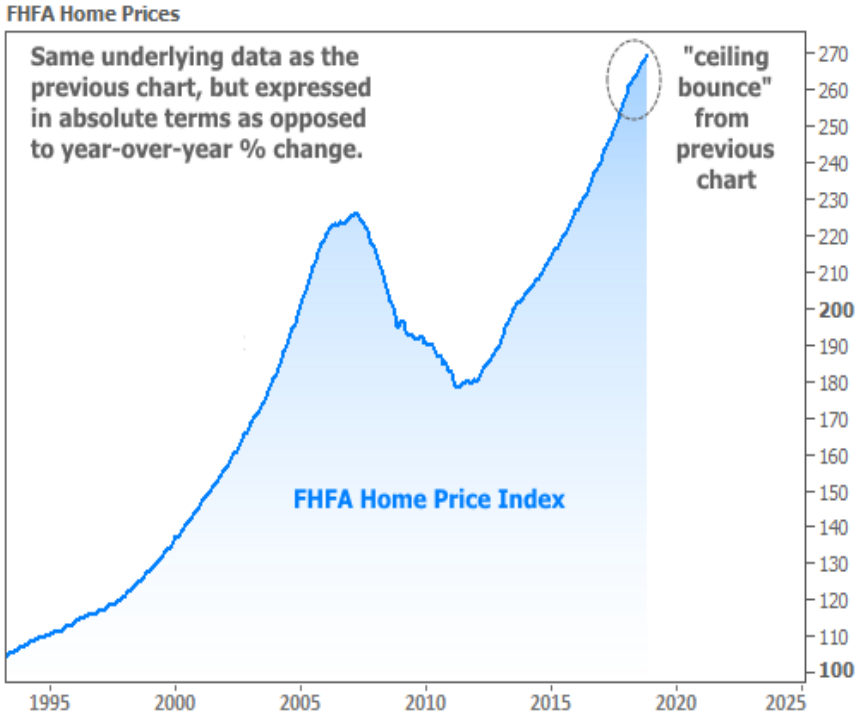
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Perspective can have an impact on our assessment when it comes to home **prices** as well. The latest home price report from the FHFA (Fannie and Freddie's regulator) was also released this week. Home prices are commonly reported in terms of year-over-year change. This is a useful practice as it allows us to see changes in trends more easily. Here too, we see the ill effects of the 2013 and 2018 rate spikes as well as a potentially ominous ceiling blocking further progress.



But **let's ask ourselves** if we'd really want home prices to accelerate faster and faster when they've already spent several years in the 5-7% range. That doesn't sound sustainable in an economy where wage growth only recently made it back to 3%. Perhaps **more importantly**, let's ask ourselves why a drop in the pace of appreciation is a bad thing if prices are still moving up. For instance, here's what the same data looks like when we chart the outright level of FHFA's home price index.



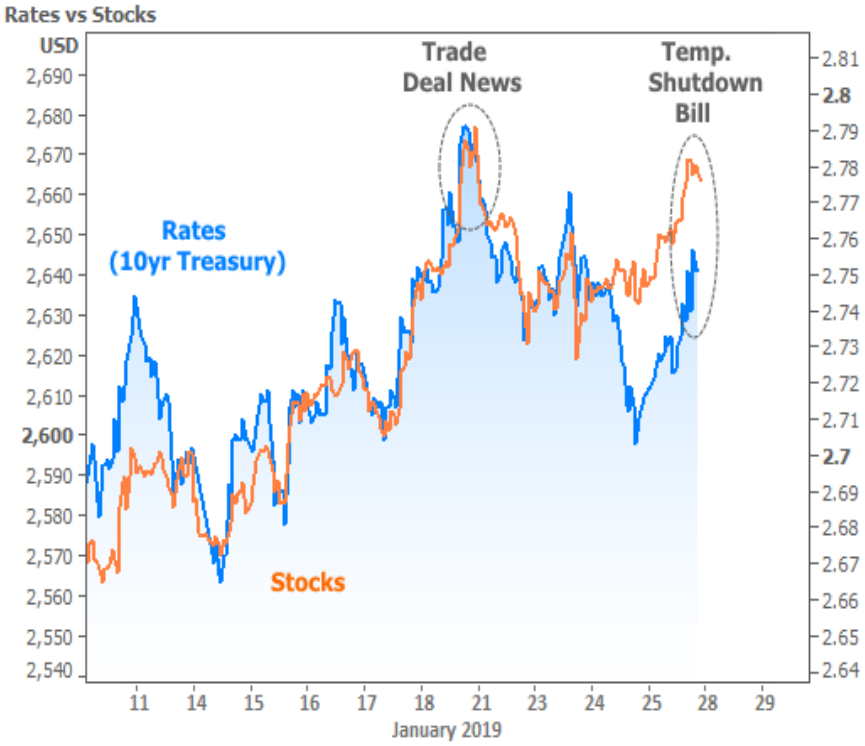
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The point of all this is to reiterate that different cases can be made simply by using different techniques to present the **exact same** data.

In financial markets, stocks and bonds/rates spent the first part of the week moving lower before bouncing on Friday as odds improved for a temporary re-opening of the government. The temporary nature of the solution likely accounts for the absence of a bigger market reaction. Neither stocks nor bonds were willing to move back to the levels seen after last week's trade-related news.



Next week brings **two key events** that were on the schedule regardless of the shutdown. The Federal Reserve will release an updated policy statement on Wednesday afternoon. They **won't** be raising rates at this meeting. In fact, many investors think we'll see the Fed strike a softer tone compared to December's announcement. Such things are usually good for rates, but if investors were in broad agreement about that likelihood, rates would have already benefited from those expectations.

Then on Friday, we'll get the next installment of the government's official jobs report--always one of the biggest potential sources of volatility for interest rates. As of Friday afternoon, the government hasn't announced a tentative schedule for releasing any of the data that had been on hold during the shutdown.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Jan 22				
10:00AM	Dec Existing home sales (ml)	4.99	5.25	5.32
10:00AM	Dec Exist. home sales % chg (%)	-6.4	-1.0	1.9
Wednesday, Jan 23				
7:00AM	w/e MBA Purchase Index	272.5		278.5

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
7:00AM	w/e Mortgage Refinance Index	1110.5		1172.4
Thursday, Jan 24				
8:30AM	w/e Jobless Claims (k)	199	211	213
10:00AM	Dec Leading index chg mm (%)	-0.1	-0.1	0.2
Monday, Jan 28				
11:30AM	2-Yr Note Auction (bl)	40		
1:00PM	5-Yr Note Auction (bl)	41		
Tuesday, Jan 29				
9:00AM	Nov CaseShiller 20 yy (%)	+4.7	4.9	5.0
1:00PM	7-Yr Note Auction (bl)	32		
Wednesday, Jan 30				
7:00AM	w/e MBA Purchase Index	266.2		272.5
7:00AM	w/e Mortgage Refinance Index	1049.9		1110.5
10:00AM	Dec Pending Home Sales (%)	-2.2	0.5	-0.9
10:00AM	Dec Pending Sales Index	99.0		101.2
2:00PM	N/A FOMC rate decision (%)	2.250 - 2.500	2.375	2.375
Thursday, Jan 31				
8:30AM	w/e Jobless Claims (k)	253	227	199
9:45AM	Jan Chicago PMI	56.7	61.5	65.4
Friday, Feb 01				
8:30AM	Jan Non-farm payrolls (k)	+304	165	312
8:30AM	Jan Unemployment rate mm (%)	4.0	3.9	3.9
8:30AM	Jan Average earnings mm (%)	+0.1	0.3	0.4
10:00AM	Jan ISM Manufacturing PMI	56.6	54.2	54.1
10:00AM	Jan ISM Mfg Prices Paid	49.6	54.5	54.9
10:00AM	Jan Consumer Sentiment (ip)	91.2	90.8	90.7
10:00AM	Jan Consumer Inflation Expectations (1yr) (%)	2.7		2.7
10:00AM	Jan Consumer Inflation Expectations (5yr) (%)	2.6		2.6

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Who is Mid Valley Financial?

Since 1985, Mid Valley Financial has been a trusted partner for complex real estate financing solutions. We specialize in handling unique and challenging loan scenarios, including those with non-traditional income or asset documentation. Our expertise in hard money and private money lending offers quick funding and flexible terms for real estate investors, business owners, and agricultural operators. Whether you need funds for purchasing, renovating, or refinancing properties, our experienced team is here to help.

Beyond hard money lending, we offer a comprehensive suite of competitively priced home loan options, including conventional, FHA, VA, and jumbo loans. So whether you are a first-time homebuyer, looking to secure the family estate or vacation property, or have unique financial circumstances, our experienced team can help you find the best solution.

Our commitment to exceptional customer service and innovative financing solutions has made us one of the leading direct lenders and mortgage brokers in the California real estate market. With a proven track record of success and a focus on building long-term relationships, we're here to help you achieve your financial goals.

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