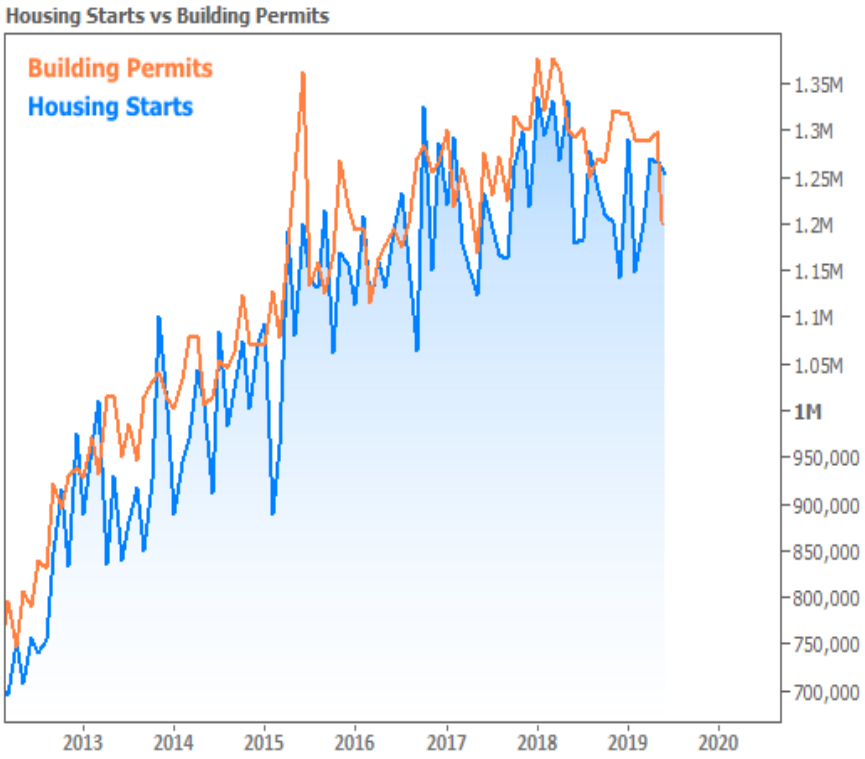
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The Other Side of This Week's Scary Housing News

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...



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



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

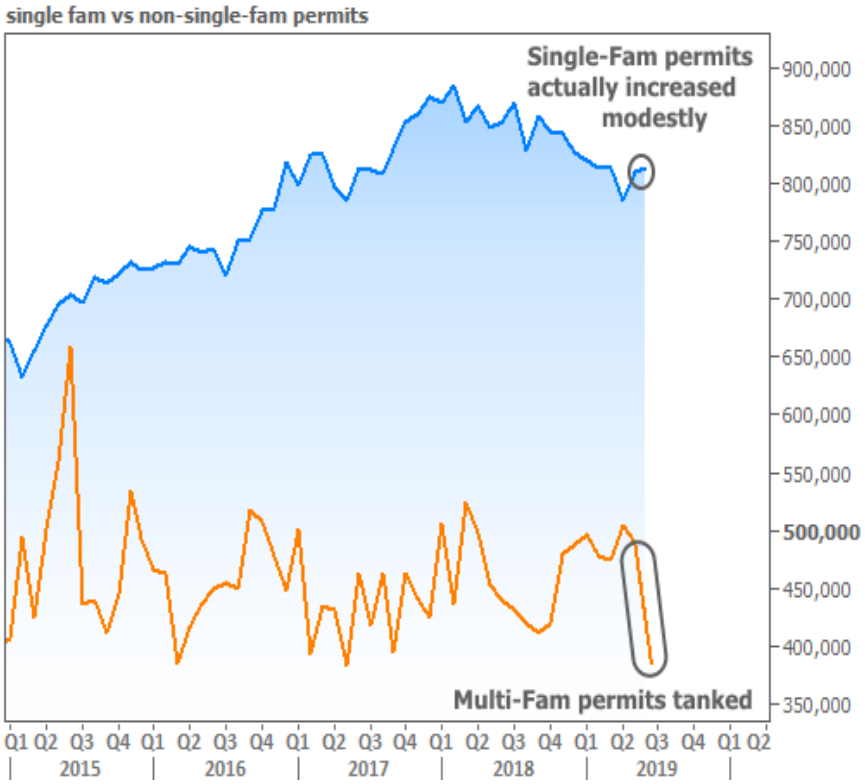
Recent Housing Data

		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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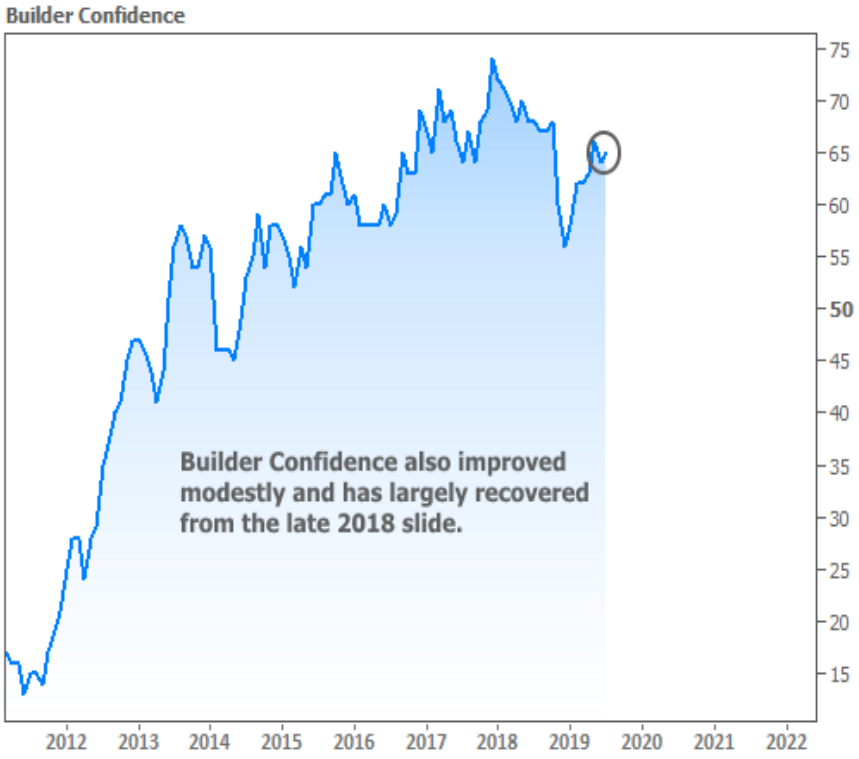
It's too soon to say if this is indicative of a broader or longer-lasting decline in the multi-family sector as the drop is just inside the range that's persisted for almost 5 years. It would be more troubling to see permits break below that range. Even then, this sector **doesn't** historically tell us anything about the broader housing market that isn't already seen in single-family numbers.

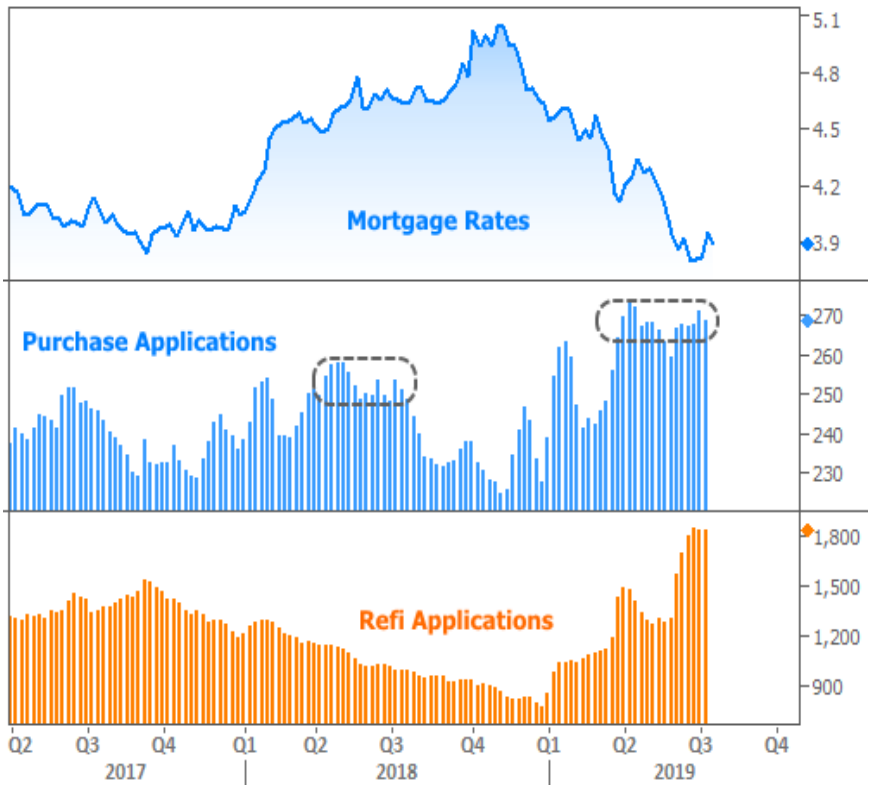
Elsewhere in this week's housing market data, there wasn't anything nearly as tricky to sort out. The National Association of Homebuilders reported an **uptick in builder confidence**. And the Mortgage Bankers Association released another solid week of application data. Strong refi demand makes good 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.

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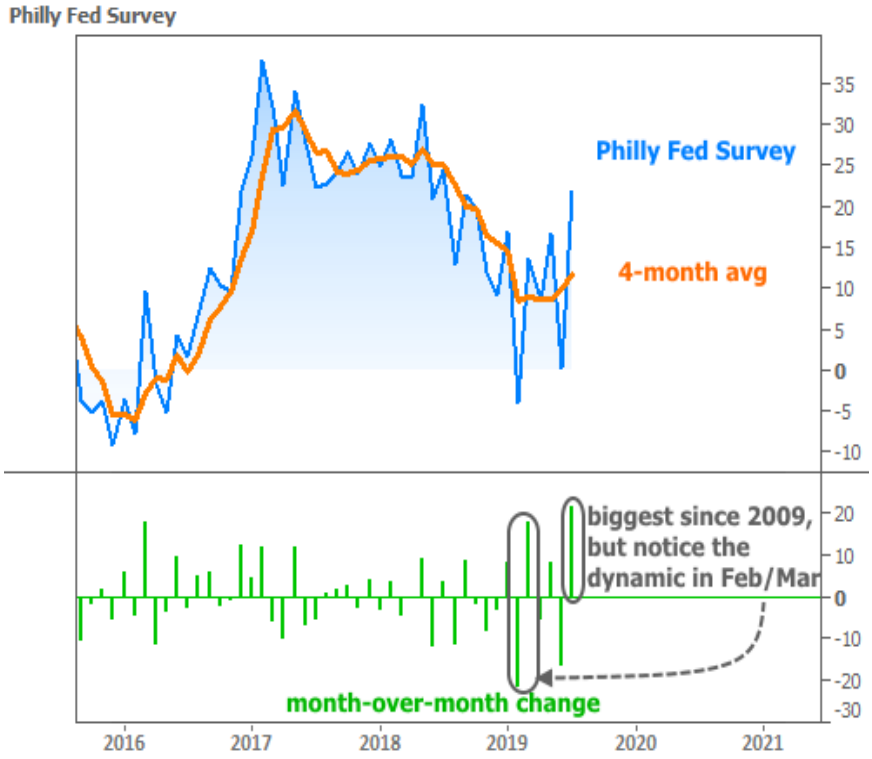
Away from housing, other economic data was even stronger, and that presented a risk for mortgage rates. Economic data and mortgage rate movement go hand in hand. A stronger economy puts upward pressure on rates. A contracting economy helps rates move lower. While this is far from the only source of inspiration, 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?

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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.



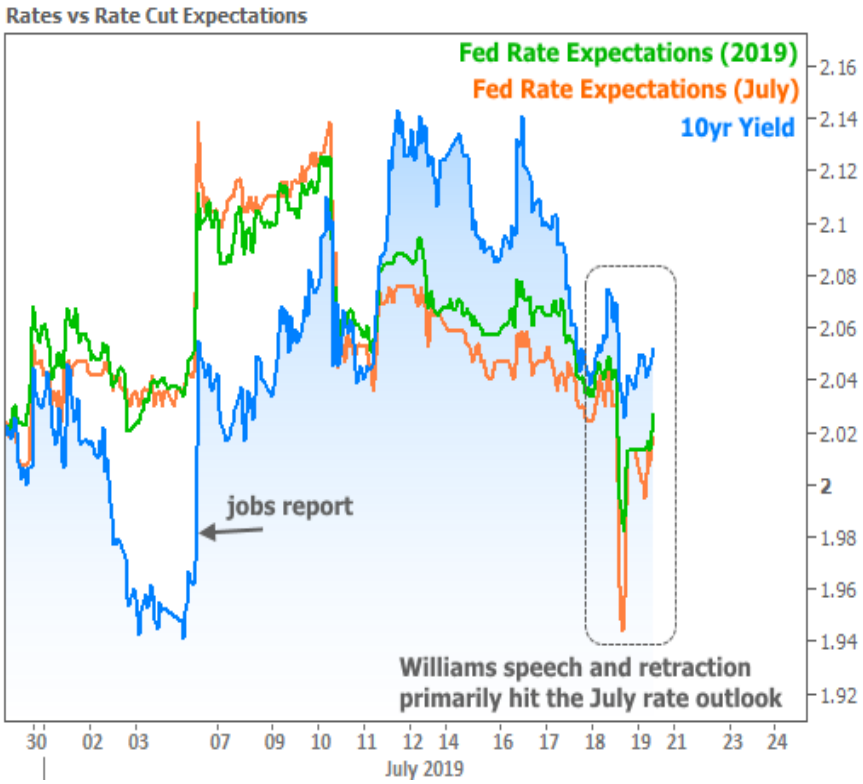
But manufacturing isn't the only game in town. On the same day, a member of the Federal Reserve (San Francisco Fed President Williams) shared a few bold comments that some investors took as an indication that the Fed could cut rates by 0.50% at the end of the month as opposed to the 0.25% that is already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

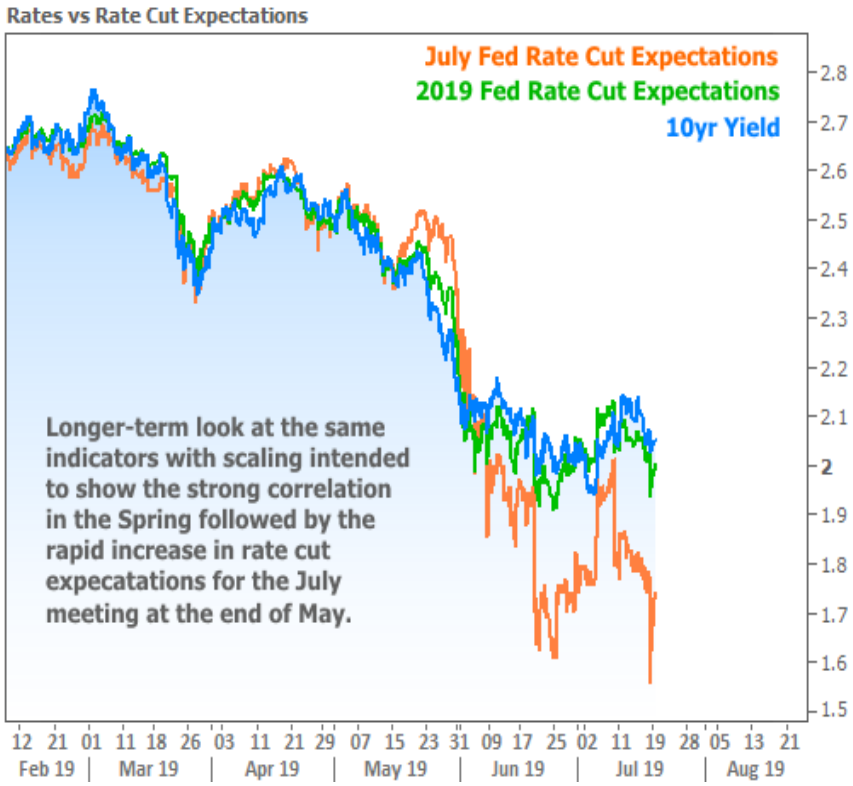
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If we change the scaling a bit, we can see things have been fairly calm for 2019's rate outlook in the past month while investors debate the size of July's rate cut.

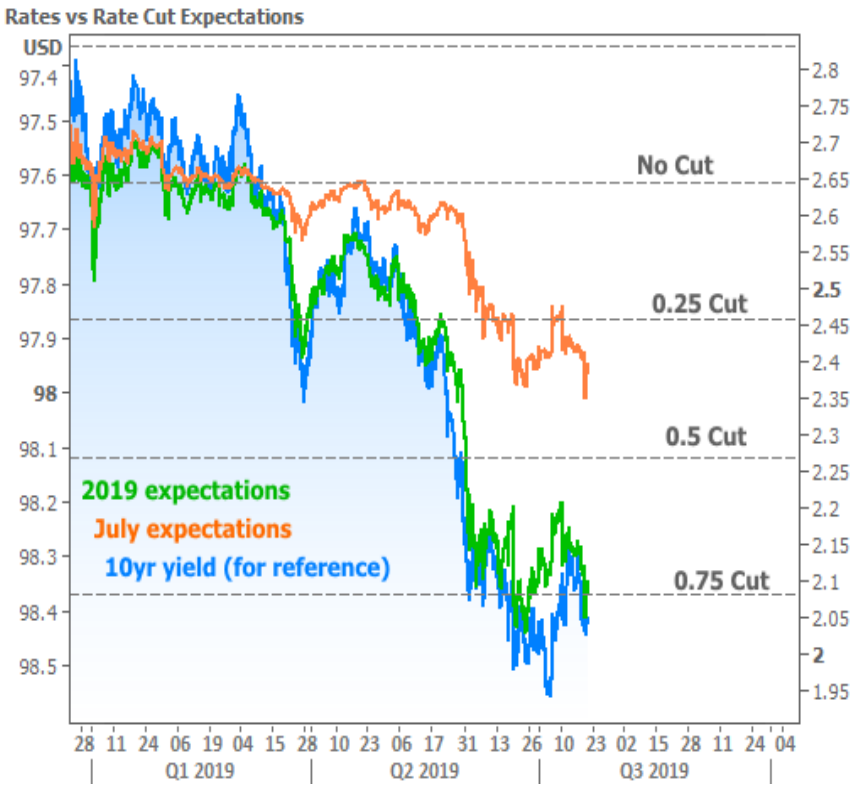


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Finally, here are the same indicators with **no adjustments for scaling**. Rather, the horizontal lines correspond to certain levels for the Fed Funds Rate. Bottom line: the market is 100% certain of a 0.25% rate cut on July 31st. The only debate was 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).



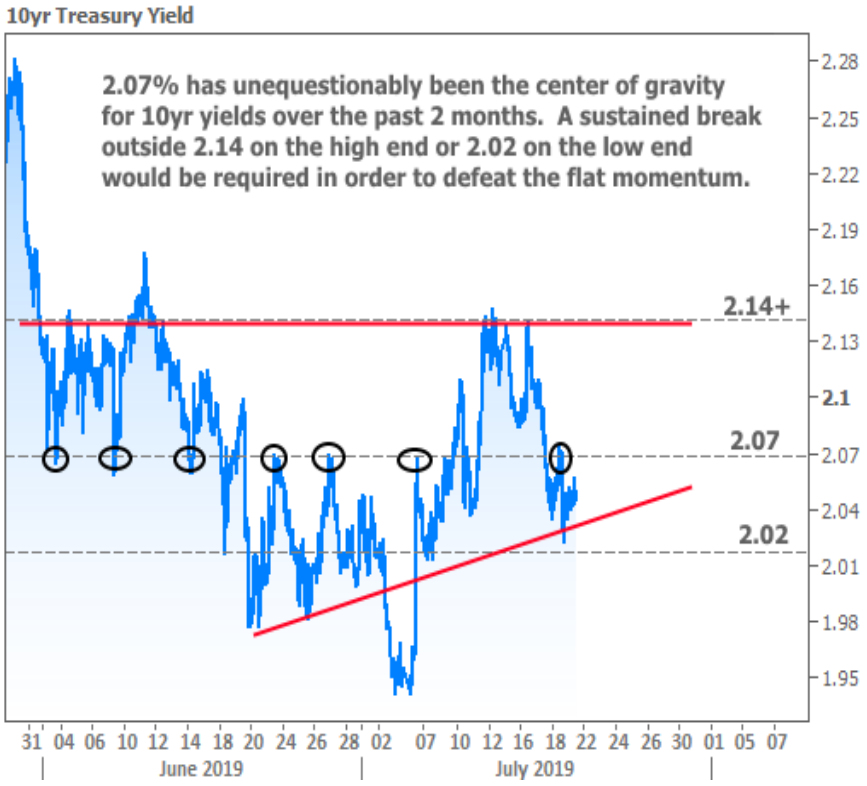
With all the discussion (here and elsewhere) about impending Fed rate cuts, it's very important to remember that mortgage rates (and pretty much any other rate based on securities that can be traded in real time) have already adjusted for what they think will happen in the future. They'd be foolish not 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.

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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

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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

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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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EQUAL HOUSING LENDER

EQUAL HOUSING OPPORTUNITY

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