Defying Consensus Estimates – Market Recap

We, along with most everyone else , believe interest rates will rise in 2014. If you were to ask most mortgage bankers where the rate on the 30-year fixed-rate loan will be on Dec. 31, 2014, you'll likely get a response of 5% or above.

To be sure, the year is still young, but mortgage rates have defied the majority opinion by trending down, not up. This past week, rates were either steady or slightly down across the board. Bankrate.com's weekly survey shows an average rate of 4.56% on the 30-year loan. Freddie Mac's survey shows the 30-year loan averaging 4.39%, two basis points lower than last week.

Depending on your local market, the rate on the 30-year loan has dropped from 10-to-15 basis points in this new year. Rates have dropped despite the Federal Reserve announcing it was reducing its purchases of mortgage-backed securities.

We're not terribly surprised mortgage rates have been falling. At the beginning of the year, the 10-year U.S. Treasury note was yielding above 3%. As we write, the yield is below 2.8%. (To get a rough idea of where the 30-year fixed-rate mortgage is headed, follow the yield on the 10-year Treasury note, which you can readily find at most financial portals .)

The upside of lower mortgage rates has been an uptick in both refinance and purchase application activity. The Mortgage Bankers Association 's latest survey shows refinance applications were up 10% last week, while purchase applications were up 2%.

The downside is that lower rates have come tethered to lower job growth. We mentioned last week that we were sorely disappointed in the December payroll numbers. Job growth for the month was far below expectations.

Later next week, we'll get an idea if December's employment numbers were simply an anomaly that's unrelated to the economy. Preliminary data point to gross domestic product (GDP) growing 3% on an annualized rate for the fourth quarter of 2013. Let’s hope that growth is moving ahead at least that much. If growth meets or beats exceptions, December’s weak job numbers will likely have been a one-off aberration, and not the start of a new trend.

The Federal Reserve will also influence interest rates this coming week. Fed officials are scheduled to convene on Tuesday. On Wednesday, we’ll be privy to what they discussed. Most likely, we’ll hear that the Fed still supports holding interest rates low into the distant future. But for the immediate future, rates could still rise or fall depending on the Fed’s outlook on the economy.

The bottom line is that we expect to see some volatility in mortgage rates over the coming week, with most of it occurring on Wednesday and Thursday.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
New Home Sales (December)	Mon., Jan. 27,10:00 am, ET	469,000 Units (Annualized)	Important. Sales continue to move higher, but the pace of gain is slowing.
S&P/Case-Shiller Home Price Index (November)	Tues., Jan. 28, 9:00 am, ET	0.4% (Increase)	Important. The index will likely show slower price appreciation through the end of the 2013.
Mortgage Applications	Wed., Jan. 29, 7:00 am, ET	None	Important. Falling rates have lifted purchase demand, but week-to-week demand remains volatile.
Federal Reserve FOMC Meeting Announcement	Wed., Jan. 29, 2:00 pm, ET	None	Very Important. Any changes to economic outlook, quantitative easing, or interest-rate policy will move mortgage rates
Gross Domestic Product (4th Quarter 2013)	Thurs., Jan. 30, 8:30 am, ET	3.0% (Annualized Growth)	Important. Initial indicators point to sustained economic growth into early 2014.

Not Quite Where We’d Like to Be

For the past year (if not longer), we've been preaching that economic growth, not interest rates will drive housing. To be sure, it was encouraging to see purchase-application activity pick up on lower rates. Unfortunately, cash is still king. The NAR's latest sales data show cash buyers comprised 32% of existing home sales in December. Therefore, a 2% uptick in purchase applications isn't as meaningful as it would have been a decade ago.

Whether mortgage rates are lower or higher, they don't appear to have much impact on home sales these days. Sales of existing homes bounced back in December from a very weak November, but not by much. Sales for the month came in at 4.87 million units, which is about where they were 18 months ago. Unfortunately, sales remain significantly below where they were this past summer. Interestingly, during that time, mortgages rates were rising as monthly sales were rising.
Source: Econoday

For this coming week we'd like to see the Federal Reserve's data show stronger economic growth. In addition, we'd like to see that data supported by strong fourth-quarter-2013 GDP growth. If strong economic growth is supported with strong job growth, a 5% rate on the 30-year loan will still be an affordable rate in the grand scheme of things.