

Mortgage Rates Remain Elevated as Economy Surges (Key Highlights for Investors)



The 10-year treasury yield surged as market participants reassessed their expectations for the economy and interest rates. The strong economic data from the third quarter and expectations that the Fed will keep interest rates high for longer are driving up mortgage rates.

Economic Indicators Point to Continued Strength

- *GDP grew 4.9% in the third quarter, above expectations and indicating a robust economy.*
- *Inflation remains elevated at 3.7%, still above the Fed's 2% target.*
- *The labor market is strong, with unemployment at a near-five-decade low.*

Increased Supply and Slowing Demand for Treasuries Push Yields Up

- *Increased government borrowing due to lower tax revenues is putting upward pressure on treasury yields.*
- *Slower demand for treasuries from investors, including China, is also contributing to rising yields.*



Mortgage Rates Likely to Stay High

- *Mortgage rates are expected to remain elevated as the economy stays strong.*
- *A strong economy is good for corporate earnings, but it can keep interest rates high.*

Implications for Investors

- *Investors should carefully consider their asset allocation, given the strong economy and rising interest rates.*
- *Stocks could benefit from the strong economy, but bonds could become more attractive due to higher interest rates.*
- *Investors should closely monitor economic data to assess the outlook for interest rates and the economy.*

Additional Insights

- *The Fed is expected to keep interest rates high into 2024.*
- *Investors should be aware of the potential for further volatility in the bond markets.*
- *The overall economic outlook remains uncertain, and investors should be cautious.*

Summary

The U.S. economy is strong, and mortgage rates are likely to remain elevated as a result. Investors should carefully consider their asset allocation and be aware of the potential for further volatility in the bond markets.



Promising Inflation Report Ushers in Favorable Mortgage Conditions for Homebuyers

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The recent inflation report has brought much-needed relief to homebuyers, painting a promising picture for mortgage rates and affordability. With inflation easing, the likelihood of mortgage rates reaching 8% or higher has diminished significantly, presenting an opportune time for prospective homeowners to secure favorable terms.

Inflationary Pressures Subside

The October inflation report revealed a welcome reprieve, with headline inflation remaining unchanged from the previous month. This moderation, driven by a decline in gas prices, signals a positive trend in inflationary pressures. Core inflation, excluding food and energy, also exhibited a milder increase than anticipated, further supporting the notion that inflationary forces are gradually abating.

Shelter Inflation Slows Down

Shelter inflation, a key component of inflation, has also demonstrated a downward trajectory, falling to 0.3% month-over-month in October. This aligns with Redfin's rental price data, which indicates a sluggish growth in U.S. asking rents since early 2023. This pattern suggests that shelter inflation is likely to continue moderating in the coming months.

Easing Inflation May Curb Rent Prices

The stagnation of rental prices has contributed to the slowdown in shelter inflation. As inflation eases, rental price growth is likely to moderate further. This is because lower mortgage rates could stimulate demand for homeownership, potentially reducing demand for rentals and driving down rental prices.



Fed's Rate Hike Trajectory Reassessed

The combination of the weak jobs report in November and the favorable inflation data significantly reduces the likelihood of a December rate hike by the Federal Reserve. In fact, the recent economic developments point towards a potential rate cut earlier than expected, possibly as early as May 2024.

Opportunities for Homebuyers to Secure Favorable Rates

Given the current economic climate, homebuyers seeking to lock in lower mortgage rates should remain vigilant and communicate closely with their lenders. This is particularly relevant as daily average mortgage rates have declined to 7.4%, their lowest level since mid-September.

Key Takeaways

- *Easing inflation has improved the outlook for mortgage rates.*
- *The likelihood of mortgage rates reaching 8% or higher has diminished.*
- *Homebuyers should consider locking in lower rates now.*
- *The Fed's rate hike trajectory is likely to shift towards moderation or even cuts.*
- *Homebuyers should stay informed and work closely with their lenders.*



September Private Residential Construction Spending Inches Up

NAHB analysis of Census Construction Spending data shows that private residential construction spending rose 0.6% in September, after a 1.3% increase in August. It stood at a seasonally adjusted annual pace of \$872 billion. However, total private residential construction spending is still 2.2% lower compared to a year ago.

The total construction monthly increase is attributed to more spending on single-family construction and improvements. Spending on single-family construction rose 1.3% in September. It was the fifth consecutive monthly increase since April 2023. Compared to a year ago, spending on single-family construction was 5.9% lower. Multifamily construction spending dipped 0.1% in September but was 22.3% over the September 2022 estimates, largely due to the strong demand for rental apartments. Private residential improvement spending edged up 0.2% in September and was 5.4% lower compared to a year ago.

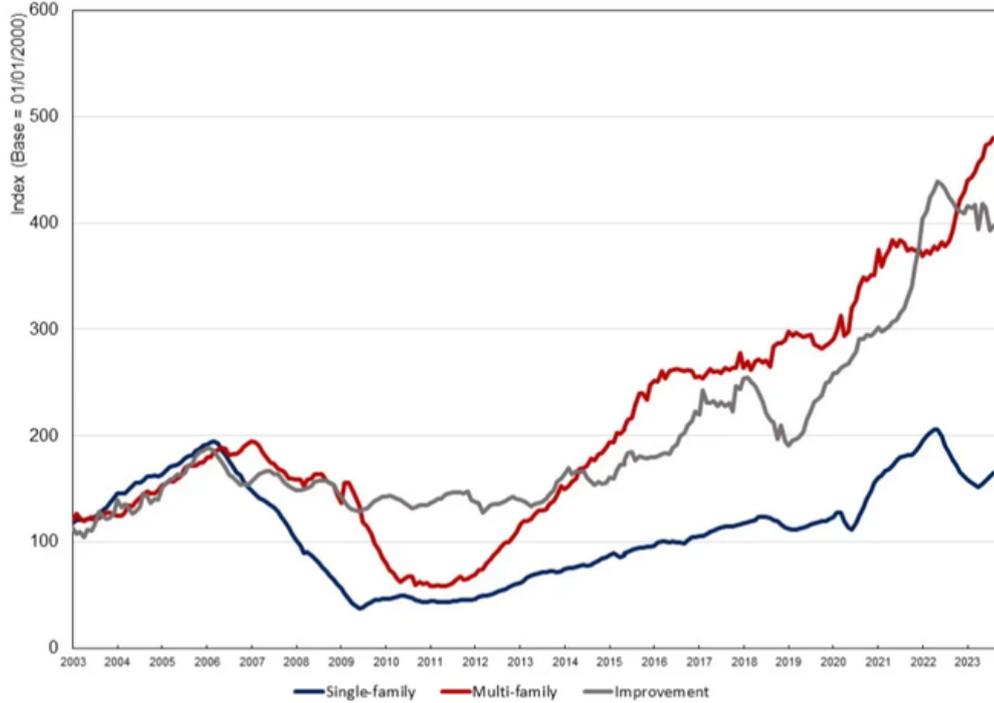
Keep in mind that construction spending reports the value of property put-in-place. Per the Census definition: The “value of construction put in place” is a measure of the value of construction installed or erected at the site during a given period. The total value-in-place for a given period is the sum of the value of work done on all projects underway during this period, regardless of when work on each individual project was started or when payment was made to the contractors. For some categories, published estimates represent payments made during a period rather than the value of work done during that period.

The NAHB construction spending index, which is shown in the graph below (the base is January 2000), illustrates how construction spending on single-family has slowed since early 2022 under the pressure of supply-chain issues and elevated interest rates. Multifamily construction spending has had solid growth in recent months, while improvement spending has slowed since mid-2022. Before the COVID-19 crisis hit the U.S. economy, single-family and multifamily construction spending experienced solid growth from the second half of 2019 to February 2020, followed by a quick post-covid rebound since July 2020.



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Private Residential Construction Spending Index



Spending on private nonresidential construction was up 21.3% over a year ago. The annual private nonresidential spending increase was mainly due to higher spending on the class of manufacturing category (\$76 billion), followed by the power category (\$9.8 billion).

Construction Spending

