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Subject: HSH Market Trends 12/23/11: Record Low Rates Helping Housing Market, Finally
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HSH Market Trends

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Record Low Rates Helping Housing Market, Finally

December 23, 2011 -- With just a week to go in 2012, it's starting to look as though record low interest rates are finally having some positive impact on the housing market. After falling to then-record lows in October, mortgage rates broke new ground last week and barely budged this week. Low mortgage rates firmly in place bodes well for a more positive start for the housing market in 2012 than when we began 2011.

HSH.com's broad-market mortgage tracker -- our weekly Fixed-Rate Mortgage Indicator **(FRMI)** -- found that the overall average rate for 30-year fixed-rate mortgages rose by a single basis point (.01%) from last week, rising to an average 4.26%. The FRMI's 15-year companion gained by four basis points (.05%) to finish the weekly survey at an average 3.58%, just above record lows. Important to homebuyers and low-equity-stake refinancers, 30-year FHA-backed mortgages held flat at last week's record low 3.88%, while the overall average for 5/1 Hybrid ARMs rose by three hundredths of one percent to 3.09%.

There is little doubt that the economic climate has turned warmer in the fourth quarter of this year than in the third or second. More forward momentum would be a good thing as many challenges are expected to face the economy in 2012. If housing can start to gain some traction, a stronger economy will be an easier thing to construct.

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The National Association of Homebuilders released their indicator of member sentiment this week. During December, their gauge rose to a value of 21, the highest since May of 2010, when the end of the homebuyer tax credit goosed sales and enthusiasm. Excluding that, a value this high was last week in August 2007, when it was still plummeting to new record depths. While the reading of 22 remains a long way from the breakeven level of 50, measures of single-family sales, traffic and the outlook for the next six months all moved to 2011 highs and lent an air of optimism.

The more ebullient mode was likely spurred by the 9.3% rise in housing starts in November. The 685,000 (annualized) units initiated was easily the highest level of 2011, driven by a strong gain in multi-family construction. That said, single-family start put in their second highest reading of the year at 447,000 units, just a whisker below the 449,000 seen in June. Permits for future activity rose by 5.7% to 681,000 annualized, so there would appear to be some strength forming for more starts in the period just ahead.

Existing Home Sales rose by 4% in November to 4.42 million (annualized) units. If that number seems out of line to you compared with last months, it is: The Realtors released revisions to sales figures dating back to 2007, and sales were ratcheted lower by an average of over 14% per year for the last three years. Essentially, the crash of the housing market was rather much worse than the earlier numbers would have had you believe, with something on the order of three million fewer sales over the four-year period. The Realtors noted that month-to-month rates of change we not affected by the revision; just the absolute numbers sold were. The revision did not directly affect the measure of months of available supply, either, and the flat 7-month supply available on the market is the leanest in some time.

Sales of new homes rose by 5,000 units to 315,000 in November. That was the highest reading since April and part of a three-month upward trend. Prices of homes sold continue to move generally downward; that combined with rock-bottom mortgage rates, is producing powerful affordability gains and opening up the market to more potential buyers. Inventories of built and ready for sale units eased to another record low of just 158,000, representing only six months of available supply. This is more in line with historical norms, and suggests that builder optimism and rising construction rates seems likely to continue into 2012.

The Chicago Federal Reserve's National Activity Index declined a little in November, easing to -0.37 for the month, down from -0.11 in October. The NAI is an amalgam of some 85 economic indicators, and uses a value of zero to indicate an economy growing above or below its "potential", a level of activity which should result in a GDP of perhaps 2.8% or so. The present reading suggests that it is running somewhat below that at the moment, but that's not a huge surprise as we continue to climb from some pretty low readings earlier this year.

The last revision to third-quarter 2011 GDP was released this week, and was taken down by two tenths of a percentage point. At 1.8% for the period ending in September, there is plenty of room for improvement, and the fourth quarter should be able to deliver on that, even if is doesn't make it all the way to "potential". Present forecasts are for perhaps a GDP of 2.5% or so in the fourth quarter; the last three GDP readings have been 0.36%, 1.33% and the present 1.81%, and we think that a 2.3% reading is more likely. Any upward movement is welcome, no matter how large the gain.

While there can be issues with seasonal adjustments this time of year, claims for new unemployment benefits remain at about three-year lows, which is truly good news for the economy. During the week ending December 17, some 364,000 new applications for benefits were filed at state windows, reinforcing the decline of the past couple of weeks and lending hope that the labor market is finally starting to thaw.

While it's hard to know if the declines are real or simply seasonally adjusted anomalies, we tend to think they are real, since there is some corroborating evidence which comes in the form of consumer moods. While it could be holiday cheer, it's hard to miss the near five-point improvement in the Bloomberg Consumer Comfort Index for the week ending December 18. The reading of minus 45 for the week might also reflect easing gasoline prices, but regardless, it is the best showing since July.

That was also much the case with the December reading of Consumer Sentiment from the University of Michigan. The final December value for their barometer was 69.9, continuing a rise from 2011's August nadir when bickering over the debt ceiling and more darkened the outlook. Although 2011 highs were several points above present levels, the recovery in sentiment might see consumers more confident to open their wallets and power the economy in 2012.

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To do so, consumers will need to see more in the way of income gains. That was not much the case in November, when Personal Incomes rose by just 0.1%, while wages for the month actually declined by a like amount. Of course, with less money coming in it would be hard to expect much going out, and personal consumption expenditures rose by just 0.1%. However, some of that spending came out of savings, dropping the national savings rate to just 3.5%. It was a full 5% as recently as June. It could be that the decision to use stockpiled cash to buy things is an expression of improving confidence about the economy to come, or it might be that items need to be replaced and the money needs to come from somewhere, even if it depletes reserves. We'll hope for the former, given the improvements in consumer moods noted above.

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Our state-by-state statistics are now **here**.

Current Adjustable Rate Mortgage (ARM) Indexes

Index	For the Week Ending		Previous Year
	Dec 16	*Nov 18*	*Dec 17*
6-Mo. TCM	0.05%	0.04%	0.19%
1-Yr. TCM	0.11%	0.11%	0.30%
3-Yr. TCM	0.36%	0.40%	1.03%
5-Yr. TCM	0.85%	0.91%	2.03%
FHFB NMCR	4.19%	4.38%	4.55%
SAIF 11th Dist. COF	1.218%	1.276%	1.663%
HSH Nat'l Avg. Offer Rate	4.26%	4.35%	5.15%

While we know that some of that spending has been for new cars and trucks, orders for durable goods rose by 3.8% in November, driven there by a spike in orders for aircraft. Excluding transporation-related gains left just a 0.3% rise for the month, and the proxy for business-related spending actually declined by 1.2%. Durable goods orders tend to be erratic from month to month, with a slowing one month replaced by gains the next, and so on, and some orders may also have been put off until the beginning of next year.

The Conference Board's index of Leading Economic Indicators rose by 0.5% in November, a bit of a deceleration from October 0.9% gain but more than sufficient to suggest rising economic growth will be with us for at least the early part of 2012, should the LEI's forecasting ability bear out, but the LEI may simply better reflect the present environment.

There is only a very thin set of economic data due out next week and the markets will likely be thinly populated as well. Equity markets have been on an upward bent for much of this week, lifting mortgage and interest rates on Wednesday and Thursday and keeping them from setting new lows. If that rally continues next week, we could see another basis point or two increase in rates at most; however, with the end of the month looming, some may look to lock in equity profits by selling shares, and this would tend to benefit rates. We call for no change next week.

For an longer-range outlook for rates and the economy, one which will take you up until mid-February, have a look at our new **Two-Month Forecast**.

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