

Morning Market Tidbits

Don't look now, but mortgage rates are "winning"

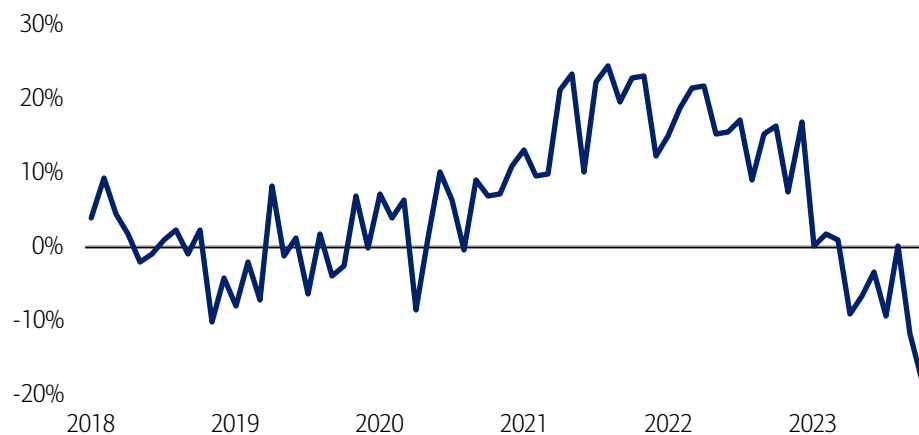
In focus

One of the more interesting battles in the housing market has been the tug-of-war between inventories (new and existing homes for sale) and mortgage rates. Higher mortgage rates tend to reduce home prices, while low inventories tend to boost them, all else equal. Throughout much of 2022-23, low inventories were winning the battle, as the median home price for new single-family homes held steady even as the 30-year fixed-rate mortgage rose from a little over 3% entering 2022 to 8.0% recently. The median sales price for a new single-family home was \$396,000 in December 2012 and is \$400,670 as of October 2023. Relatively lean inventories of new homes, alongside historically low levels of existing homes for sale, helped to offset the effects of higher mortgage rates on new single-family homes.

That said, there are nascent signs that the tug-of-war is shifting in the direction of higher mortgage rates beginning to push new home prices lower. Along with the release of October new home sales, where sales fell to 679,000 from 719,000 in September, came news that the non-seasonally adjusted median price for a new single-family home fell 3.3% m/m and 17.6% y/y (Exhibit 1). Inventories of new homes have been edging higher and, at a seasonally adjusted 439,000 in October, are near 2022 highs. The same is true for existing homes, where months' supply of inventory now stands at 3.6 months, the highest reading since June 2020.

Exhibit 1: New single family home non seasonally adjusted median sales price (y/y % change)

Median price for a new single-family home fell 17.6% y/y



Source: Census Bureau, Haver Analytics

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GDP: Gross Domestic Product

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Timestamp: 28 November 2023 08:00AM EST

Looking ahead, should higher mortgage rates continue to dampen home demand and keep existing fixed-rate mortgage holders in place, then inventories may exert less upward pressure on home prices, opening the door to further price declines. We do not want to overplay the argument – inventories of existing homes at 1.05mn are still near all-time historic lows and home builders remain wary of becoming over-extended – but, in our view, inventories of new and existing homes are unlikely to move much lower. If so, we would not be surprised to see median home prices under pressure in coming months until a Fed easing cycle becomes clearer and mortgage rates decline further.

Market action

The Asian equity markets that we cover closed mixed overnight. Looking at individual markets, the Hang Seng and the Nikkei fell 1.0% and 0.1% respectively. On the flipside, the Shanghai Composite, the Indian Sensex and the Korean Kospi added 0.2%, 0.3% and 1.0% respectively.

As of 7:00 am ET, aggregate European stocks are down 0.7% and S&P500 futures are down 0.1%. In the bond markets, 10-year Treasury yields are up 2bp to 4.41% and German Bund yields came are up 1bp to 2.56%. The dollar index is up \$0.03 to \$103.23. WTI crude oil prices are up \$0.74 to \$75.60/bbl, and gold prices are at \$2015.36/oz.

Data preview

Data in the week ahead

November 28

Date	Time	Indicator	Period	BofA	Consensus	Previous
				Estimate		
11/28/23	9:00	Case-Shiller HPI (yoy)	Sep	3.5%	—	2.6%
11/28/23	10:00	Consumer Confidence	Nov	101.0	100.8	102.6

Source: Bloomberg, BofA Global Research

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S&P CoreLogic Case Shiller Home Price Index (HPI)

S&P CoreLogic Case Shiller national home prices likely increased 3.5% y/y in September, picking up from 2.6% y/y growth seen in August. Home price growth has begun to turn positive, and the shortage of inventories in the existing homes market is likely putting a floor to prices. As mortgage rates remain higher for longer, the housing market is likely to remain tight, providing limited options for potential buyers.

Conference Board Consumer Confidence

We expect the Conference Board confidence to cool slightly to 101.0 in November from 102.6 previously. Consumers are still concerned about high inflation, interest rates, and geo-political issues. Sentiment around the Fed likely being done with interest rate hikes should be positive news for consumers, but uncertainty around the economic outlook remain. The labor market differential which captures sentiment on whether jobs are plentiful or hard to get picked up for the first time in October, but the weaker than expected October labor data could put some downward pressure to that measure.

Data review

New Home Sales

October new home sales came in below expectations, falling 5.6% m/m to 679k saar. Note that considering the September data which was revised lower, data was overall in line with consensus expecting a 5.0% m/m drop. Regionally, the weakness in October was mostly a story of the West. Mortgage rates had remained high all throughout October and mortgage applications were in the negative territory, which helps to explain the weakness in sales. Nevertheless, rates have cooled in November and mortgage applications been in the positive territory in the recent weeks, signaling that we could hope to see a better sales report for November.

US GDP Tracking

Exhibit 2: BofA US GDP tracking estimate (% q/q saar)

Our 4Q GDP tracking estimate is down a tenth to 1.3% q/q saar largely due to slightly weaker than anticipated core capital goods orders and shipments, manufacturing inventories and new home sales in October

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
11/14/23	Official Forecast	1.5	2.0	2.0	1.0	1.0	2.0	2.5	2.0	3.0	2.0	-936.8	40.5
11/15/23	Retail Sales	1.4	1.9	1.9	0.8	1.0	2.0	2.5	2.0	3.0	2.0	-936.8	40.1
11/16/23	Import and Export Prices	1.4	1.9	1.9	0.8	1.0	2.0	2.5	2.0	8.1	5.5	-936.1	40.1
11/16/23	Industrial Production	1.5	1.8	1.8	0.8	-0.8	2.6	2.5	2.0	8.1	5.5	-936.1	45.3
11/17/23	Housing Starts and Permits	1.5	1.8	1.8	1.0	-0.8	2.6	2.5	2.0	8.1	5.5	-936.1	45.3
11/21/23	Existing Home Sales	1.4	1.8	1.8	-0.6	-0.8	2.6	2.5	2.0	8.1	5.5	-936.1	45.3
11/22/23	Durable Goods Orders	1.3	1.7	1.8	-0.6	-0.8	1.3	2.5	2.0	8.1	5.5	-936.1	40.2
11/26/23	New Home Sales	1.3	1.7	1.8	-2.2	-0.8	1.3	2.5	2.0	8.1	5.5	-936.1	40.2
	GDP tracking	1.3	1.7	1.8	-2.2	-0.8	1.3	2.5	2.0	8.1	5.5	-936.1	40.2
	Contribution to GDP growth (pp)			1.2	-0.1	0.0	0.1	0.1	0.3			0.1	-0.5
	BofA official GDP forecast	1.5	2.0	2.0	1.0	1.0	2.0	2.5	2.0	3.0	2.0	-936.0	40.5

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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