Housing Cools in February

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A rise in mortgage lending rates paired with extreme winter weather conditions combined to curb overall home sales during the month of February, although the housing sector had already begun showing signs of moderation following the strongest sales year since 2006.

Freddie Mac reported the average 30-year fixed rate mortgage rate was 3.07% for the week ending March 8th, a 42 basis point increase since the year began. Although this rise may have sidelined some potential buyers, the current 30-year lending rate is still 124 basis points *below* where it was two years ago and 58 basis points *below* where it was last year at this time. Higher lending rates and increased home prices affect affordability, but at this point, sales demand remains brisk.

Overall mortgage applications have declined in five of the last six weeks as refinancing opportunities disappear for many borrowers. Refi applications were down -4.2% for the week ending March 12th after falling -5.0% the previous week. By contrast, new purchase applications were up +1.8% for the week ending March 12th after a +7.2% rise a week earlier. The narrowing refi window may be one of few brakes on what is expected to be very strong GDP growth in 2021.

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This morning, Commerce Department data showed February new home sales plunged -18.2%, from a 948k annualized unit pace to 775k. It was the biggest single month decline in almost eight years, although the pace of new home sales was still +8.2% above the same period a year ago. Sales were down in all four regions, led by a -37.5% drop in the Midwest.

The slower sales contributed to a rise in available inventory as the supply of new homes on the market climbed from a 3.8 month supply to 4.8. A lack of overall supply is thought to have restricted home sales to a degree in 2020, so the recent increase isn't unwelcome. The average price for a new home in February was $349,400, a +5.3% increase year-over-year.

Earlier this week, February existing home sales, which make up roughly 90% of total sales, slipped -6.6% to an annualized 6.22 million unit pace, a six-month low, but still +9.1% above a year ago. Sales fell in three of four regions, with the only increase registered in the West (+4.6%). The biggest drop was in the Midwest at -14.4%. The available inventory of existing homes climbed from 1.6 months to 2.0 months, still very low on a historical basis, while the average price, at $313k, was up +15.8% year-over-year. In a sign that lean inventory is most responsible for the February decline, the National Association of Realtors reported 74% of the existing homes were on the market for less than a month.

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Freezing temperatures impacted February sales, especially new home sales which are calculated at contract signing. However, the main complaint of realtors has long been a lack of supply. Elevated building permits and housing starts should help ease the supply pressure as spring approaches. As the economy continues to open up and service workers return, the number of potential buyers should increase, boding well for housing to continue making a positive, albeit lesser, contribution to GDP growth in 2021.

Market Indications as of 3:59 P.M. Central Time

DOW	Down 308 to 32,423 (HIGH: 33,015)
NASDAQ	Down 150 to 13, 228 (HIGH: 14,095)
S&P 500	Down 30 to 3,911 (HIGH: 3,974)
1-Yr T-bill	current yield 0.06%; opening yield 0.05%
2-Yr T-note	current yield 0.15%; opening yield 0.15%
5-Yr T-note	current yield 0.82%; opening yield 0.86%
10-Yr T-note	current yield 1.62%; opening yield 1.68%
30-Yr T-bond	current yield 2.33%; opening yield 2.38%