

## Housing Cools in February

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.

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.

Freezing temperatures impacted February sales, especially new home sales which are calculated at contract signing. However, the main complaint of realtors has long

*Scott McIntyre, CFA*  
HilltopSecurities Asset Management  
Senior Portfolio Manager  
Managing Director  
512.481.2009  
scott.mcintyre@hilltopsecurities.com

*Greg Warner, CTP*  
HilltopSecurities Asset Management  
Senior Portfolio Manager  
Director  
512.481.2012  
greg.warner@hilltopsecurities.com

*Higher lending rates and increased home prices affect affordability, but at this point, sales demand remains brisk.*

*The narrowing refi window may be one of few brakes in what is expected to be very strong GDP growth in 2021.*

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%

*The paper/commentary was prepared by Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.*

*Hilltop Securities Asset Management is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 1201 Elm Street, Suite 3500, Dallas, Texas 75270, (214) 859-1800, 833-4HILLTOP.*