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Mortgage rates, inventory and demand rise as price cuts fall

It starting to look like a regular spring season as demand picks up

January 20, 2024, 2:50 pm *By Logan Mohtashami*

Housing inventory, new listing data and mortgage rates are all rising, but the price cut data percentages are falling. Traditionally at this time of year purchase apps rise and the number of price cuts fall. However, at the current trend, we will break below the lows in the price cut percentage data that we saw in 2023 in the spring of this year.

I will watch for rising mortgage rates to see if they change the weekly data. So far, higher mortgage rates haven't changed the data yet.

Weekly housing inventory data

Here is a look at the first week of the year:

- Weekly inventory change (Jan. 12-19)**:** Inventory rose from **505,223** to **506,414**
- Same week last year (Jan. 13-20): Inventory fell from **473,406** to **472,852**
- The inventory bottom for 2022 was **240,194**
- The inventory peak for 2023 is **569,898**
- For context, active listings for this week in **2015** were **933,746**

Yes, the inventory growth rate slowed weekly, but I will take it! I have been waiting for years for a standard inventory data line to start the year, and so far that's what I'm seeing. Traditionally, the weekly inventory bottoms out in January or February and rises into the spring. The bottom has been in March and April in the past few years. So far, so good in 2024.

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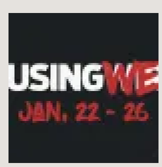

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New listings data

While new listings data isn't growing in significant terms year over year — sorry, silver tsunami crowd — it is showing growth year over year. Most sellers are buyers, and new listing data decreased after rates increased in 2022. So, we are working our way back to normal, and lthough we still have a way to go, but I am happy with this. I talked about this very topic on CNBC a few days ago.

New listings data last week over the past several years:

- 2024: **44,244**
- 2023: **42,765**
- 2022: **42,620**

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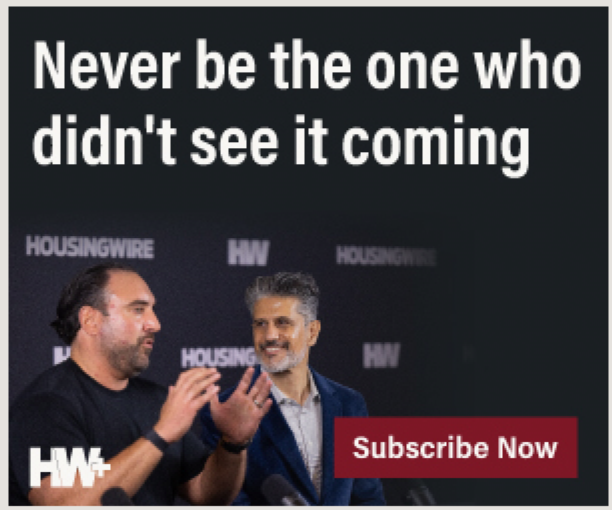

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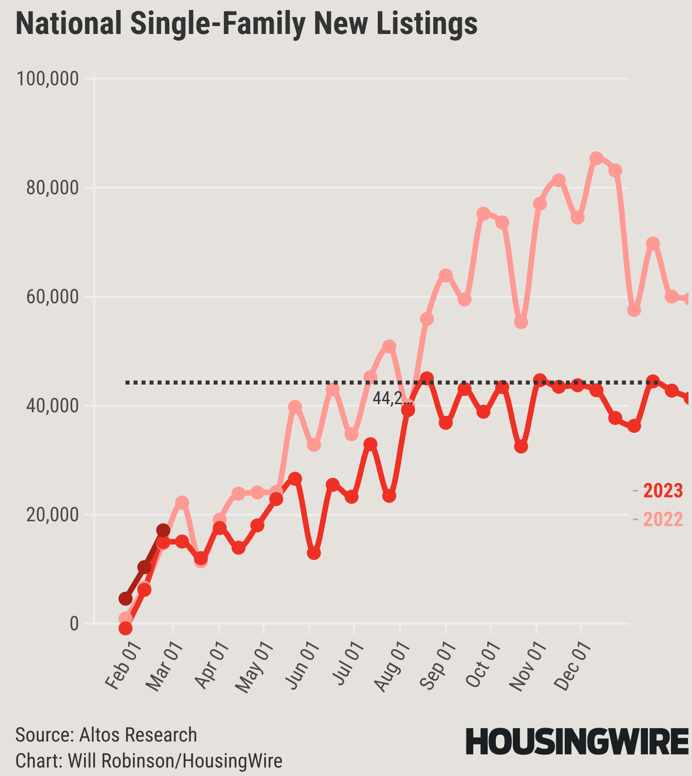


Price cut percentage

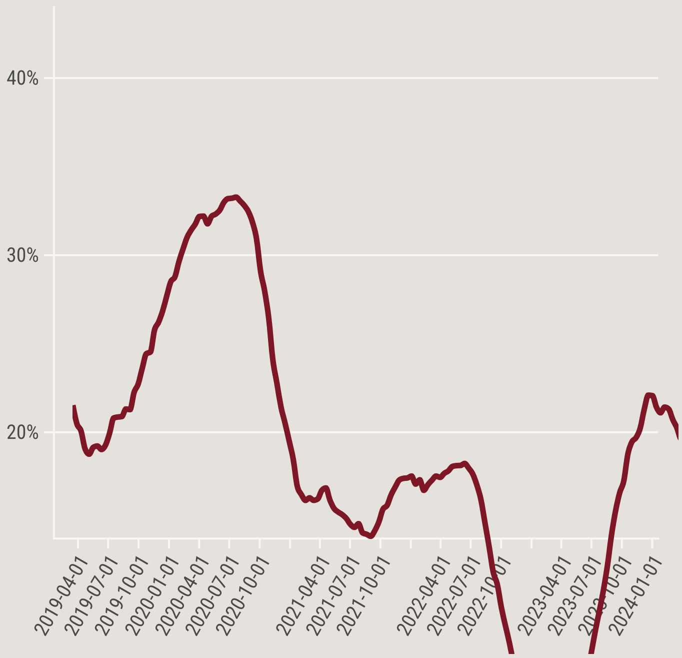
Every year, one-third of all homes take a price cut before selling — nothing abnormal about that. However, this data line accelerates when mortgage rates rise and demand gets hit harder. A perfect example was in 2022: when housing inventory rose faster, the percentage of price cuts rose faster, as home sales crashed. That increase matched the slope of the inventory increase, and people needed to cut prices to sell their homes.

This is not what we're seeing now, as home sales aren't crashing like they did in 2022. Sales aren't growing much, but they're not crashing as they did in 2022, so we track this data line religiously weekly to get clues, especially with the movement of mortgage rates

This is the price-cut percentage for the same week over the last few years:

- 2024 **31.4%**
- 2023 **34.7%**
- 2022 **20.6%**

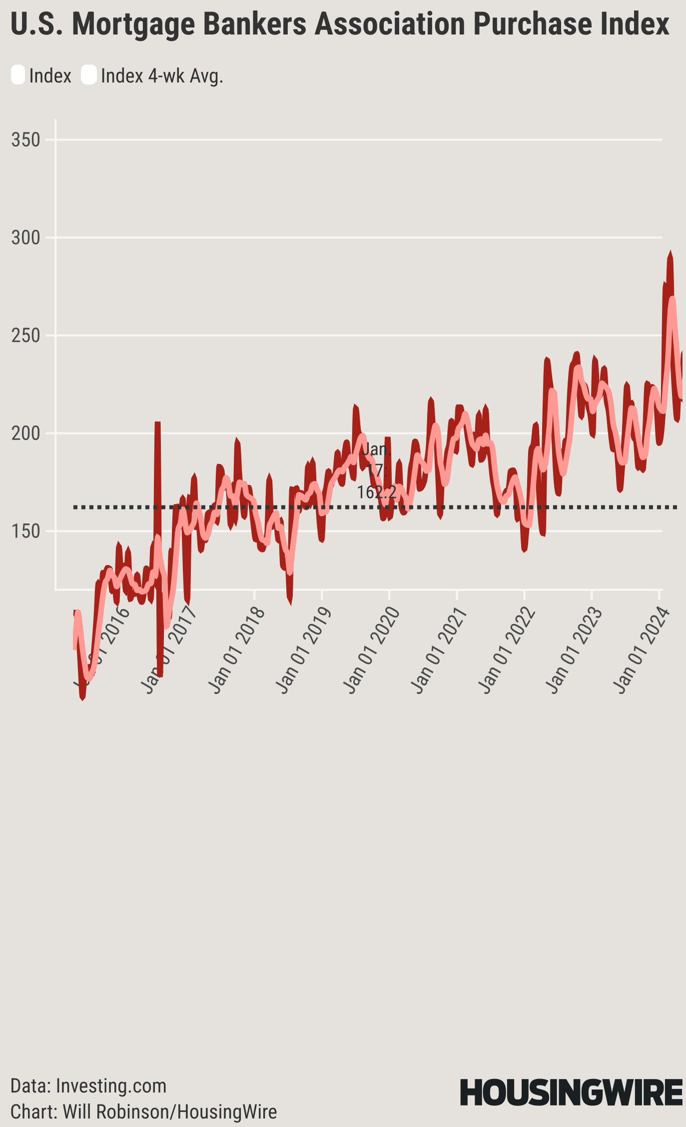
National Single-Family Listings with Price Drop



Data: Altos Research
Chart: Will Robinson/HousingWire

Purchase application data

So, the 2024 spring season officially started last week and purchase apps were positive 9% week to week. I believe tracking this data line when mortgage rates are rising is always vital. Of course, we aren't talking about 8% mortgage rates anymore, but mortgage rates have risen from the recent lows. So far no damage to the data line yet. We have had a positive trend streak since rates have fallen. I exclude all the holiday weeks and the first week of the year, so we have had seven weeks of positive trend and year-to-data we've had one positive print.



We just had the existing home sales report that showed a month-to-month decline. One thing to always remember about purchase application data: it looks out 30-90 days before it hits the sales data, so the December report was too soon to account for the full effect of lower mortgage rates and rising application data.

Also, remember we are working from deficient demand levels, so take the bounce in that context. This isn't like the COVID-19 recovery, which was fast and had a big volume.

Mortgage rates and the 10-year yield

The 10-year yield is the key for housing in 2024. In my 2024 forecast, I have the 10-year yield range between **3.21%-4.25%**, with a critical line in the sand at **3.37%**. If the economic data stays firm, we shouldn't break below **3.21%**, but if the labor data gets weaker, that line in the sand — which I call the Gandalf line, as in "you shall not pass" — will be tested. This 10-year yield range means mortgage rates between **5.75%-7.25%**. This assumes spreads are still bad.

Mortgage rates and the 10-year yield both rose last week. Mortgage rates started the week at 6.77% and finished the week at 6.92%. The 10-year yield started the week around 4%, and intraday almost reached 4.20% before heading lower and ending at 4.13%. One positive story in 2024 is that the spreads are getting better this year, and if we get 4.25% on the 10-year yield, we won't hit 7.25% in mortgage rates.

Last week, we had some excellent labor data from jobless claims. We also had some Fed presidents push back on rate cuts, regarding how many we will have this year. So, always remember that inflation data has fallen noticeably year over year. However, you want to go with labor data over inflation if you're looking for lower mortgage rates, especially under **6%**.

The growth rate on a three- to six-month Core PCE inflation report could be under **2%** in the following report. Even with that reality, which the market knows, the 10-year yield today is still above **4%**. This looks right to me with a Hawkish Fed and the jobless claims data being low. The closer we get to my critical level of **323,000** on the **four-week moving average**, the more the bond market will act differently; the headline data just broke under **200,000** again.

Remember, the Fed hasn't pivoted: they're less hawkish with their policy because they over-hiked last year and want to take back some of their rate hikes.

The week ahead: Inflation and housing

We have the all-important PCE inflation report coming out Friday, which can show sub 2% PCE inflation data on the three- and six-month averages. We also have new home sales and pending home sales. Pending home sales should show a bounce from the recent report as we will start to filter the positive purchase apps report. If it doesn't show growth, it should be the last one before it picks up a bit.