

THE FEDERAL SAVINGS BANK

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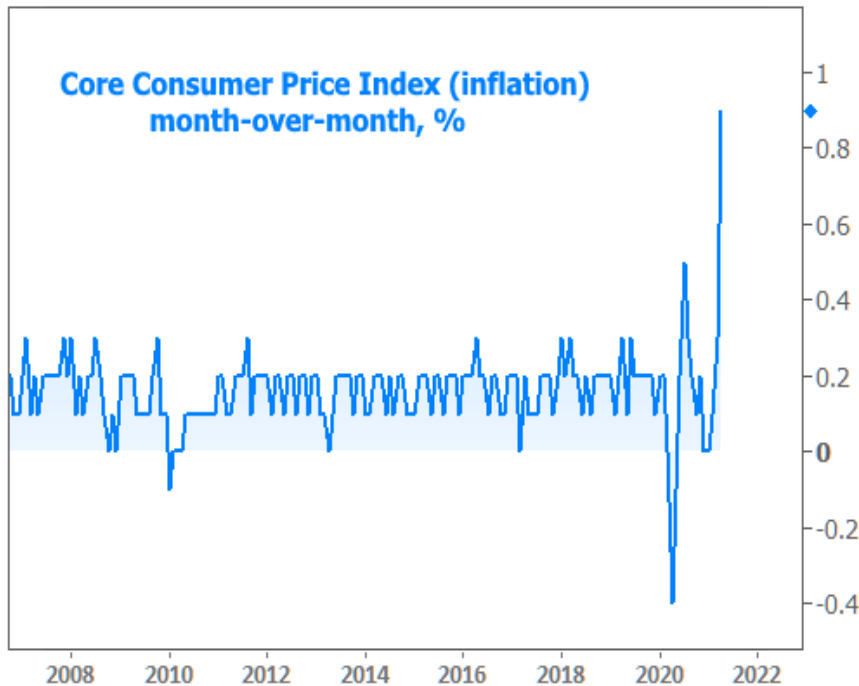
Big Inflation Scare, But Rates Remain Resilient

The 70's and 80's brought unforgettable economic lessons about inflation. Since then, certain market participants have been watching inflation like **hawks**, even when they didn't need to.

After the start of the pandemic, the massive amount of fiscal stimulus (covid relief bill) and monetary accommodation from the Fed (bond buying and rate cuts) had inflation hawks on **high alert**. Fed speakers have been consistent in their response: **yes**, inflation was likely to spike this spring for a variety of reasons, but it wouldn't necessarily be evidence of a sustainable shift.

Inflation can be measured in a few ways, but the most basic and most popular is via price indices published by the government. The **Consumer Price Index (CPI)** is one of the two dominant forces in that regard and this week brought a fresh update for the month of April.

While analysts agreed with the Fed's inflation warning, this week's **actual** CPI data eclipsed even the **most aggressive** forecasts, both in monthly and annual terms.



National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			

30 Yr. Fixed	6.99%	-0.12	0.00
15 Yr. Fixed	6.50%	-0.11	0.00
30 Yr. FHA	6.52%	-0.06	0.00
30 Yr. Jumbo	7.30%	-0.07	0.00
5/1 ARM	7.20%	-0.09	0.00

Freddie Mac

30 Yr. Fixed	7.09%	-0.35	0.00
15 Yr. Fixed	6.38%	-0.38	0.00

Rates as of: 5/15

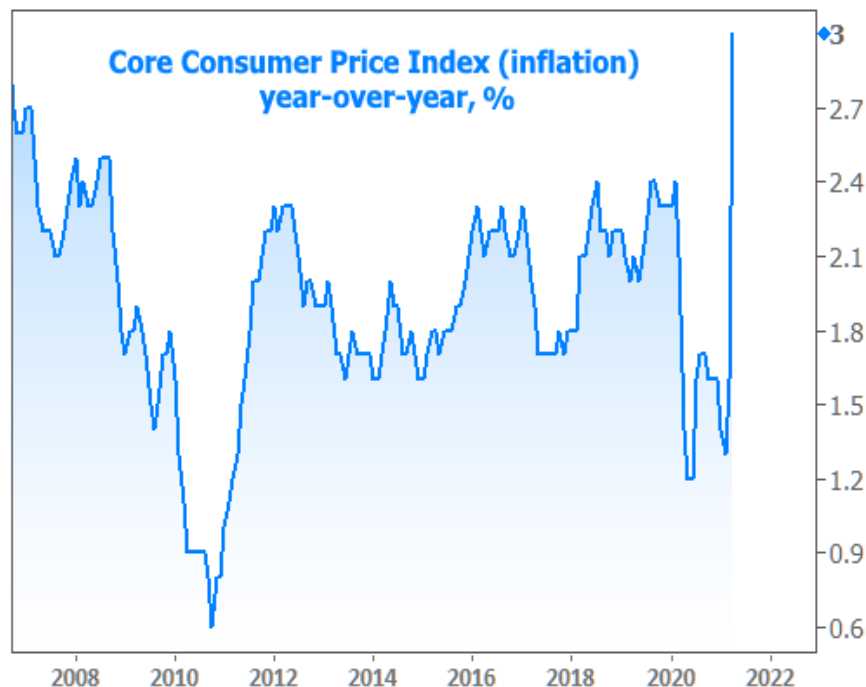
Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.80	+0.41
MBS GNMA 6.0	101.51	+0.27
10 YR Treasury	4.3449	-0.0935
30 YR Treasury	4.5080	-0.0770

Pricing as of: 5/15 4:03PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



What's so bad about inflation though? After all, hasn't the Fed said they want inflation to remain a bit higher relative to their typical target?

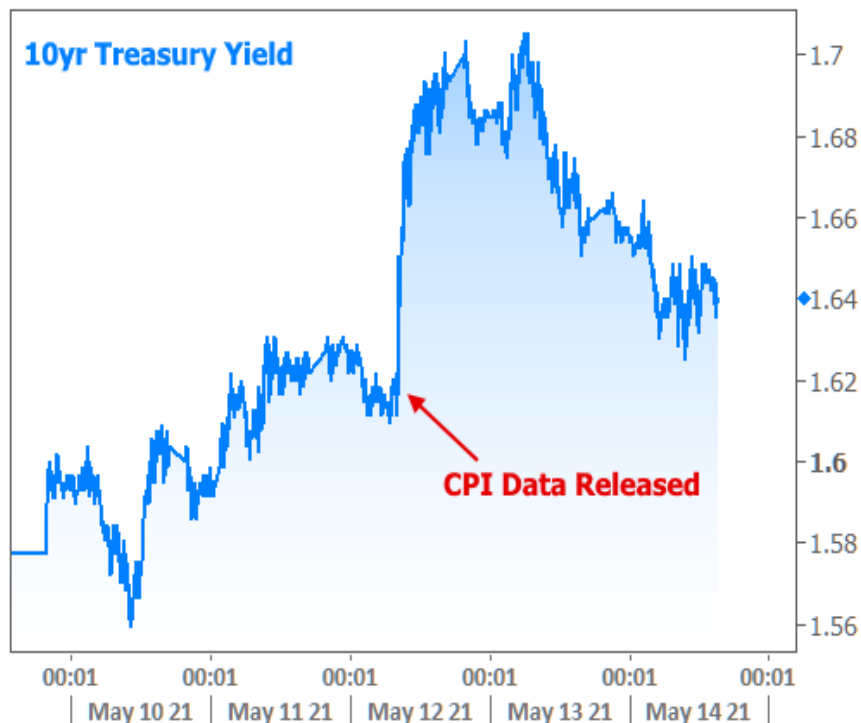
Yes, the Fed is actually **trying** to keep inflation higher than normal because they argue it will foster a stronger economic recovery for a wider slice of society. Regardless of one's opinion on that complicated topic, everyone agrees that "**too much**" inflation is a **bad** thing.

One of the most relevant negative impacts of high inflation on the mortgage/housing market is that it puts upward pressure on rates.

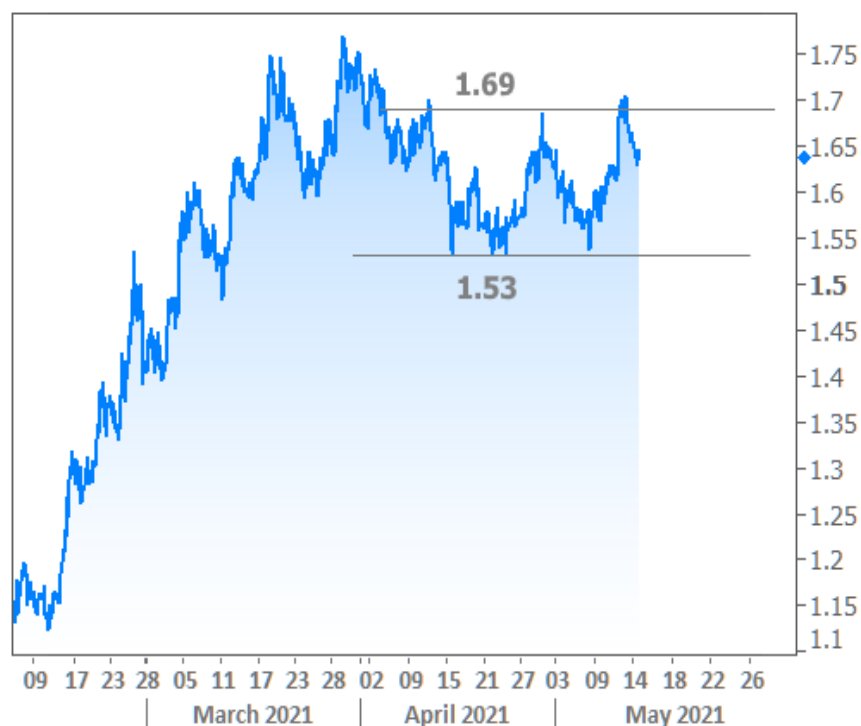
Here's a **quick explainer** as to why:

Mortgage rates are primarily determined by trading in the bond market. Investors who buy bonds earn returns by collecting payments over time based on terms agreed to upfront. Inflation robs those payments of future purchasing power (I'm giving you \$100/month for 30 years, but what if a pack of gum costs \$100 in 30 years?). As such, if investors expect higher inflation, they adjust by charging higher rates today.

That scenario played out immediately in the bond market on Wednesday with 10yr Treasury yields spiking **abruptly** in the wake of the inflation report.



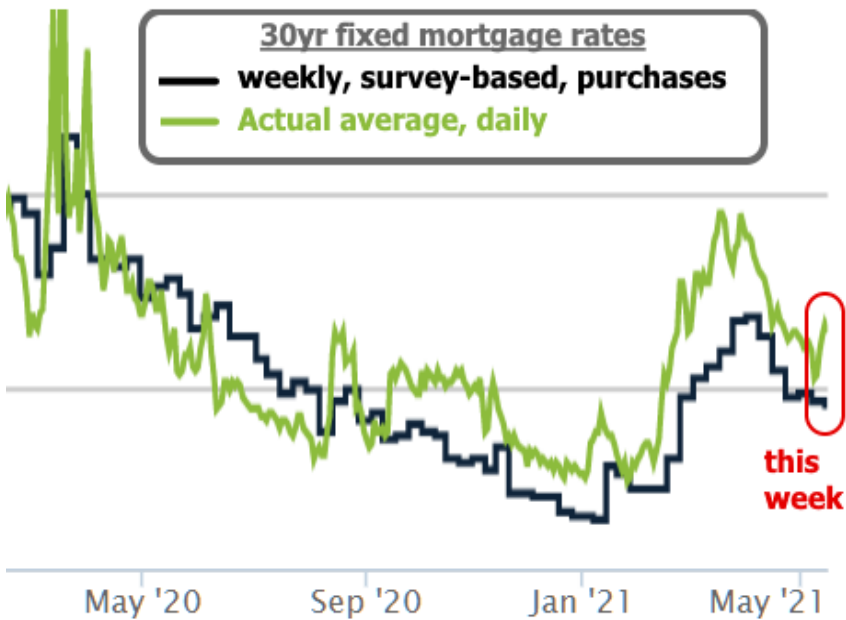
That looks fairly dramatic on the 5-day chart, but in the bigger picture, the bond market arguably took the inflation surprise in stride.



The 2nd half of the week was spent recovering back into the prevailing range with a weak Retail Sales report doing nothing to stand in the way. We'll stop short of giving the data credit for the rate recovery simply because this series remains exceptionally volatile. No one wants to read too much into another "**rebound month**" following last month's stimulus check effect.



Mortgage rates were logically **higher** on the week, even if multiple headlines suggested they were **lower**. Those headlines almost certainly cite Freddie Mac's weekly survey data. By the time the survey is released on Thursday, **it can be very stale** if rates experienced much volatility earlier in the week.



Next week brings a **slew of housing-related reports** with Builder Confidence leading off on Monday. Residential construction numbers follow on Tuesday and the important Existing Home Sales report will be released on Friday. Analysts expect the housing data to hold fairly steady with last month's levels.

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Recent Economic Data

Event Importance:

Date	Event	Actual	Forecast	Prior
Tuesday, May 11				
1:00PM	3-Yr Note Auction (bl)	58		
Wednesday, May 12				
7:00AM	w/e MBA Purchase Index	276.7		274.5
7:00AM	w/e MBA Refi Index	3281.0		3188.7
8:30AM	Apr Consumer Price Index (CPI) (%)	0.8	0.2	0.6
8:30AM	Apr Core CPI (Annual) (%)	3.0	2.3	1.6
Thursday, May 13				
8:30AM	Apr Producer Prices (%)	0.6	0.3	1.0
8:30AM	Apr Core Producer Prices YY (%)	4.1	3.7	3.1
8:30AM	w/e Continued Claims (ml)	3.655	3.640	3.690
8:30AM	w/e Jobless Claims (k)	473	450	498
Friday, May 14				
8:30AM	Apr Retail Sales (%)	0.0	1.0	9.8
8:30AM	Apr Export prices mm (%)	0.8	0.6	2.1
8:30AM	Apr Import prices mm (%)	0.7	0.6	1.2
9:15AM	Apr Industrial Production (%)	0.7	1.0	1.4
10:00AM	May 1yr Inflation Outlook (%)	4.6		3.4
10:00AM	May 5yr Inflation Outlook (%)	3.1		2.7
10:00AM	May Consumer Sentiment	82.8	90.4	88.3
10:00AM	Mar Business Inventories (%)	0.3	0.3	0.5
Monday, May 17				
8:30AM	May NY Fed Manufacturing	24.3	23.90	26.30
10:00AM	May NAHB housing market indx	83	83	83
Tuesday, May 18				
8:30AM	Apr House starts mm: change (%)	-9.5		19.4
8:30AM	Apr Build permits: change mm (%)	0.3		2.3
8:30AM	Apr Housing starts number mm (ml)	1.569	1.710	1.739
8:30AM	Apr Building permits: number (ml)	1.760	1.770	1.759
Wednesday, May 19				
12:00AM	Roll Date - Ginnie Mae 30YR			
7:00AM	w/e MBA Purchase Index	265.3		276.7
7:00AM	w/e MBA Refi Index	3413.3		3281.0
10:30AM	w/e Crude Oil Inventory (ml)	1.321	1.623	-0.427
Thursday, May 20				
8:30AM	May Philly Fed Business Index	31.5	43.0	50.2
10:00AM	Apr Leading index chg mm (%)	1.6	1.4	1.3
Friday, May 21				
10:00AM	Apr Exist. home sales % chg (%)	-2.7	2.0	-3.7

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★★ Very Important

Date	Event	Actual	Forecast	Prior
10:00AM	Apr Existing home sales (ml)	5.85	6.09	6.01
Monday, Jul 12				
1:00PM	10-yr Note Auction (bl)	38		
Tuesday, Jul 13				
1:00PM	30-Yr Bond Auction (bl)	24		

Responsive service, experienced expertise

I've dedicated my 22 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

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