

THE FEDERAL SAVINGS BANK



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## Fed Surprisingly Calm on Inflation Risk; Home Sales Improve

This week's main event was Wednesday's Fed announcement, or more specifically, the dot plot.

What's a dot plot?

4 times a year, the Fed releases its best guess of where the Fed Funds Rate will be in the coming years. One of the market's favorite ways to digest that info is via a dot plot that the Fed publishes. It shows projections from each Fed member as a single dot.

These projections don't determine where rates ultimately end up, but they do make the road bumpy or smooth. Since a rate cut was wholly out of the question at this meeting, markets were eager to see how recent inflation surprises changed the Fed's outlook. Turns out, not much!

The following is a combined version of this week's newly released dot plot with the new dots in blue and the last set of dots (from December) in red. Notice that the median Fed member still sees the same rate level at the end of 2024, just that there are fewer members who see anything lower. Also notable is the absence of any major changes in the longer run viewpoints.

## National Average Mortgage Rates



|                            | Rate | Change | Points |
|----------------------------|------|--------|--------|
| <b>Mortgage News Daily</b> |      |        |        |

|              |       |       |      |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 7.20% | +0.01 | 0.00 |
| 15 Yr. Fixed | 6.66% | +0.02 | 0.00 |
| 30 Yr. FHA   | 6.64% | +0.02 | 0.00 |
| 30 Yr. Jumbo | 7.41% | 0.00  | 0.00 |
| 5/1 ARM      | 7.33% | +0.03 | 0.00 |

### Freddie Mac

|              |       |       |      |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 7.22% | -0.22 | 0.00 |
| 15 Yr. Fixed | 6.47% | -0.29 | 0.00 |

Rates as of: 5/8

## Market Data

|                | Price / Yield | Change  |
|----------------|---------------|---------|
| MBS UMBS 6.0   | 100.02        | -0.05   |
| MBS GNMA 6.0   | 100.92        | +0.01   |
| 10 YR Treasury | 4.5062        | +0.0089 |
| 30 YR Treasury | 4.6645        | +0.0225 |

Pricing as of: 5/9 8:27AM 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%  |



Both stocks and bonds approved.



In the press conference that followed, Fed Chair Powell reiterated the potential that the last 2 months of inflation data stand a good chance to be outliers due to strange seasonal distortions that can't always be accounted for by the seasonal adjustments that typically smooth out the data. This refers to a concept known as residual seasonality, which is a real thing that could be a factor in this case.

Powell and the Fed could also be wrong and inflation could be more persistent than they expect. Rather than following the blue line in the chart below, inflation could stay sideways at current levels. In that case, the Fed would have a hard time justifying rate cuts until inflation began falling again.



All of the above having been said, it's important to reiterate that the trajectory of rates will ultimately be determined by the economy and the data. The Fed's interpretation of those things simply creates faster/slower movement in the direction of the bigger-picture trend.

Inflation data is the most important, but other data matters too. There wasn't much by way of big ticket data this week, but a somewhat important update on the labor market showed continuing jobless claims remaining at their lowest levels since October. All this after several recent weeks near long-term highs.



In general, the higher the level of jobless claims, the better it would be for rates.

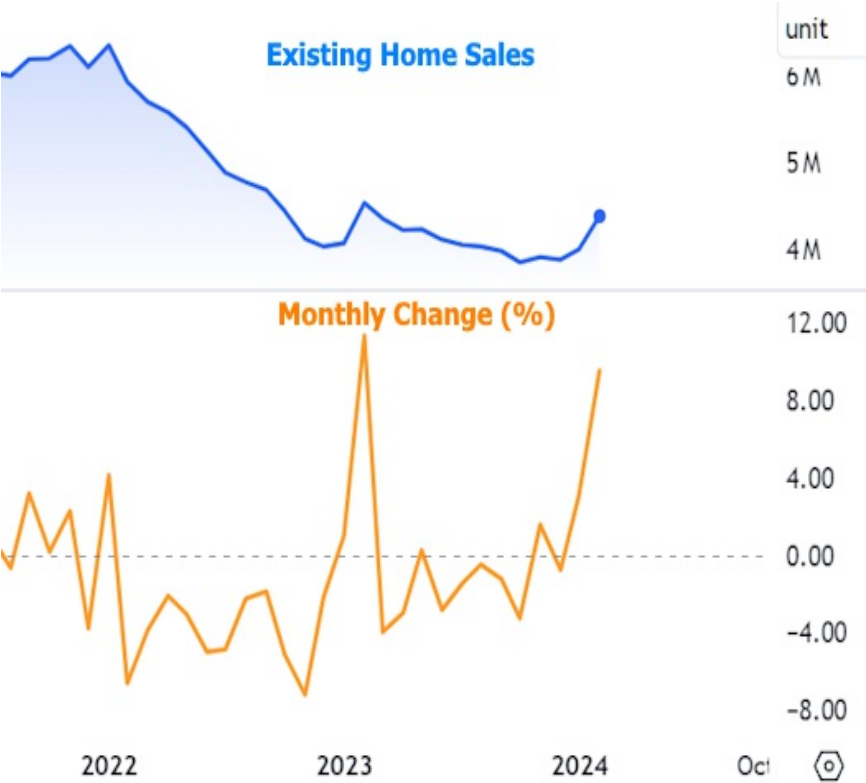
In housing-specific economic data, it was a pretty good week. Builder confidence continued to improve, despite being in generally low territory.



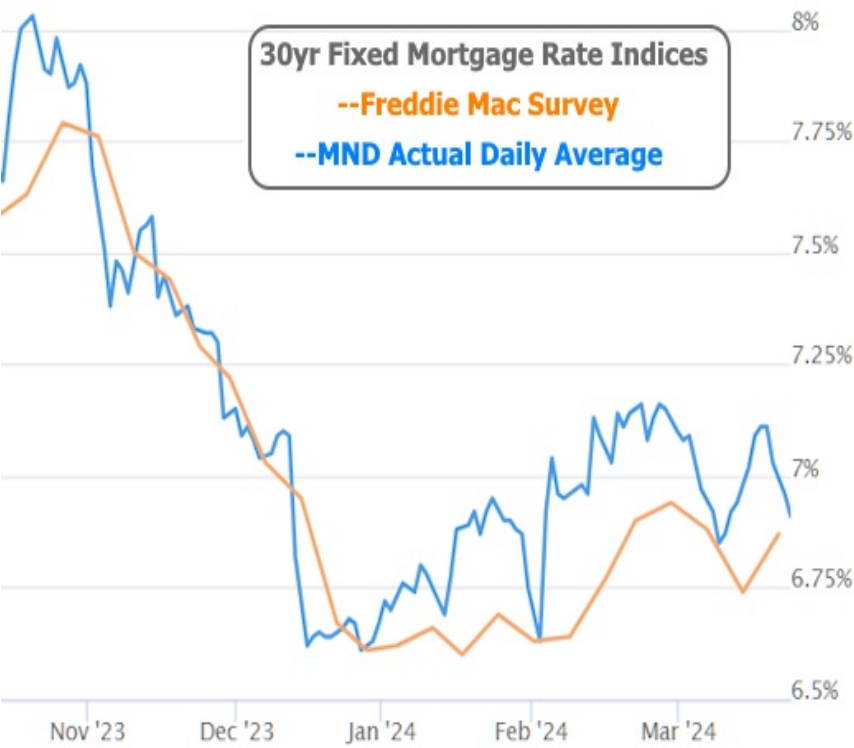
This goes hand in hand with ongoing stability in the residential construction market where Housing Starts beat forecasts to move back above an annual pace of 1.5 million.



There was even good news for Existing Home Sales, which finally moved back above a pace of 4 million for the first time in months. It was also the best monthly gain in a year and the 2nd best month since 2020.



All this despite mortgage rates having a tougher time in February. As for more timely movement, this week saw a nice little drop. Note: multiple news articles mentioned "higher mortgage rates" this week, but that is based on stale numbers from Freddie Mac's weekly survey. Actual daily rates are indeed lower than last week.



From here, the market will have to wait until the first week of April for the next round of highly consequential data. In the meantime, next week brings several more housing related reports as well as a bond market closure for Good Friday.

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Recent Economic Data

| Date              | Event                             | Actual | Forecast | Prior  |
|-------------------|-----------------------------------|--------|----------|--------|
| Monday, Mar 18    |                                   |        |          |        |
| 10:00AM           | Mar NAHB housing market indx      | 51     | 48       | 48     |
| Tuesday, Mar 19   |                                   |        |          |        |
| 8:30AM            | Feb Building permits: number (ml) | 1.518M | 1.495M   | 1.489M |
| 8:30AM            | Feb Housing starts number mm (ml) | 1.521M | 1.425M   | 1.331M |
| Wednesday, Mar 20 |                                   |        |          |        |
| 7:00AM            | Mar/15 MBA Refi Index             | 468.4  |          | 480.3  |
| 7:00AM            | Mar/15 MBA Purchase Index         | 146    |          | 147.7  |
| 2:00PM            | FOMC Economic Projections         |        |          |        |
| 2:00PM            | Fed Interest Rate Decision        | 5.5%   | 5.5%     | 5.5%   |
| 2:30PM            | Fed Press Conference              |        |          |        |

Event Importance:

- No Stars = Insignificant
- ☆ Low
- ★ Moderate
- ★★ Important
- ★★★ Very Important



| Date             | Event                                   | Actual  | Forecast | Prior  |
|------------------|---|---------|----------|--------|
| Thursday, Mar 21 |   |         |          |        |
| 8:30AM           | Mar/16 Jobless Claims (k)               | 210K    | 215K     | 209K   |
| 8:30AM           | Mar/09 Continued Claims (ml)            | 1807.0K |          | 1811K  |
| 9:45AM           | Mar S&P Global Services PMI             | 51.7    | 52       | 52.3   |
| 9:45AM           | Mar S&P Global Manuf. PMI               | 52.5    | 51.7     | 52.2   |
| 10:00AM          | Feb Existing home sales (ml)            | 4.38M   | 3.94M    | 4M     |
| Monday, Mar 25   |   |         |          |        |
| 10:00AM          | Feb New Home Sales (ml)                 | 0.662M  | 0.675M   | 0.661M |
| Tuesday, Mar 26  |   |         |          |        |
| 8:30AM           | Feb Durable goods (%)                   | 1.4%    | 1.1%     | -6.1%  |
| 9:00AM           | Jan FHFA Home Prices y/y (%)            | 6.3%    |          | 6.6%   |
| 9:00AM           | Jan Case Shiller Home Prices-20 y/y (%) | 6.6%    | 6.7%     | 6.1%   |
| 10:00AM          | Mar CB Consumer Confidence (%)          | 104.7   | 107      | 106.7  |
| Thursday, Mar 28 |   |         |          |        |
| 8:30AM           | Q4 GDP (%)                              | 3.4%    | 3.2%     | 4.9%   |
| 10:00AM          | Mar Consumer Sentiment (ip)             | 79.4    | 76.5     | 76.9   |
| Friday, Mar 29   |   |         |          |        |
| 8:30AM           | Feb Core PCE Inflation (y/y) (%)        | 2.8%    | 2.8%     | 2.8%   |
| 8:30AM           | Feb Core PCE (m/m) (%)                  | 0.3%    | 0.3%     | 0.4%   |

## 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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