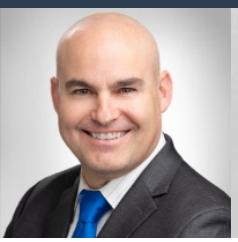

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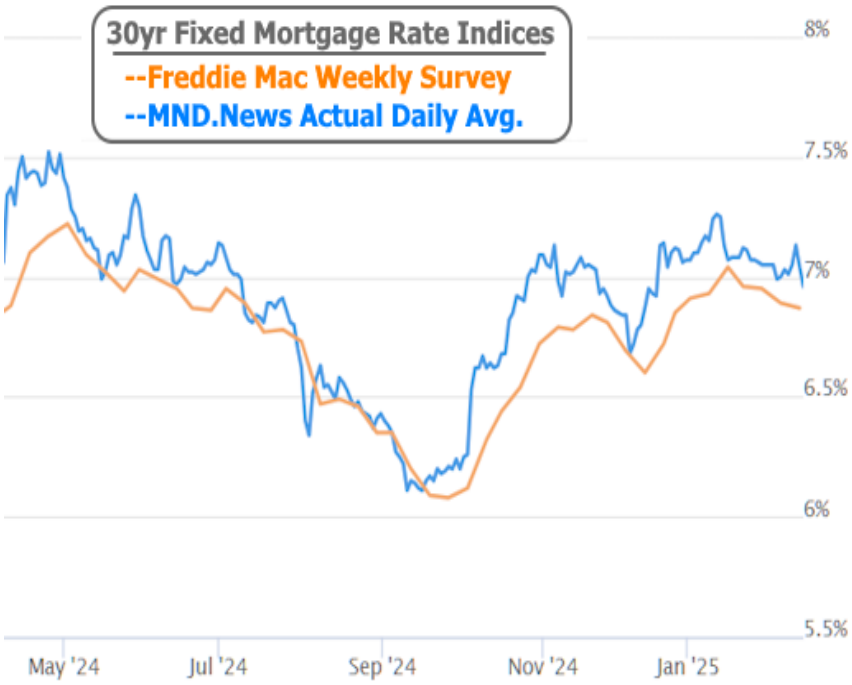
The Unlikely Story of Mortgage Rates Falling to 2 Month Lows Despite Higher Inflation

The final two days of the present week weren't on many bingo cards as of Wednesday afternoon. At the time, rates were jumping higher in response to inflation data. That same morning, the Consumer Price Index (CPI) showed consumer inflation accelerating much faster than expected last month.

CPI is one of the most important economic reports as far as interest rates are concerned. This is especially true these days as annual inflation has stalled just over 3% on its way back down to the 2% target. In not so many words, rates are higher than they otherwise would be due to that stall.

To get a sense of what rates might be doing without the stall, we need only look back to September. At that time, trends in the data suggested lower inflation as well as some concern about higher unemployment--both of which are good for rates. A few short weeks later, the data began telling a more upbeat story for the economy. The impact on interest rates was obvious with the 30yr fixed rate index rising roughly 1% in short order.



National Average Mortgage Rates

Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.35%	+0.02	0.00
15YR Fixed	7.00%	-0.01	0.00
30YR FHA	6.99%	+0.01	0.00
30YR Jumbo	7.60%	0.00	0.00
7/6 SOFR	6.86%	+0.01	0.00
30YR VA	7.00%	+0.01	0.00

Rates as of: 10/28

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.71	+0.11
10 YR Treasury	4.9772	-0.0393
30 YR Treasury	5.3157	-0.0296

Pricing as of: 10/29 10:38AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 14	188.6	-5.32%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Aug	684K	+12.69%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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As keen eyes may note in the chart above, daily rates ended the week at 2 month lows. How can that be considering the unfriendly inflation data and the bounce to 1 month highs on Wednesday? It all had to do with the next 2 days of data.

Thursday morning brough the Producer Price Index (PPI), which is similar to CPI, but for the wholesale/producer level (whereas CPI focuses on how costs are passed through to consumers). It is extremely rare to see PPI cause anywhere close to the amount of rate movement as CPI. It only happens when the underlying data has obvious implications for consumer inflation.

Here's where things get a little bit tricky. Even though we tend to focus on CPI as the biggest volatility risk among the big inflation reports, there's actually another report that's arguably more important: The Personal Consumption Expenditures (PCE) Price Index.

PCE is the Fed's preferred way to track progress toward the 2% inflation goal. It's much broader, and it adapts to changing buying habits faster. CPI only gets more attention because it comes out **substantially** earlier in any given month and tends to do a pretty good job of foreshadowing movement in PCE.

Looked at another way, we could say it is in fact PCE that is the biggest deal for rates, but that CPI does a good enough job foreshadowing PCE inflation that rates simply move on CPI week instead of waiting. The only catch is that PPI also has several components that feed into the PCE calculation.

It's here we find the x factor on Thursday morning. All but one of those PCE-related components in the PPI data suggested LOWER inflation. In fact, many economists immediately revised their forecasts for PCE (2 weeks from now) to lower levels after PPI came out this week.

Confused yet? Here's a recap:

- 3 inflation reports: CPI, PPI, PCE
- CPI and PPI have components that directly influence PCE
- This week's PPI components said PCE would move lower, even though CPI did not
- Lower-than-expected inflation = lower rates

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Friday morning added momentum to the rate-friendly move in a more straightforward way. The Retail Sales report came in much lower than expected with broad-based declines led by online spending (seasonally adjusted, so it's not a holiday issue).

Weaker economic data = lower rates, all other things being equal. Using 10yr Treasury yields as a benchmark, we can see the impact of each of the week's key data points, ultimately resulting in a come-from-behind victory for rates.

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When you're working with me it's all about access and affordability. I have the most up to date products and access to the best lenders. This is your journey, my team and I are here for you! This may be your first home , second / vacation home, investment property. Or you may even be helping someone out :)

For business owners we have access to alternative qualification products that have different options such as bank statements, profit and loss statements and sometimes other options. Tax returns are not needed for these particlar loans, so if you are reinvesting in your business this is a great option!

Whether you are buying or refinancing it's best to contact me early in the process.

For first timers, it's truly important to get a picture of income, credit and debt. Let's work together to make your dreams a reality!

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