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What Are Rates and Housing Worried About?

In the past 2 weeks, there's been big news about inflation and seemingly big news about Fed policy. Both are threats to low interest rates, but not just yet, apparently.

After taking last week's huge inflation numbers in stride (read more...), the bond market moved on to focus on Fed policy this week.

The Federal Reserve (aka, the Fed) is often a source of **confusion** for consumers when it comes to mortgage rates. The evening news says things like "the Fed kept rates unchanged," and people assume it has something to do with mortgage rates.

The Fed Funds Rate (the thing the Fed actually decides to hike, cut, or hold steady) has almost nothing to do with the mortgage market. Mortgage rates are infinitely more concerned with the Fed's **bond buying** policies.

Movement in the bond market is the **foundation** of day-to-day mortgage rate changes. Bonds can move for a variety of reasons, but the most reliable and most basic reason is "supply and demand." By acting as a massive buyer of bonds (including the bonds that directly underlie mortgages), the Fed increases demand relative to supply. Higher demand means higher bond prices, and higher bond prices equate to lower rates, all other things being equal.

In other words, Fed bond buying = lower rates, and they've been buying more than anyone for a long time. Ideally, the Fed won't need to do this forever, but **change is scary** when it refers to the Fed withdrawing support.

It was this sort of change that sparked the **taper tantrum** in 2013, which accounted for some of the most abrupt rate spikes in decades. Markets are understandably cautious about a repeat performance, and market participants **thought** they saw hints about tapering in Wednesday's Fed meeting minutes (a more detailed account of the meeting that took place 3 weeks ago).

But those comments were **nothing** like the discussion surrounding tapering in 2013. Back then, **multiple** Fed members were in agreement, and Bernanke (the Fed Chair at the time) was already on record discussing the conditions for tapering in specific terms.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00

Rates as of: 11/16

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.71	+0.01
10 YR Treasury	5.1266	-0.0076
30 YR Treasury	5.4731	-0.0027

Pricing as of: 11/16 7:21PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
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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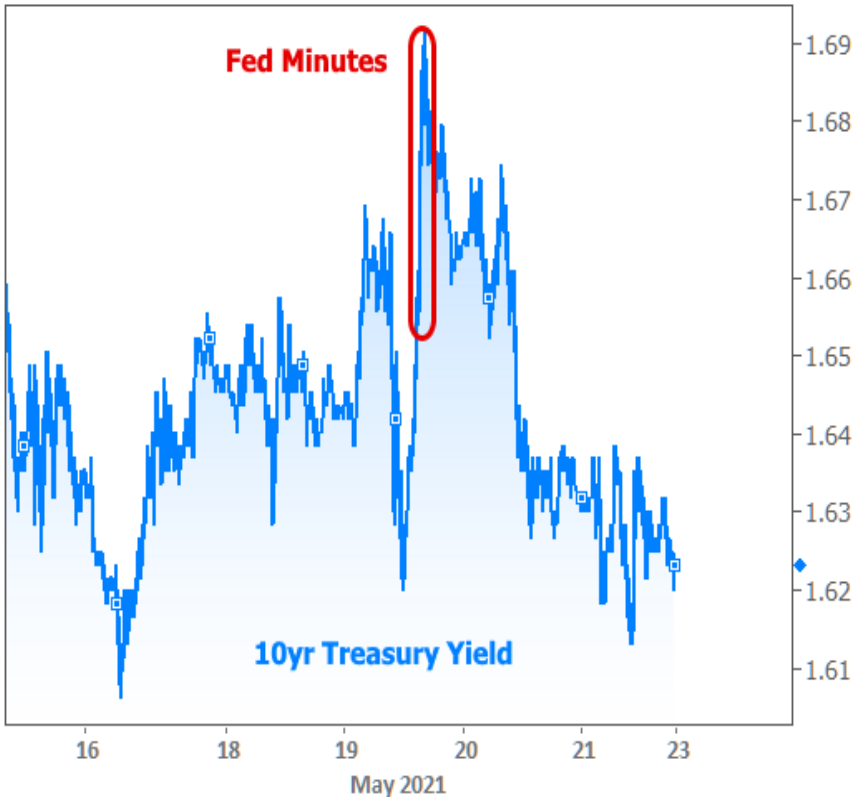
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This time around, the comments relating to tapering simply reiterated those from various Fed speeches in recent weeks. Not only is the Fed far from unanimous on this front, there's also a lot more uncertainty about when they'll pull the trigger.

Even then, to say the comments were highly conditional would be an **understatement**. See for yourself:

> "A number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases."

Translation: the Fed isn't even talking about tapering yet. There are just 4 Fed members who agree they **should** talk about it **in the future if** certain things happen. Pretty logical, actually... The market reaction ended up being logical as well: spooked at first, but quickly calming down.



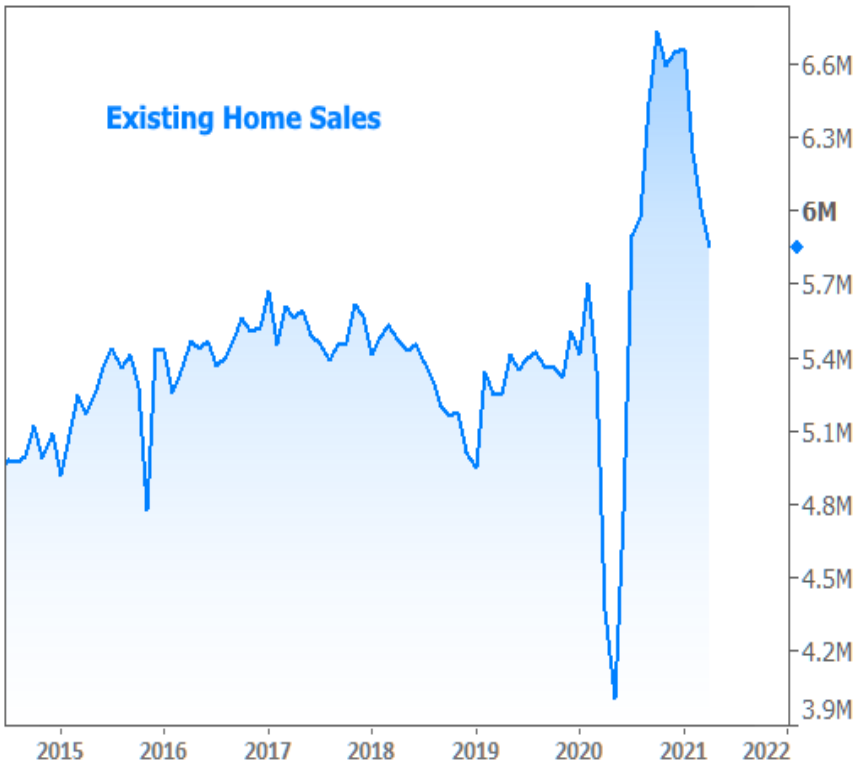
The Fed will need to see **several** months of strong economic data before any robust discussion of tapering. Even then, the pain of the taper tantrum in 2013 means that traders have been gradually getting in position for this discussion for many months. When the time comes, there will be much less to freak out about--at least as far as Fed bond buying is concerned.

In this week's economic data, Existing Homes Sales moved lower yet again.

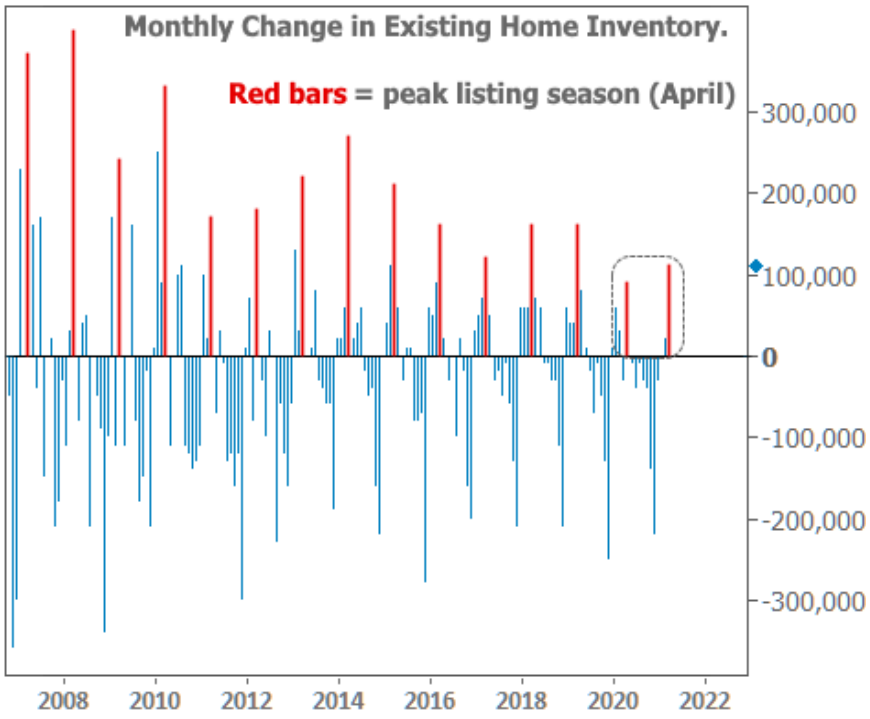
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How is it that sales keep declining when we're hearing so much about a veritable buying frenzy in many local real estate markets? The explanation has been and continues to be one of **inventory!** The following chart shows the monthly change in existing home inventory. It's a very seasonal thing, and it always peaks with April's numbers (reported near the end of May). Each red bar is April. With this week's report, the past 2 Aprils now stand as the lowest gainers for housing inventory in decades.

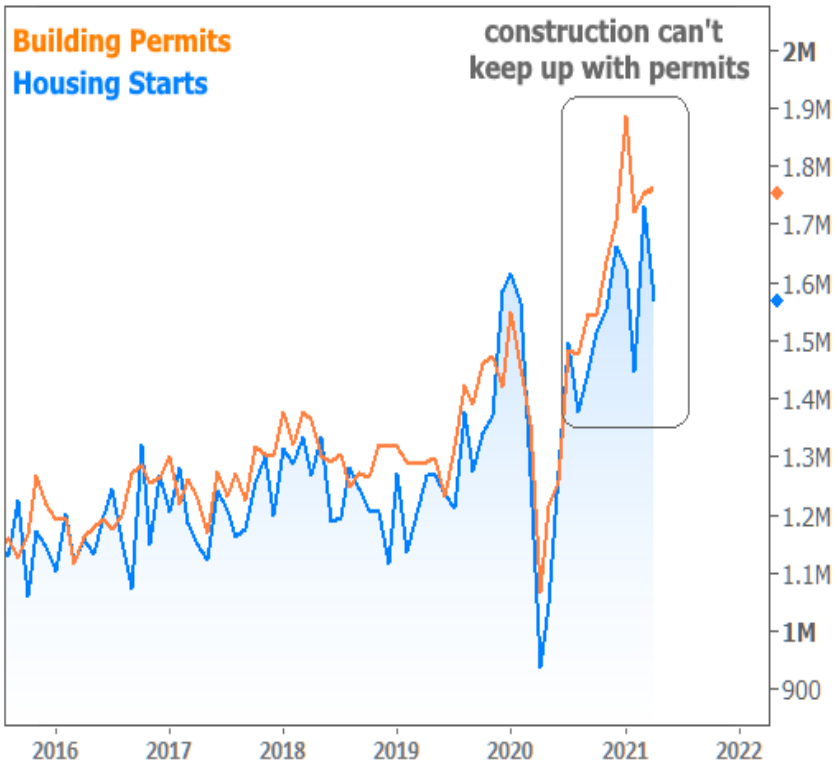


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But that's for **existing** homes. How about **new** homes? Well... builders are building as fast as they can. Supply chain disruptions, land availability, labor force issues, and price pressures are causing delays. Construction simply can't keep up with building permits.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
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				
7:00AM	w/e MBA Purchase Index	265.3		276.7
7:00AM	w/e MBA Refi Index	3413.3		3281.0
Thursday, May 20				
8:30AM	May Philly Fed Business Index	31.5	43.0	50.2
8:30AM	w/e Jobless Claims (k)	444	425	473
10:00AM	Apr Leading index chg mm (%)	1.6	1.4	1.3

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Friday, May 21				
9:45AM	May PMI-Services (Markit)	70.1	64.5	64.7
9:45AM	May PMI-Manufacturing (Markit)	61.5	60.2	60.5
10:00AM	Apr Exist. home sales % chg (%)	-2.7	2.0	-3.7
10:00AM	Apr Existing home sales (ml)	5.85	6.09	6.01
Tuesday, May 25				
9:00AM	Mar CaseShiller 20 yy (%)	13.3	12.3	11.9
9:00AM	Mar Monthly Home Price yy (%)	13.9		12.2
9:00AM	Mar Monthly Home Price mm (%)	1.4		0.9
9:00AM	Mar CaseShiller 20 mm SA (%)	1.6	1.2	1.2
10:00AM	Apr New Home Sales (ml)	0.863	0.970	1.021
10:00AM	May Consumer confidence	117.2	119.2	121.7
10:00AM	Apr New Home Sales (%) (%)	-5.9	12.8	20.7
Wednesday, May 26				
7:00AM	w/e MBA Purchase Index	269.8		265.3
7:00AM	w/e MBA Refi Index	3168.8		3413.3
1:00PM	5-Yr Note Auction (bl)	61		
Thursday, May 27				
8:30AM	Q1 GDP Prelim (%)	6.4	6.5	6.4
8:30AM	Apr Durable goods (%)	-1.3	0.7	0.8
8:30AM	Apr Core CapEx (%)	2.3	0.8	1.2
10:00AM	Apr Pending Sales Index	106.2		111.3
10:00AM	Apr Pending Home Sales (%)	-4.4	0.8	1.9
1:00PM	7-Yr Note Auction (bl)	62		
Friday, May 28				
8:30AM	Apr Core PCE Inflation (y/y) (%)	3.1	2.9	1.8
9:45AM	May Chicago PMI	75.2	68.0	72.1
10:00AM	May Sentiment: 5y Inflation (%)	3.0		3.1
10:00AM	May Sentiment: 1y Inflation (%)	4.6		4.6
10:00AM	May Consumer Sentiment (ip)	82.9	82.9	82.8
Wednesday, Jul 07				
2:00PM	FOMC Minutes			
Wednesday, Jul 21				
1:00PM	20yr Treasury Auction			

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Responsive service, experienced expertise

I've dedicated my 26 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.

Ted Rood 

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