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EQUAL HOUSING LENDER

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Big Inflation Victory Gets Rates Back to Lowest Levels Since March

This week was hotly anticipated by investors due to the confluence of economic data and events. Depending on the outcome, interest rates stood to gain or lose quite a bit of ground. Thankfully, the news was almost all good.

Wednesday was the most important day due to the Consumer Price Index (CPI), arguably the most important scheduled monthly economic report. Both financial markets and the Federal Reserve (aka "The Fed") are eagerly waiting for confirmation that core inflation (a more stable metric that excludes volatile food and energy prices) is falling and not rising after several reports in the first quarter of 2024 called that trend into question.

Thankfully, core monthly CPI came in at 0.2 vs a 0.3 forecast. Better yet, the unrounded number was even lower at 0.163. That's low enough that if repeated for 12 months, it would be in line with the Fed's 2.0% inflation target. Bond markets cheered the decision, with yields (which correlate with mortgage rates) dropping sharply in the morning.

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	98.70	+0.01
10 YR Treasury	5.1260	-0.0082
30 YR Treasury	5.4714	-0.0044

Pricing as of: 11/16 7:13PM EST

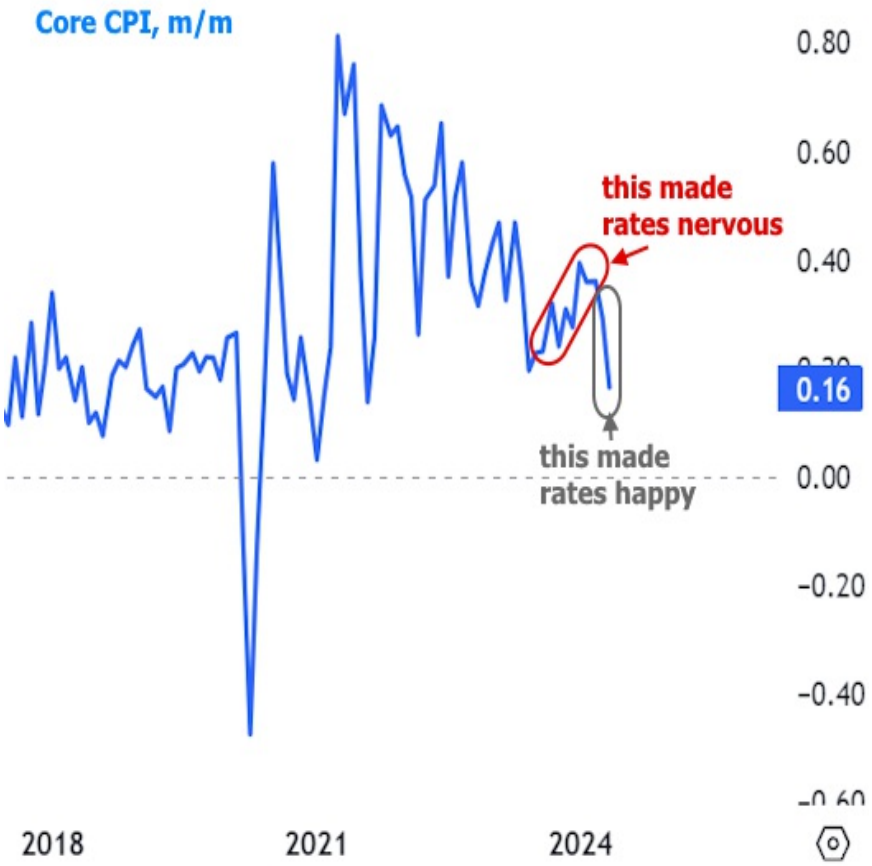
Recent Housing Data

		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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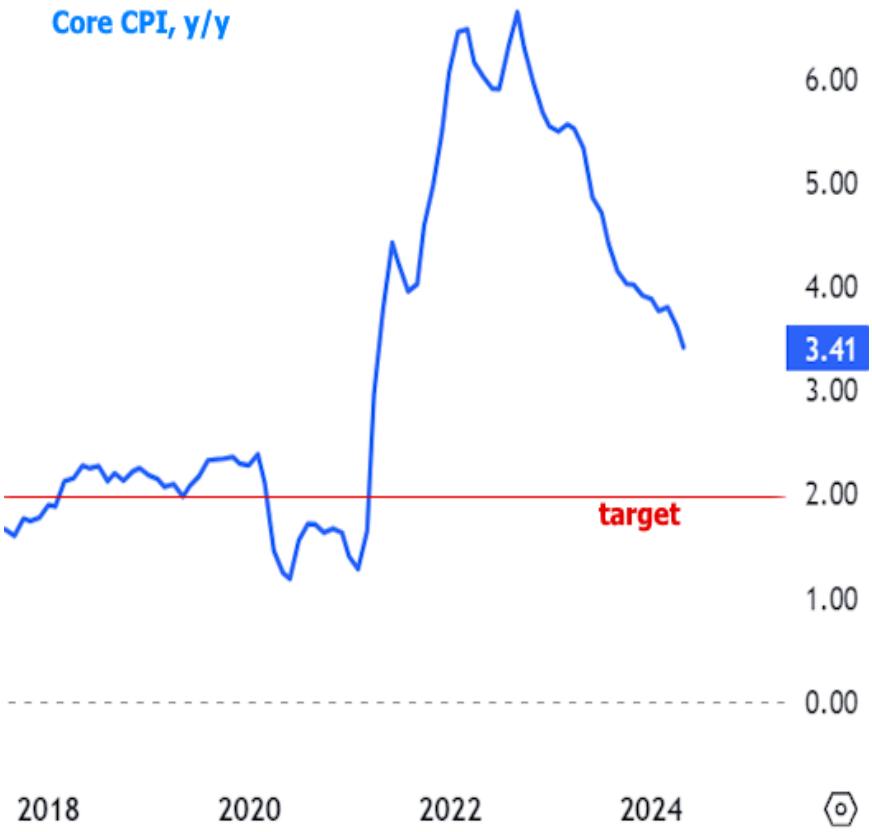


Notably, year over year core inflation is far from 2.0% at the moment, but the Fed has indicated it would begin cutting rates when it was confident that 2.0% would be achieved.

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Later on Wednesday, the Fed was out with its latest policy announcement. The news for rates wasn't as upbeat as the Fed's "dot plot" (a reference to the chart in the Fed's summary of economic projections which details each Fed member's projection for the appropriate level of the Fed Funds Rate at various points in the future) showed only 1 rate cut in 2024 as opposed to the median view in March which still barely showed 3 cuts. In addition, Fed Chair Powell's press conference was relatively more hawkish (i.e. not friendly for rates) than expected.

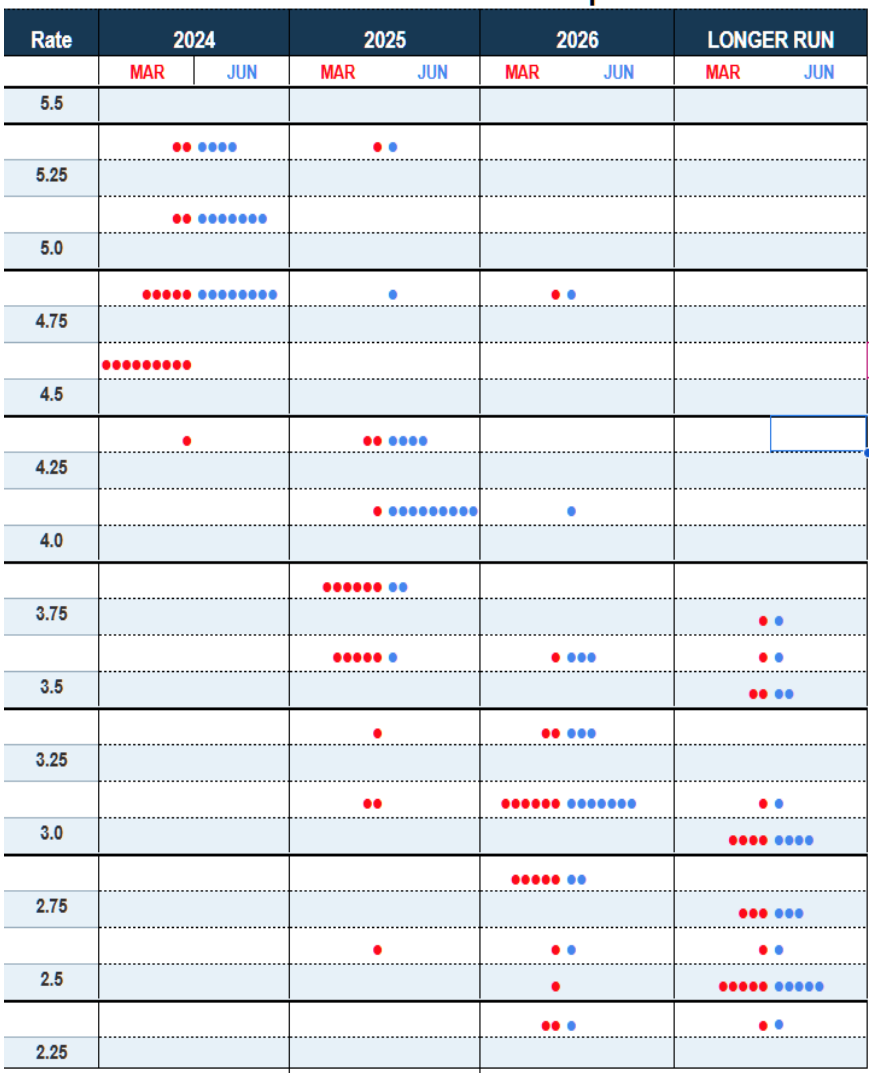
The chart below compares the dot plot from March with this week's update. Each dot corresponds with the Fed Funds Rate seen as most appropriate by the indicate year, based on the current pace of economic data and events.

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Before and After Dot Plot Comparison

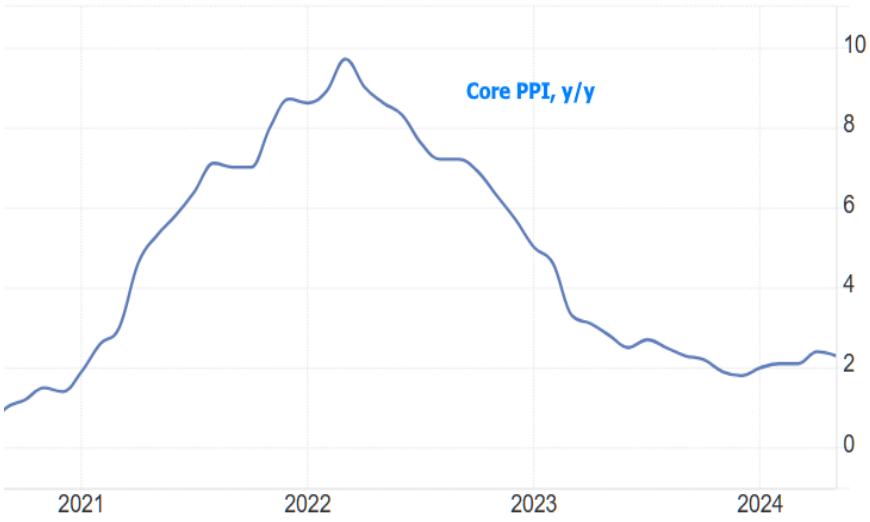


Bonds lost some ground after the Fed announcement, but the week got back on track for interest rate momentum the following morning with the release of the Producer Price Index (PPI) and the weekly Jobless Claims data. PPI isn't as much of a market mover as CPI, but it's still an important contribution to the overall sense of inflation. It came in MUCH lower than expected at 0.0 vs a median forecast of 0.3 at the core month-over-month level. As great as that sounds, producer-level inflation has largely already achieved a victorious return to the 2% annual target, so markets are basically just watching to make sure it doesn't resurge.

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Jobless Claims data also helped rates by coming in much higher than expected (higher claims are typically good for rates)--the highest level since last summer. That said, there is some doubt about distortions caused by seasonal adjustment factors that may not be perfectly relevant to the current seasonal labor market trends. This doubt arises due to last summer's spike and subsequent drop in claims which mimics the non-seasonally-adjusted patterns (something it should not do after being seasonally adjusted).



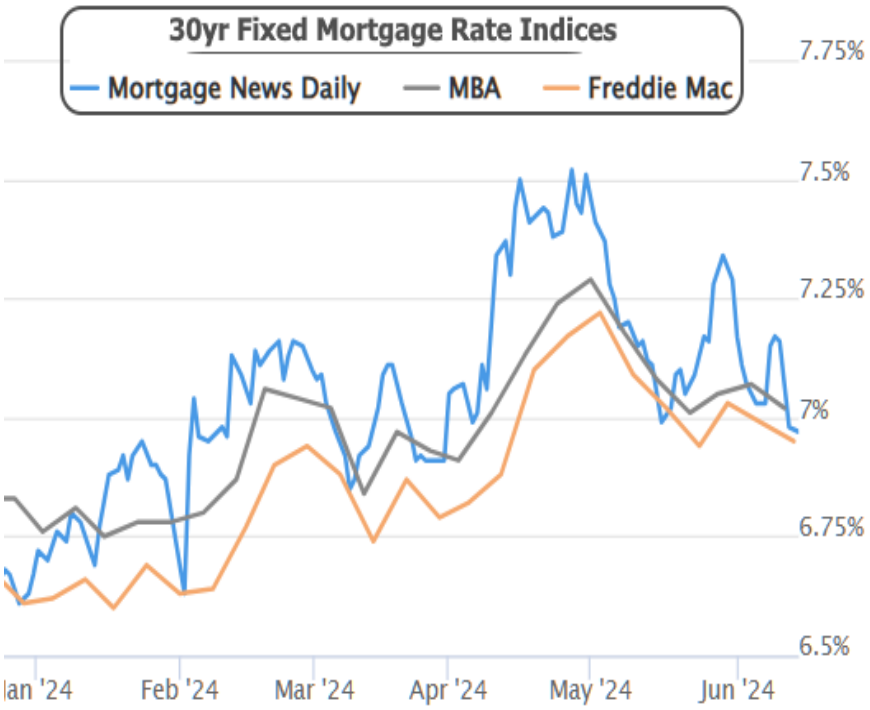
In other words, there's a chance that this summer is repeating the same pattern, with claims being unduly elevated in July and potentially falling in August. The jury is out on this because we can't witness a drop in August until August is here!

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The effect on interest rates overall was quite good. The average 30yr fixed mortgage rate for a top tier scenario dropped back below 7.0% for the first time in a month and edged to the lowest levels since late March.



Everyone is wondering if we're finally seeing the shift in inflation that everyone has been hoping for. That shift would usher a trend of progressively lower interest rates. On that topic, it's good to keep past "false starts" in mind. There have been several instances of economic data seemingly sending similar signals only to reverse course in subsequent months. Bottom line: we're still forced to wait for another month or two of corroborating data before getting our hopes up too much.

Some data is better than others in that regard. CPI and the big monthly jobs report are the most important and we won't see them again for about a month. In the meantime, next week's highlights include Retail Sales on Tuesday and the S&P Global Purchasing Managers Indices on Friday. Wednesday is a market closure for the Juneteenth holiday.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Jun 12				
8:30AM	May y/y CORE CPI (%)	3.4%	3.5%	3.6%
8:30AM	May m/m CORE CPI (%)	0.2%	0.3%	0.3%
2:00PM	Fed Interest Rate Decision	5.5%	5.5%	5.5%
2:00PM	FOMC Economic Projections			
2:30PM	Fed Press Conference			
Thursday, Jun 13				
8:30AM	Jun/08 Jobless Claims (k)	242K	225K	229K

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:30AM	May Core Producer Prices MM (%)	0%	0.3%	0.5%
8:30AM	May Core Producer Prices YY (%)	2.3%	2.4%	2.4%
Friday, Jun 14				
8:30AM	May Import prices mm (%)	-0.4%	0.1%	0.9%
8:30AM	May Export prices mm (%)	-0.6%	0%	0.5%
10:00AM	Jun Consumer Sentiment (ip)	65.6	72	69.1
Monday, Jun 17				
8:30AM	Jun NY Fed Manufacturing	-6.00	-9	-15.60
Tuesday, Jun 18				
8:30AM	May Retail Sales (%)	0.1%	0.2%	0%
9:15AM	May Industrial Production (%)	0.9%	0.3%	0%
10:00AM	Apr Business Inventories (%)	0.3%	0.3%	-0.1%
Thursday, Jun 20				
8:30AM	May Building permits: number (ml)	1.386M	1.45M	1.44M
8:30AM	May Housing starts number mm (ml)	1.277M	1.37M	1.36M
8:30AM	Jun Philly Fed Business Index	1.3	5	4.5
8:30AM	Jun/15 Jobless Claims (k)	238K	235K	242K
Friday, Jun 21				
9:45AM	Jun S&P Global Manuf. PMI	51.7	51	51.3
9:45AM	Jun S&P Global Services PMI	55.1	53.7	54.8
10:00AM	May Existing home sales (ml)	4.11M	4.10M	4.14M
Wednesday, Jul 10				
1:00PM	10-yr Note Auction (bl)	39		

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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