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Have Rates Improved Too Quickly And Is The Fed Being Rational?

The astonishing pace of the recent drop in interest rates has raised some questions regarding sustainability and justification, but we can clear them up with a single chart.

The Federal Reserve doesn't ultimately dictate rate levels, but it has a huge impact on how rates move. The Fed has been credited with fueling the improvements of the past 2 months, but it's important to remember that credit couldn't be given without justification from economic data.

Inflation is the most important part of the Fed's "mandate" (a fancy word for job description). Before we get to the chart that explains it all, let's take a look at a chart that adds to the confusion. It's often repeated that Core year-over-year PCE is the Fed's preferred metric for tracking the 2% inflation target. Here's how it looks after the most recent update this week:

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	0.00

Freddie Mac

30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00

Rates as of: 5/17

Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.40	-0.15
MBS GNMA 6.0	100.78	+0.04
10 YR Treasury	4.4223	+0.0454
30 YR Treasury	4.5610	+0.0549

Pricing as of: 5/17 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	May 15	198.1	+0.51%
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%



If this were the only way to view inflation, certainly the Fed would not yet be justified in cutting rates. To be fair, the Fed is not cutting rates. They are merely beginning to discuss what rate cut timing might look like if that line continues to fall as expected.

Still, some pundits say it's too soon. The counterpoint is that year-over-year inflation numbers include many past months with much higher inflation, and those months are no longer indicative of current price patterns. Fortunately, we have month-over-month charts as well, and they tell a different story.



Monthly inflation numbers are already back at target levels. In fact, even if we use the last 6 months of core PCE, the annualized inflation rate would be right in line with the 2.0% target. Point being: as long as inflation doesn't move quickly higher, the year-over-year numbers will fall to target levels as time passes.

Combine all of the above with the fact that the Fed wants to facilitate a soft landing for the economy and it's hard to argue against a mere conversation about rate cuts in 2024. To be sure, several sectors are looking like they might appreciate a more moderate interest rate environment. Several monthly reports came out this week that speak to that fact.





Will the housing market respond to lower rates? Weekly data from the Mortgage Bankers Association holds clues. Both purchase and refi applications are back to their highest levels in months.



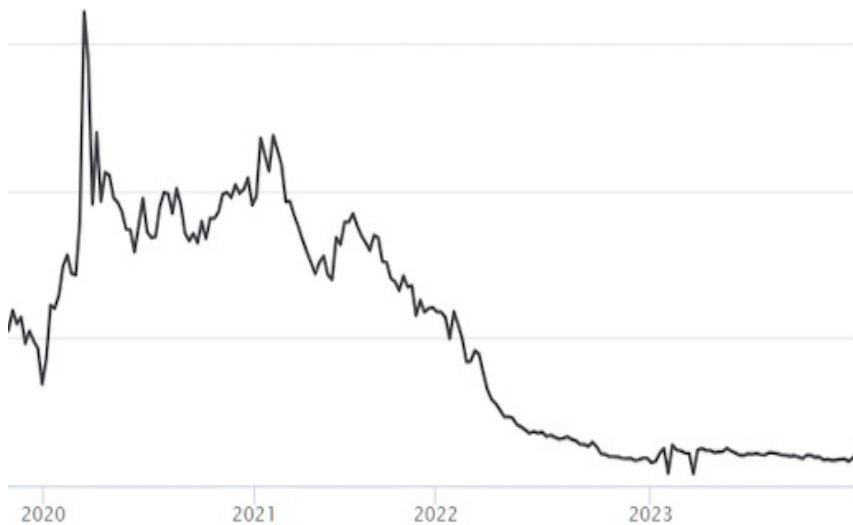
MBA Refinance Index



To get an idea of how much room we have for improvement, we can examine the exact same two metrics in a broader context.

MBA Purchase Index



MBA Refinance Index

From a market movement standpoint, this week was very uneventful. Mortgage rates held a very narrow range that was right in line with the lowest levels in 7 months. Whereas the Mortgage News Daily Index may have seemed low earlier in the week, Freddie Mac's weekly rate index matched it almost perfectly when Thursday's update came out. As always, keep in mind that an index level represents perfection and most loan scenarios are imperfect.



Looking ahead, the bond market is closed on Monday for Christmas and it closes early next Friday for New Years Weekend (following Monday is also closed). Collectively, this represents a slow, weird time of year for bonds that can generally be disregarded as "noise." We won't have a clean signal until the end of the first week of January after the big jobs report comes out and after bond traders are all back in the office.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Dec 18				
10:00AM	Dec NAHB housing market indx	37	36	34
Tuesday, Dec 19				
8:30AM	Nov Building permits: number (ml)	1.46M	1.470M	1.498M
8:30AM	Nov Housing starts number mm (ml)	1.56M	1.36M	1.372M
Wednesday, Dec 20				
7:00AM	Dec/15 MBA Refi Index			
7:00AM	Dec/15 MBA Purchase Index	148.7		149.6
10:00AM	Nov Existing home sales (ml)	3.82M	3.77M	3.79M
Thursday, Dec 21				
8:30AM	Dec Philly Fed Business Index	-10.5	-3	-5.9
8:30AM	Q3 GDP (%)	4.9%	5.2%	2.1%
8:30AM	Dec/16 Jobless Claims (k)	205K	215K	202K
Friday, Dec 22				
8:30AM	Nov Core PCE (m/m) (%)	0.1%	0.2%	0.2%
8:30AM	Nov Core PCE Inflation (y/y) (%)	3.2%	3.3%	3.5%
8:30AM	Nov Durable goods (%)	5.4%	2.2%	-5.4%
10:00AM	Nov New Home Sales (ml)	0.59M	0.685M	0.679M
10:00AM	Dec Consumer Sentiment (ip)	69.7	69.4	61.3
Tuesday, Dec 26				
9:00AM	Oct FHFA Home Price Index m/m (%)	0.3%		0.6%
9:00AM	Oct CaseShiller 20 mm nsa (%)	0.1%		0.2%
9:00AM	Oct FHFA Home Prices y/y (%)	6.3%		6.1%
9:00AM	Oct Case Shiller Home Prices-20 y/y (%)	4.9%	4.9%	3.9%
1:00PM	2-Yr Note Auction (bl)	57		
Wednesday, Dec 27				
7:00AM	Dec/22 MBA Purchase Index			
7:00AM	Dec/22 MBA Refi Index			
1:00PM	5-Yr Note Auction (bl)	58		
Thursday, Dec 28				
8:30AM	Dec/23 Jobless Claims (k)	218K	210K	205K
10:00AM	Nov Pending Home Sales (%)	0%	1%	-1.5%
1:00PM	7-Yr Note Auction (bl)	40		
Friday, Dec 29				
9:45AM	Dec Chicago PMI	46.9	51	55.8

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

About Michael

If you are thinking about buying or refinancing a home in the Kansas City area, you've probably faced the dilemma of hiring the right Loan Officer to handle your mortgage. You may be concerned about working with someone that doesn't know the area, or who doesn't listen to you. Maybe you're worried about a loan officer who is more concerned with a commission than making sure you're properly taken care of.

Great news - I can help!

IF YOU ARE THINKING OF BUYING A HOME... I would love to share with you the mortgage loan products that are available to you, and also talk about what homes might be coming onto the market very soon. As a Kansas City resident who also went to college just down the street in Lawrence, I'm not just your loan officer but also your neighbor. I'd love to talk to you about my knowledge not only about the Kansas City market, and what neighborhoods would be perfect to you but also help you truly understand the landscape of the mortgage industry today, and introduce you to great Real Estate Agents that are ready to go to work for you and find you the perfect home. I'll help guide you through appraisals, inspections, title searches, and finally closing.

IF YOU ARE A REALTOR LOOKING FOR A REFERRAL PARTNER... I would love to sit down with you over a cup of coffee and show you ways to generate leads for your business and help you grow your clientele through some easy processes that NO other Real Estate Agents are doing. I am a growing Social Media guru that can show you my tips and tricks on how I've doubled my Twitter base in just a month!

If it sounds like I can help you, please contact me directly through Linked In, email me at mbaker@affinityhomeloan.com or call/text me at 913-735-5363. If you're not yet ready for a conversation, but you'd like to learn more about me and how I can help you or about the mortgage process in general, including great blog posts to send out to your clients, check out my website at <http://www.michaelbakerhomeloans.com>.

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