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Rates Rocked by Inflation Data

If there was only one thing to know about the mortgage market this week, it would be that Wednesday's inflation data prompted one of biggest single day increases in mortgage rates in decades. If there was a 2nd thing to know, it's that the first thing is arguably all that matters.

OK... that may be a bit of an exaggeration, but it is true that inflation has utterly dominated the outlook for rates. The Consumer Price Index (CPI) is the first of major inflation reports on any given month and by far the most widely followed by financial markets. In other words, the traders that indirectly determine changes in mortgage rates are waiting on the edge of their seats for each month's CPI data and their reactions have frequently been extreme.

This week's reaction qualifies. It was simply amazing (in a bad way) when considered against the extent to which the results diverged from expectations.

To simplify, consider that the most important line item in the report operates on a scale of tenths of a percent. It was expected to come in at 0.3 but instead came in a 0.4. Moreover, that 0.4 was rounded up from 0.359%--almost low enough to round down to 0.3!

If you'd told us that ahead of time, we would have assumed bond market weakness (i.e. higher rates), but nothing on the scale of what we actually saw. The 5 day chart of 10yr Treasury Yields (a benchmark for longer term rates like mortgages) tells the story.

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

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%



Mortgage rates were just as upset. The 30yr fixed rate index jumped nearly 0.30%, putting Wednesday in line with one of only a handful of days with a spike of 0.25% or more over the past 20 years.



A chart of the index itself is slightly less troubling considering it's still well below last year's highs, but the gap is much smaller after this week.



Why did we see such a big reaction for such a small deviation in the data? Simply put, the market keeps waiting for a trend toward lower inflation to resume and the data keeps breaking hearts. This week's report was sort of a "third times the charm" moment. Jan and Feb CPI (released in Feb and Mar, respectively) were also surprisingly high. They did damage to rates to be sure, but markets and even officials from the Federal Reserve were hoping those reports were outliers.

The following chart shows month over month core CPI (the one that came in at 0.4 instead of 0.3). The Fed (and the market) is waiting for that line to get back into the target zone. Unfortunately, it looks like it took one look at the target zone and said "no thanks!"



The Fed continues to remind the market that inflation progress is a bumpy road and that these recent setbacks aren't necessarily evidence of defeat. After all, the year over year trend still looks OK despite leveling off a bit from its previous trajectory.



The big question is what it takes for progress to resume. The Fed's answer is "just a bit more time." They are still talking about cutting rates in 2024, but not as early in the year as initially expected. Wall Street is mixed in its expectations, with firms expecting anywhere from 0 to 3 cuts.

As is always the case, no one can be sure what the future will bring when it comes to economic data and the market reaction. All we can know at present is the progress toward lower rates in 2024 that was widely predicted in late 2023 is unequivocally on hold. A handful of other economic reports can make for fine tuning adjustments in the meantime, but bigger picture progress will depend on progress in the inflation data. There are a few exceptions that could bring rates down even before inflation condones it, but they're all arguably worse than the waiting (war, recession, and other disasters).

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Apr 09				
6:00AM	Mar NFIB Business Optimism Index	88.5	90.2	89.4
10:10AM	Apr IBD economic optimism	43.2	44.2	43.5
Wednesday, Apr 10				
7:00AM	Apr/05 MBA Purchase Index	138.7		145.6
7:00AM	Apr/05 MBA Refi Index	498.3		453.5
8:30AM	Mar y/y CORE CPI (%)	3.8%	3.7%	3.8%
8:30AM	Mar m/m CORE CPI (%)	0.4%	0.3%	0.4%
2:00PM	FOMC Minutes			
Thursday, Apr 11				
8:30AM	Mar Core Producer Prices MM (%)	0.2%	0.2%	0.3%
Friday, Apr 12				
8:30AM	Mar Import prices mm (%)	0.4%	0.3%	0.3%
8:30AM	Mar Export prices mm (%)	0.3%	0.3%	0.8%
10:00AM	Apr Consumer Sentiment (ip)	77.9	79	79.4
Monday, Apr 15				
8:30AM	Mar Retail Sales (%)	0.7%	0.3%	0.6%
8:30AM	Apr NY Fed Manufacturing	-14.30	-9	-20.90
10:00AM	Feb Business Inventories (%)	0.4%	0.3%	0%
10:00AM	Apr NAHB housing market indx	51	51	51
Tuesday, Apr 16				
8:30AM	Mar Housing starts number mm (ml)	1.321M	1.48M	1.521M
8:30AM	Mar Building permits: number (ml)	1.458M	1.514M	1.524M
9:15AM	Mar Industrial Production (%)	0.4%	0.4%	0.1%
Thursday, Apr 18				
8:30AM	Apr/13 Jobless Claims (k)	212K	215K	211K
8:30AM	Apr Philly Fed Business Index	15.5	1.5	3.2

Event Importance:

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

Date	Event	Actual	Forecast	Prior
10:00AM	Mar Existing home sales (ml)	4.19M	4.2M	4.38M
10:00AM	Mar CB Leading Index MoM (%)	-0.3%	-0.1%	0.1%

About Rohan

Named Austin Business Journal’s 2014, 2015, 2016, 2017, 2018 and 2019 Top 25 Mortgage Producer

Buying a home is an important milestone in everyone’s life. My objective is to be your trusted advisor when you and your family decide to take this step. Having worked for over a decade in several areas including Financial Representative and Branch Manager, I have helped hundreds of members realize their financial dreams. With over 15yrs of extensive financial knowledge and real estate experience, I can help you reach your financial goals of owning a home or refinancing your existing home. I am committed to providing the level of service that our members deserve and I will guide you through the entire Home Loan process. On a personal level, I love spending my free time outdoors with my wife, Natalie and two young kids, Ezra and Lincoln.

Here is what some of my members have said about me and my service:

"Rohan and Tammy, No one knows more than you, how big hassle house buying is. But you both made it this process as smooth as possible. We both thank you from bottom of our heart for helping us in buying our first house and making the process as smooth as possible. Thank you very much for your support. One of the best customer support we had ever got."

"Rohan was awesome, very professional, and responsive. "

“Rohan and Jeff were extremely helpful and made our mortgage process easy.”

“We were very happy with the entire process. Rohan was an absolute pleasure to deal with!

“He was always available. We appreciated the attention given. We would recommend Rohan and UFCU to anyone!”

“I was worried about meeting the closing date due to underwriting but Rohan was very reassuring and everything went smoothly. Very impressed with my first mortgage experience.”

“Rohan put us at great ease through the whole process. He was always available and answered all of our questions patiently. He is simply the best and I strongly recommend to anyone looking for a home loan.”

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