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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



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.26%	-0.06	0.00
15YR Fixed	6.82%	-0.05	0.00
30YR FHA	6.95%	0.00	0.00
30YR Jumbo	7.40%	-0.02	0.00
7/6 SOFR	6.60%	-0.10	0.00
30YR VA	6.96%	-0.01	0.00

Rates as of: 11/25

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.88	+0.29
10 YR Treasury	4.8590	-0.0677
30 YR Treasury	5.2479	-0.0735

Pricing as of: 11/25 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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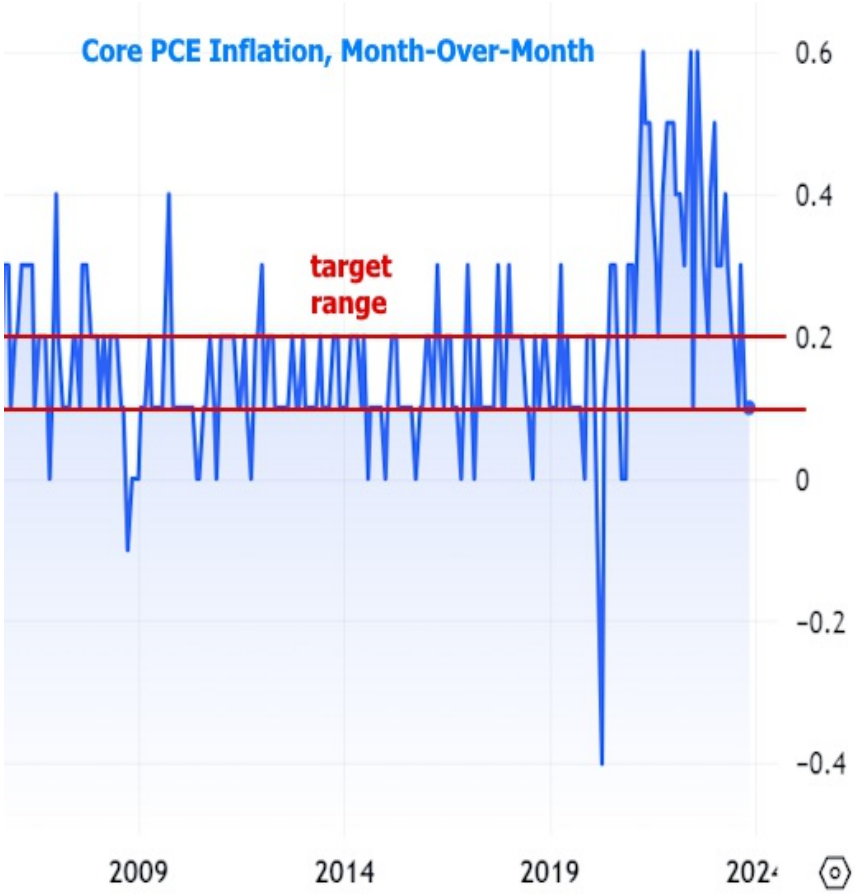
If this were the only way to view inflation, certainly the Fed would not yet be justified in cutting rates. To be fair, the Fed is not cutting rates. They are merely beginning to discuss what rate cut timing might look like if that line continues to fall as expected.

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.

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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.

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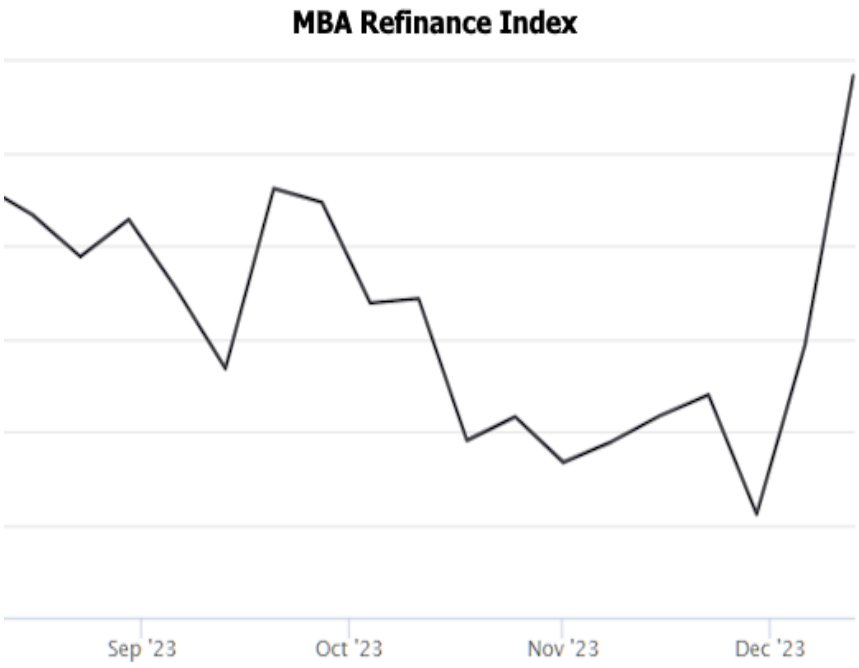
Will the housing market respond to lower rates? Weekly data from the Mortgage Bankers Association holds clues. Both purchase and refi applications are back to their highest levels in months.



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



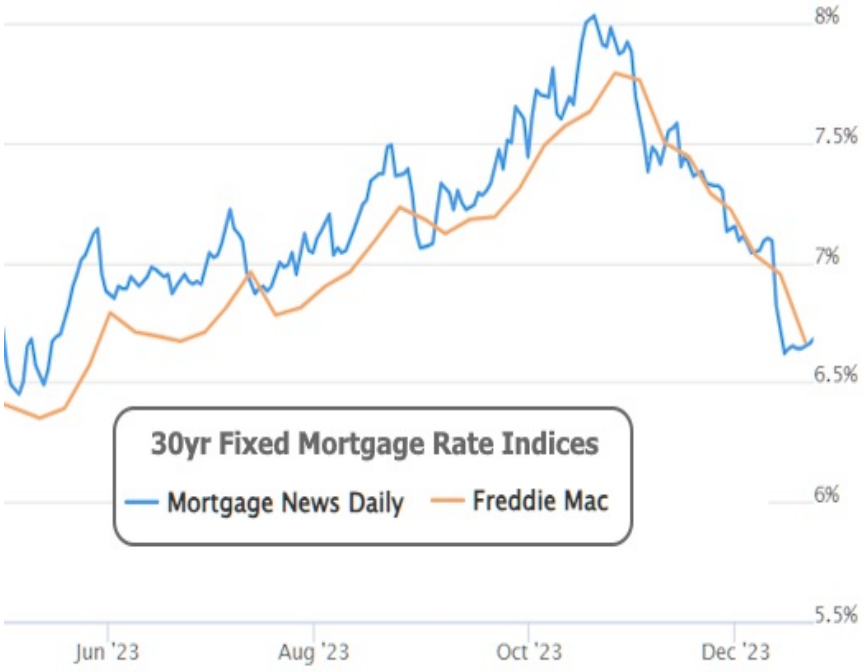
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From a market movement standpoint, this week was very uneventful. Mortgage rates held a very narrow range that was right in line with the lowest levels in 7 months. Whereas the Mortgage News Daily Index may have seemed low earlier in the week, Freddie 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

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Speed, Ease & Expertise

In my 8th year of mortgage lending I am still looking for ways to improve my business for clients and referral partners. Even though our industry is ever-changing, my goals have stayed consistent. For clients, I want to make the process of purchasing their home an enjoyable one for them. I do this by being highly available by phone, email or in person from morning to night and having the fastest response time in the industry. I want my clients to be well educated on their loan options so they feel confident about their mortgage before and after purchasing their home. I want referral partners to know they can trust in me to handle everything on the loan side of things so they can focus their time on what they do best, Real Estate. I have excellent systems in place for communication to keep everyone involved in the purchase updated. I feel grateful to be in this industry, and take a great amount of pride in people counting on me for their biggest purchase of their lives!

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