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# Rates Bounce Higher as Inflation Data Throws a Wrench in The Outlook

Inflation is the biggest problem for interest rates these days and this week brought two reports that pushed rates higher. Both are released by the Bureau of Labor Statistics and both pointed toward higher inflation in different ways.

The Consumer Price Index (CPI), the first of the two reports, is a well-known source of drama for financial markets in the past few years. Rates are so sensitive to CPI these days that it only took a small deviation from expectations to push mortgage rates to the highest levels in 2 months.

The other report is the Producer Price Index (PPI). Despite being released by the same agency, this report hasn't had remotely as much of an impact over the past few years. That began to change in late 2023 as PPI surged sharply lower, helping to build a case for inflation calming down.

This week's release was the latest example of PPI getting the market's attention, but not because it built a case for lower inflation. In fact, it added a bit of insult to the already large injury done by CPI 3 days earlier.

The following chart shows the most important component of each of the two reports: the month over month "core" reading. Markets react more to core inflation because it is less prone to temporary distortions caused by food and energy prices. Note that core PPI is still significantly more volatile than core CPI.

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.30% | +0.03 | 0.00 |
| 15YR Fixed | 6.91% | -0.01 | 0.00 |
| 30YR FHA | 6.95% | +0.04 | 0.00 |
| 30YR Jumbo | 7.45% | -0.07 | 0.00 |
| 7/6 SOFR | 6.71% | +0.01 | 0.00 |
| 30YR VA | 6.97% | +0.05 | 0.00 |

Rates as of: 11/3

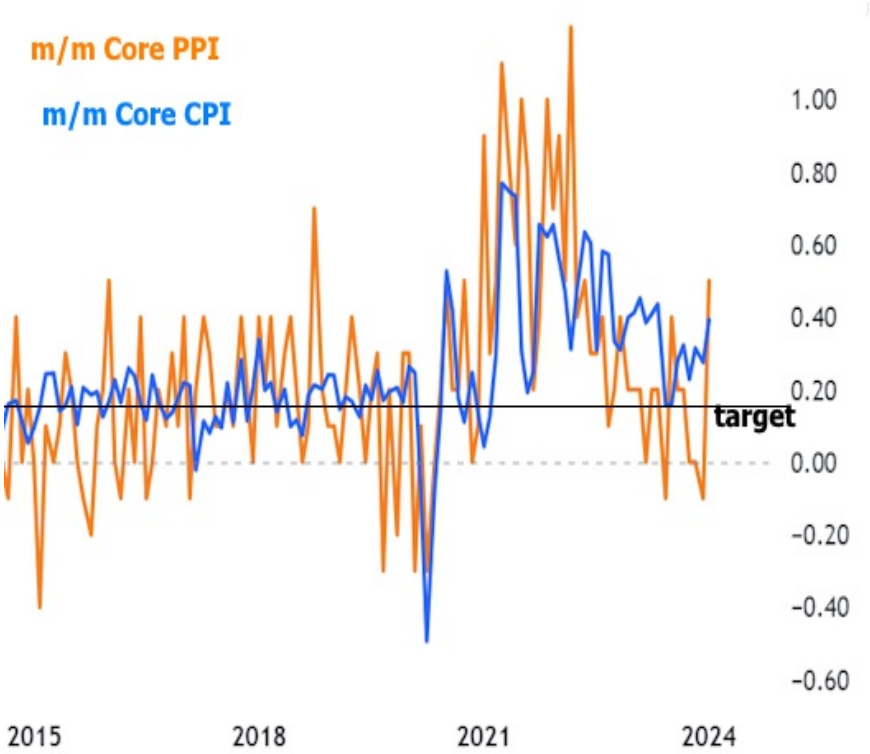
## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Oct 21 | 195 | +3.39% |
| 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% |

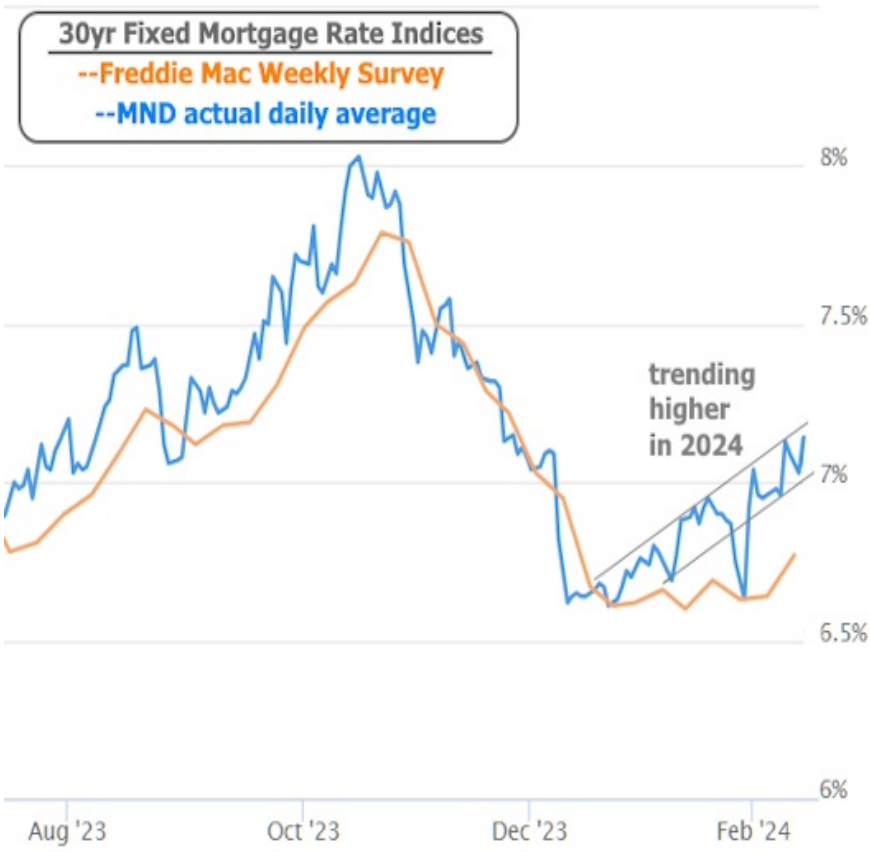
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Volatility aside, this was the biggest spike in 2 years to the highest levels in nearly as long. Thankfully, the market still isn't willing to move nearly as much for PPI, so the damage was not nearly as big as the CPI reaction in terms of upward rate movement. Nonetheless, it was enough to take rates up to slightly higher 2-month highs and keep the 2024 uptrend intact.




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(Curious why the two lines are so far apart in the chart above? See our coverage of this phenomenon in last week's newsletter)

To be clear, the 2024 uptrend in rates would have been intact with or without PPI. It didn't move the needle enough to make things much worse and it certainly could not have moved the needle very far in the opposite direction. We can see the bond market's relative reaction to each report by looking at minute-by-minute trading in 10yr Treasuries. Both the movement and the volume tell the story.




If PPI is guilty of anything, it's the crime of contributing to a delay in a rate reckoning. Part of the reason the market was willing to recover a good portion of the post-CPI losses was the notion that it could end up being an outlier--a small splash in a sea of data that generally confirmed inflation was heading the right direction.

With both reports on the same page, market participants have to wonder if inflation is truly on the right path. Many Fed officials have reminded us not to focus too much on one bad month of inflation data, but that's not exactly the point. The point is that IF this week's CPI and PPI had been slightly better than expected as opposed to worse, the Fed would be that much closer to having the confidence needed to consider rate cuts in March, especially if the March CPI report ends up in lower.

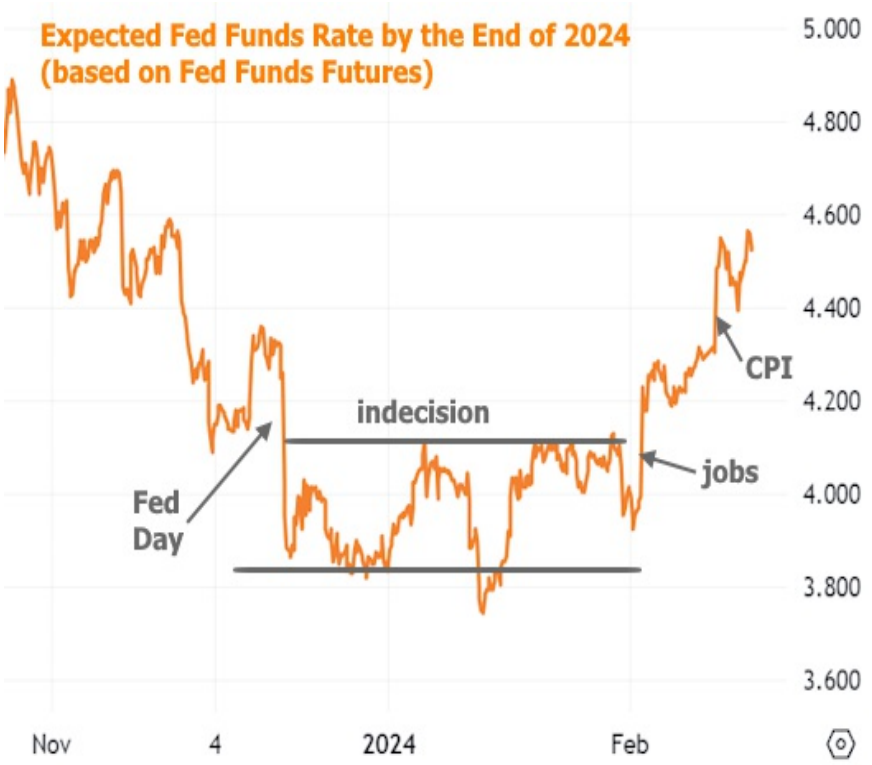
As it stands, this week's data was somewhat of a reset that delays such realizations for the Fed. Even if the CPI drops sharply in March, this week's report will make them think twice about declaring victory.

In addition to competing inflation narratives, there's also the rest of the economy to consider. We don't have to go back more than 2 weeks to see the other massively important economic report (the big jobs report) showing job creation surging much faster than expected. Like CPI, this could also prove to be an outlier, but not one that would be forgotten in one short month. The jobs report and CPI singlehandedly pushed 2024's Fed rate expectations up and out of a low, sideways range. It will take some time and convincing to undo that damage.

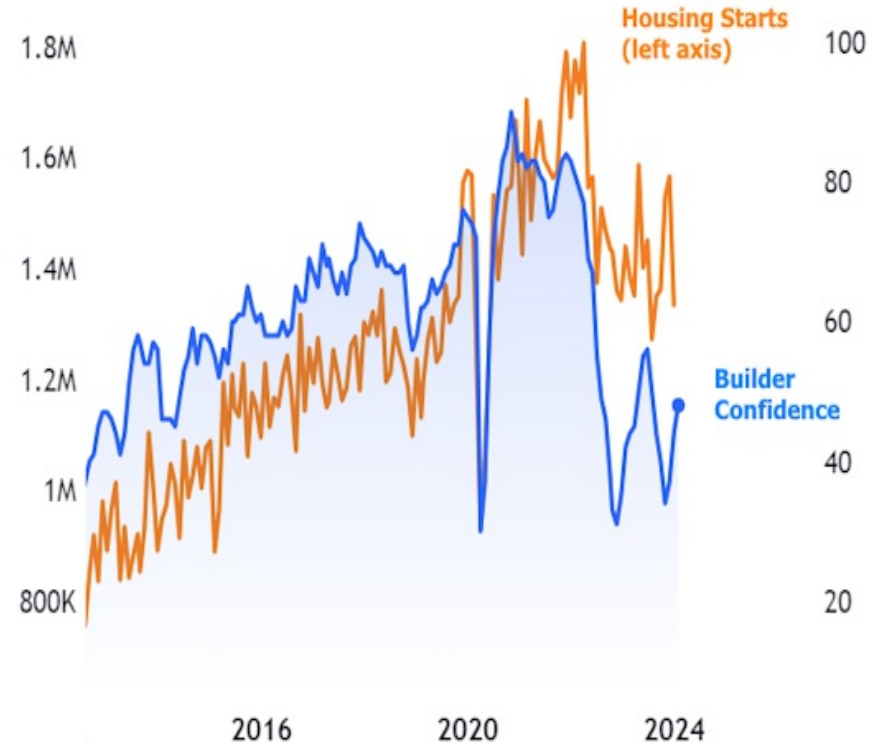
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In housing-specific news, this week was a mixed bag with new residential construction falling well short of forecasts. The headline Housing Starts metric stood at 1.33 million for January after hitting 1.56 million in December. Despite that drop, homebuilders were in better spirits according to the Housing Market Index published by the National Association of Homebuilders (NAHB). Perhaps the divergence can be reconciled by considering that builder sentiment had been extremely low while housing starts have been declining at a far more measured pace.




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# US Housing Market Weekly

February 16, 2024

Markets are closed on Monday next week for Presidents Day. The most noteworthy calendar event is the release of Minutes from the most recent Fed meeting. This is not a new policy or rate announcement--just a more detailed account of the conversation at the last meeting. In addition multiple Fed speakers will hit the wires throughout the week, potentially helping refine the approach to the next round of jobs/inflation data.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Tuesday, Feb 13** | | | | |
| 8:30AM | Jan m/m Headline CPI (%) | 0.3% | 0.2% | 0.2% |
| 8:30AM | Jan y/y CORE CPI (%) | 3.9% | 3.7% | 3.9% |
| 8:30AM | Jan y/y Headline CPI (%) | 3.1% | 2.9% | 3.4% |
| 8:30AM | Jan m/m CORE CPI (%) | 0.4% | 0.3% | 0.3% |
| **Wednesday, Feb 14** | | | | |
| 7:00AM | Feb/09 MBA Purchase Index | 149.6 | | 153.5 |
| 7:00AM | Feb/09 MBA Refi Index | 489.6 | | 500.2 |
| **Thursday, Feb 15** | | | | |
| 8:30AM | Feb/10 Jobless Claims (k) | 212K | 220K | 218K |
| 8:30AM | Jan Import prices mm (%) | 0.8% | 0% | 0% |
| 8:30AM | Feb Philly Fed Business Index | 5.2 | -8 | -10.6 |
| 8:30AM | Jan Retail Sales (%) | -0.8% | -0.1% | 0.6% |
| 9:15AM | Jan Industrial Production (%) | -0.1% | 0.3% | 0.1% |
| 10:00AM | Feb NAHB housing market indx | 48 | 46 | 44 |
| **Friday, Feb 16** | | | | |
| 8:30AM | Jan Housing starts number mm (ml) | 1.331M | 1.46M | 1.46M |
| 8:30AM | Jan Building permits: number (ml) | 1.47M | 1.509M | 1.493M |
| 8:30AM | Jan Core Producer Prices MM (%) | 0.5% | 0.1% | -0.1% |
| 8:30AM | Jan Core Producer Prices YY (%) | 2% | 1.6% | 1.8% |
| 10:00AM | Feb Consumer Sentiment (ip) | 79.6 | 80 | 79 |
| **Wednesday, Feb 21** | | | | |
| 2:00PM | FOMC Minutes | | | |
| **Thursday, Feb 22** | | | | |
| 8:30AM | Feb/17 Jobless Claims (k) | 201K | 218K | 212K |
| 9:45AM | Feb S&P Global Services PMI | 51.3 | 52 | 52.5 |
| 10:00AM | Jan Existing home sales (ml) | 4M | 3.97M | 3.78M |

## Event Importance:

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

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# Ask me about Advance Approval

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