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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
<b>Mortgage News Daily</b>			
30 Yr. Fixed	6.86%	-0.05	0.00
15 Yr. Fixed	6.31%	-0.02	0.00
30 Yr. FHA	6.32%	-0.06	0.00
30 Yr. Jumbo	7.04%	-0.03	0.00
5/1 ARM	6.53%	-0.02	0.00

### Freddie Mac

30 Yr. Fixed	6.78%	-0.08	0.00
15 Yr. Fixed	6.07%	-0.09	0.00

Rates as of: 7/26

## Market Data

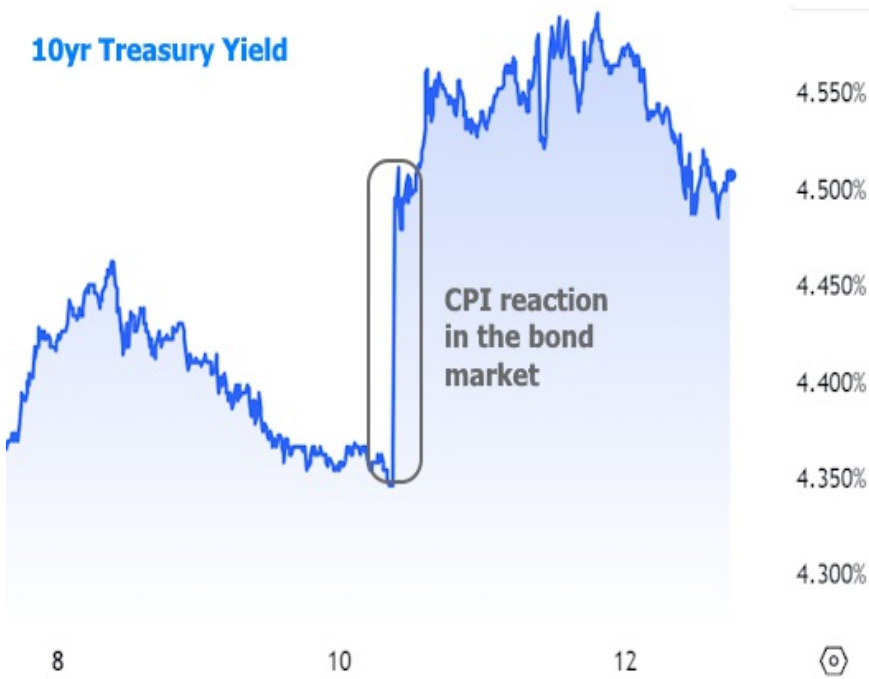
	Price / Yield	Change
MBS UMBS 5.5	99.68	+0.27
MBS GNMA 5.5	99.98	+0.13
10 YR Treasury	4.1958	-0.0474
30 YR Treasury	4.4523	-0.0305

Pricing as of: 7/26 5:59PM EST

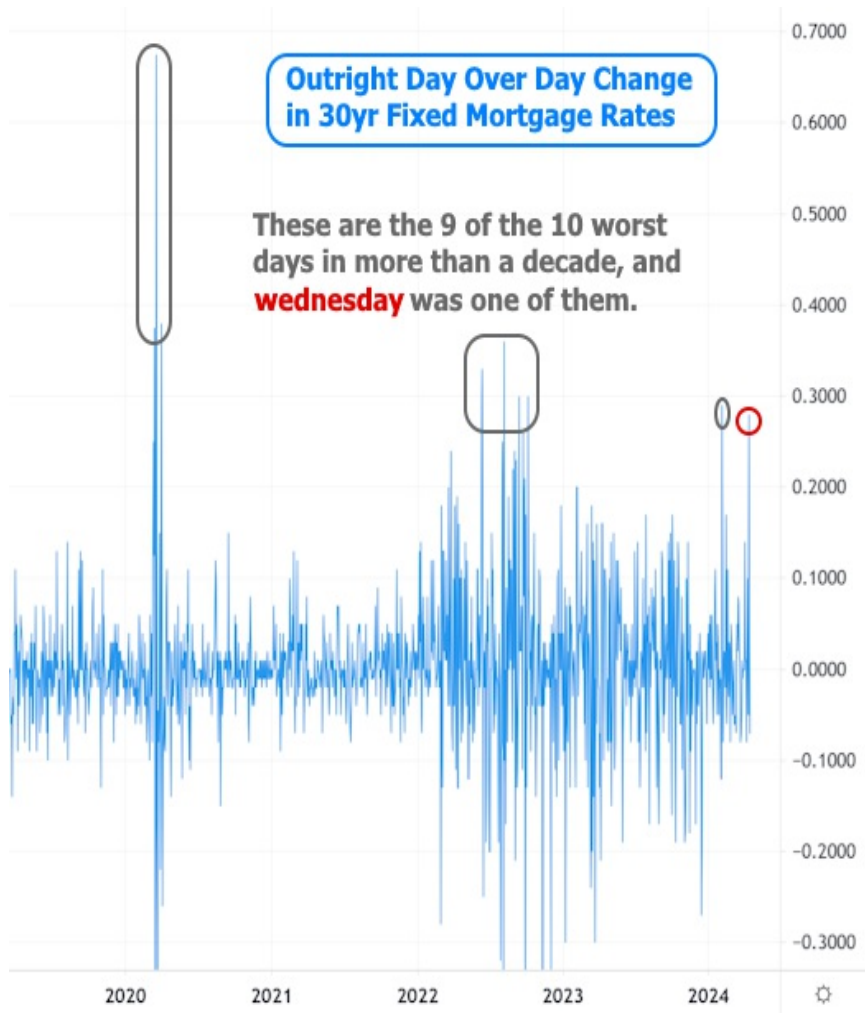
## Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
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%

## 10yr Treasury Yield



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.

**Mortgage Rate Indices**  
--MND, Actual Daily Average  
--Freddie Mac, Weekly Survey



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!"

Core Consumer Price Index (CPI), month-over-month



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.

Core CPI, year-over-year



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
<b>Tuesday, Apr 09</b>				
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
<b>Wednesday, Apr 10</b>				
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			
<b>Thursday, Apr 11</b>				
8:30AM	Mar Core Producer Prices MM (%)	0.2%	0.2%	0.3%
<b>Friday, Apr 12</b>				
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
<b>Monday, Apr 15</b>				
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
<b>Tuesday, Apr 16</b>				
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%
<b>Thursday, Apr 18</b>				
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%

## Spend Life Wisely

We are each blessed with an impressive balance sheet of life moments to spend, and to cherish. To help you make the most of your life's moments, First United Bank is here with advice and tools to use along your journey as you realize your fullest potential. This is how we are changing the world - one customer, one family, one community at a time.

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