



Mike Baker

Head Interest Rate Shopper, The Rate Shop
 Individual NMLS: 259076 Company NMLS: 2554765 State
 23211 W 45th St Shawnee, KS 66226

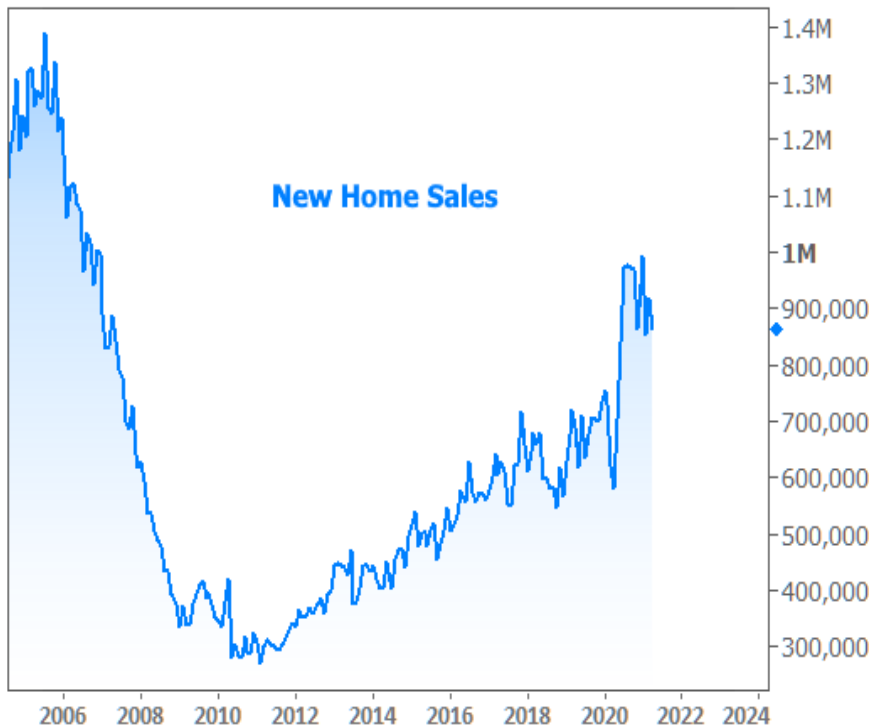
Office: 913-213-3335
 Mobile: 913-213-3335
mike@rateshopkc.com
[View My Website](#)

Highest Inflation in Decades, But Housing Has a Bigger Problem

Inflation is bad for interest rates and it's at the highest levels in decades. But the housing market has a far bigger problem.

Actually, it's **not hard** for a problem to become bigger than rates right now considering we're still at levels that would have been record lows at any other time before covid. Moreover, rising rates (within reason) might **help** to tap the breaks on what has been an unprecedented disparity between supply and demand.

That brings us to **the big problem**: supply--or rather, the lack thereof. Lamenting the lack of housing inventory is a common refrain, but it's never been more relevant. The ill effects are increasingly visible as various home sales metrics have failed to advance for several months now. This week's update on New Home Sales provided the most recent example, falling moderately and undershooting expectations.



National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.07%	+0.02	0.00
15 Yr. Fixed	6.45%	0.00	0.00
30 Yr. FHA	6.51%	+0.02	0.00
30 Yr. Jumbo	7.26%	0.00	0.00
5/1 ARM	7.02%	-0.01	0.00

Freddie Mac

30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00

Rates as of: 6/28

Market Data

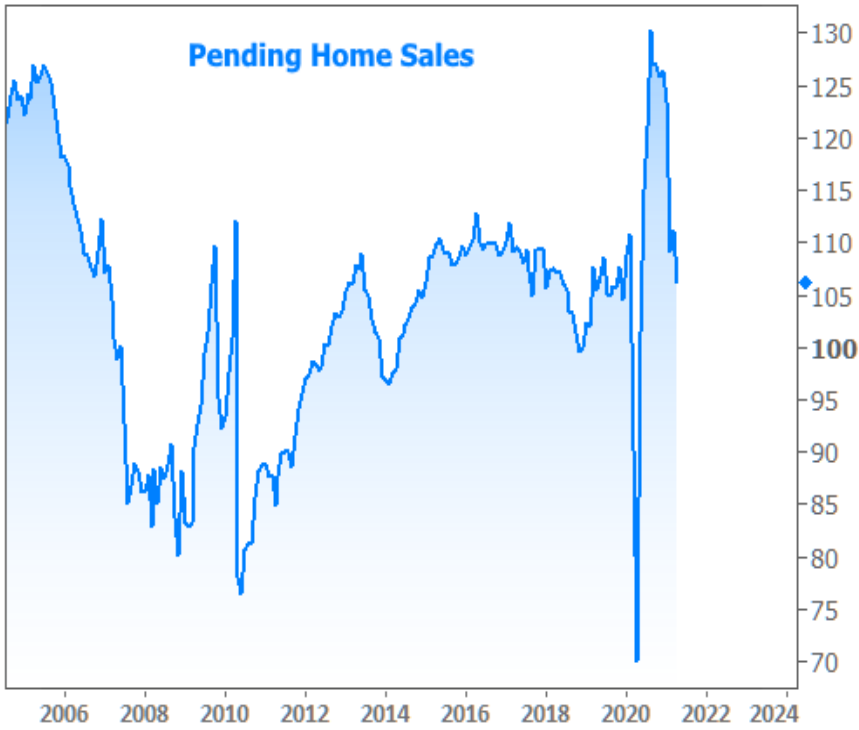
	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.4079	+0.0099
30 YR Treasury	4.5755	+0.0115

Pricing as of: 6/30 8:45PM EST

Recent Housing Data

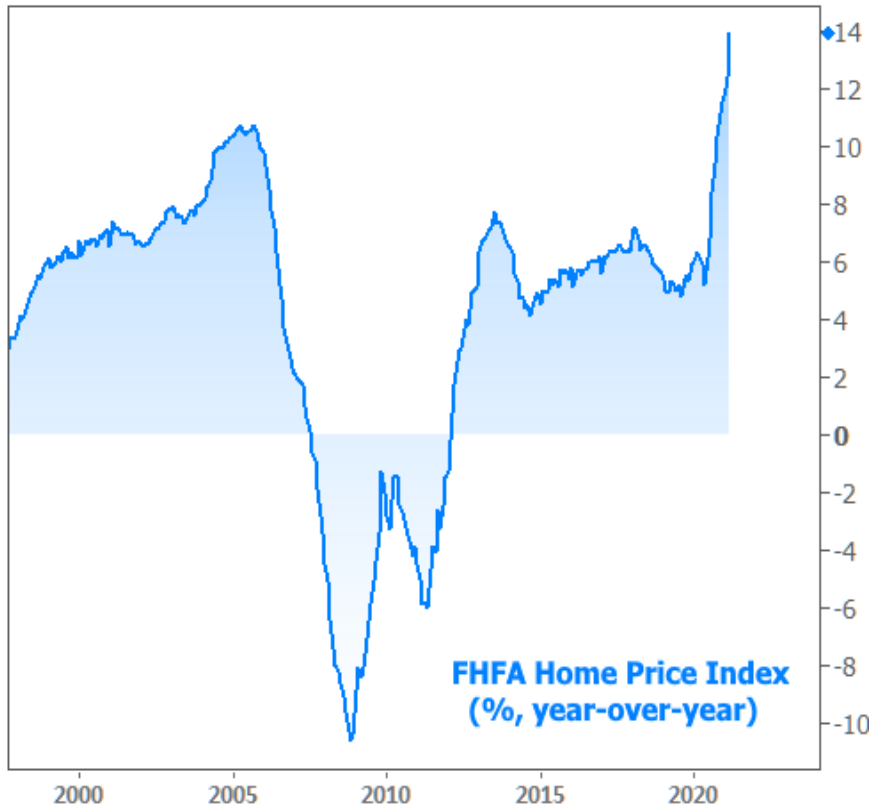
		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

This **doesn't** mean people don't want to buy new homes. Rather, this range of 850k to 950k is simply about as fast as the housing industry can get the things off the shelf in the current environment. The issue is more acutely visible when existing homes are added to the mix, as seen in this week's monthly update on Pending Home Sales.



Your eyes do not deceive you. We are indeed **back to pre-covid levels** for pending sales. While some of the pull-back could be driven by a decrease in demand, record low inventories are almost exclusively responsible.

One of the **best** places to witness the effects of the inventory crunch is in home price reports. March's price numbers came out at the beginning of the week, and they leave nothing to the imagination:



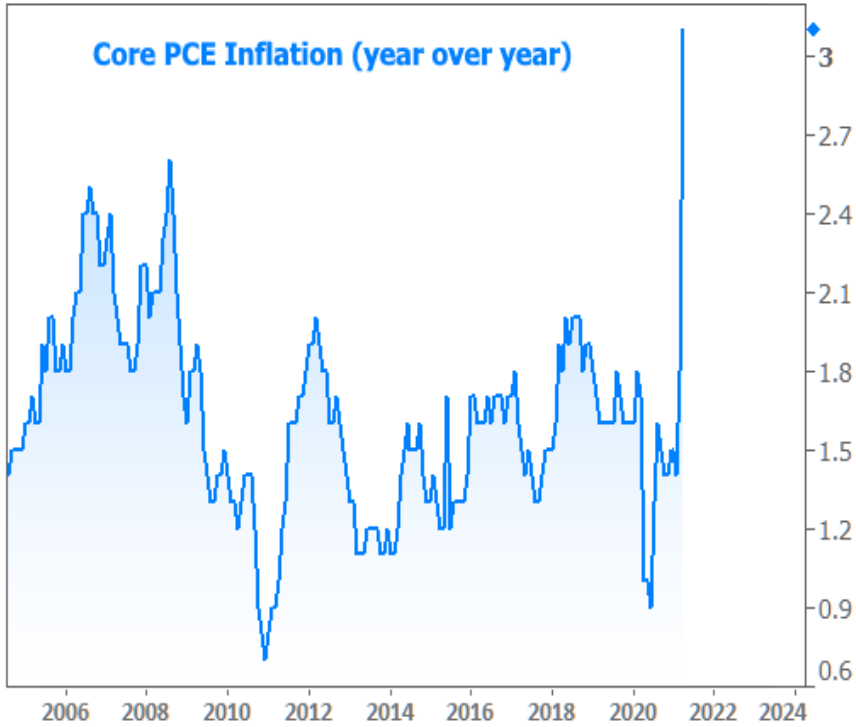
Is a 14% annual appreciation rate sustainable? Of course not. In fact, it could be a self-correcting problem before too long. Just this week, several members of the Federal Reserve's Open Market Committee mentioned they're **paying more attention** to home prices, or rather, that home prices will factor into an eventual discussion of adjusting the Fed's bond buying portfolio.

Why does that matter? Fed bond buying is a major contributor to low rates. The Fed currently buys \$40bn / month in mortgage debt (in addition to reinvesting 10s of billions of proceeds from previous mortgage bond purchases). The Fed knows that low rates grease the skids for home prices. If they're worried about the implications of rampant appreciation, they might cut their mortgage bond purchases faster/more than their Treasury purchases.

That's a bridge they'll cross when they come to it though, and **they haven't come to it yet**. In fact, the Fed is committed to keeping policies accommodative until the economy has logged several months of much stronger data. They've also managed to convince markets not to be spooked by temporary inflation spikes.

It's not too much to ask the modern bond market to forgive the sorts of inflation spikes seen at times in the past decade. But the inflation spike seen in April's data (the stuff reported in the past 2 weeks) is **on another level**. We'd already discussed the impressive [reaction to the CPI data 2 weeks ago](#). Now this week, a similar report (Personal Consumption Expenditures or "PCE") gave markets another chance to save inflation panic for another day.

The Core PCE Price Index (long said to be the Fed's preferred big-picture inflation metric, and the thing they're hoping to see in the 2-2.5% range for a few months before gradually moving back down to 2%) rose to **3.1%** from last month's 1.9% reading.



This is the highest level in decades. At any other time in history, this sort of swing would have sent interest rates **screaming higher at a record pace**. Instead, here's how bonds/rates traded on the day of the release:



In other words, there was effectively zero reaction to the inflation numbers. Rates were more keen to move for end-of-month housekeeping reasons, and they moved **lower** to boot!

Bottom line: markets take the Fed at their word regarding inflation. As such, it's a waiting game to see how things evolve in the coming months. Without a decisive bias in the economic data, rates might have a tough time finding enough inspiration to make the sorts of moves seen in the first 3 months of the year.

This isn't to say economic data is incapable of influencing rates in the short term, just that it's a high bar to clear. If any report is up to the challenge, it's next Friday's big jobs report. Granted, it can't fundamentally alter rate momentum in a lasting way, but it can definitely cause some **volatility**.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, May 25				
9:00AM	Mar CaseShiller 20 yy (%)	13.3	12.3	11.9
9:00AM	Mar Monthly Home Price yy (%)	13.9		12.2
10:00AM	Apr New Home Sales (ml)	0.863	0.970	1.021
10:00AM	May Consumer confidence	117.2	119.2	121.7
10:00AM	Apr New Home Sales (%) (%)	-5.9	12.8	20.7
Wednesday, May 26				
7:00AM	w/e MBA Purchase Index	269.8		265.3
7:00AM	w/e MBA Refi Index	3168.8		3413.3
10:30AM	w/e Crude Oil Inventory (ml)	-1.662	-1.050	-1.662
1:00PM	5-Yr Note Auction (bl)	61		
Thursday, May 27				
8:30AM	Q1 GDP Prelim (%)	6.4	6.5	6.4
8:30AM	Apr Durable goods (%)	-1.3	0.7	0.8
8:30AM	Apr Core CapEx (%)	2.3	0.8	1.2
8:30AM	w/e Jobless Claims (k)	385	425	444
10:00AM	Apr Pending Sales Index	106.2		111.3
1:00PM	7-Yr Note Auction (bl)	62		
Friday, May 28				
8:30AM	Apr Core PCE Inflation (y/y) (%)	3.1	2.9	1.8
9:45AM	May Chicago PMI	75.2	68.0	72.1
10:00AM	May Sentiment: 5y Inflation (%)	3.0		3.1
10:00AM	May Sentiment: 1y Inflation (%)	4.6		4.6
10:00AM	May Consumer Sentiment (ip)	82.9	82.9	82.8
Tuesday, Jun 01				
10:00AM	May ISM Manufacturing PMI	61.2	60.9	60.7
10:00AM	Apr Construction spending (%)	0.2	0.5	0.2

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
Wednesday, Jun 02				
7:00AM	w/e MBA Purchase Index	261.4		269.8
7:00AM	w/e MBA Refi Index	3022.0		3168.8
Thursday, Jun 03				
7:30AM	May Challenger layoffs (k)	24.586		22.913
8:15AM	May ADP National Employment (k)	978	650	742
10:00AM	May ISM N-Mfg PMI	64.0	63.0	62.7
Friday, Jun 04				
8:30AM	May Non-farm payrolls (k)	559	650	266
8:30AM	May Unemployment rate mm (%)	5.8	5.9	6.1
10:00AM	Apr Factory orders mm (%)	-0.6	-0.2	1.1

Real Talk

At The Rate Shop, we're not your average mortgage banker. We specialize in bringing you ridiculously low interest rates that will make you wonder what the other guys are doing. In fact the ONLY objection we ever hear is "your rates sound too good to be true". Well they're not, and here is why...

After 15 years in the retail banking world I was frustrated with the high interest rates that came from that business model. As I looked around at all the bloated layers of management and their expensive salaries and the overhead of running a larger company (think rent costs, employee health and benefit costs, payroll taxes, and on and on) it dawned on me that I was a part of the problem, and the solution, for me at least, was so easy to see.

Start my own mortgage brokerage shop. No expensive executive salaries, no expensive building to pay rent at, no unnecessary employees and all the costs that are associated with that. What happens when you cut out all the fat? You can provide lower rates and lower closing costs. It's simple. Now here is the best part, you still get great service from a local Kansas City Lender. My mission is to let everyone know that low rates and great customer service are NOT mutually exclusive.

Thanks for coming along on this journey where Low Rates meet Great Service. The two do NOT have to be mutually exclusive. It's just a lie that the big box mortgage companies have been telling you for years. Don't believe me? Give me a call or shoot me a text on my personal cell phone today and compare my rates and costs up against any other lender in the country, and be prepared to be blown away.

Mike Baker

