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Mortgage Rates Back Over 7% as Markets Digest Economic Data

Until a few weeks ago, it looked like we might have seen the last of 7% mortgage rates, but the last 2 weeks have been brutal. The culprit has been a collection of several scheduled economic reports that were stronger than economists expected.

Generally speaking, strong economic data puts upward pressure on rates. This is a particularly sensitive relationship at the moment because the Fed has clearly stated it will hike rates a few more times unless the economy downshifts more abruptly than it has been. With that in mind, some of the recent data hasn't shown any downshift at all!

One solid example from this week was the business activity index in the services sector (via ISM), which rebounded massively:



On the same morning, the ADP employment data proved to be a much bigger deal, coming in at 497k versus a median forecast of 228k. Although the track record is far from perfect, ADP's stated goal is to predict the all-important nonfarm payroll (NFP) count in the Labor Department's big monthly jobs report. In this week's case, NFP was set to come out the following morning.

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	4.3980	+0.1111
30 YR Treasury	4.5640	+0.1383

Pricing as of: 6/28 5:59PM EST

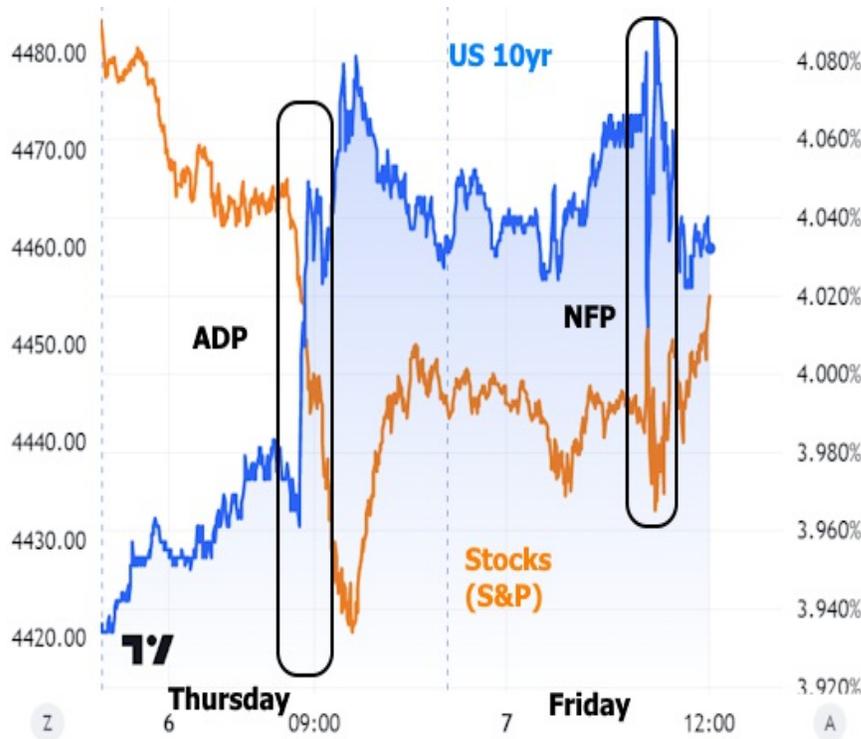
Recent Housing Data

		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%

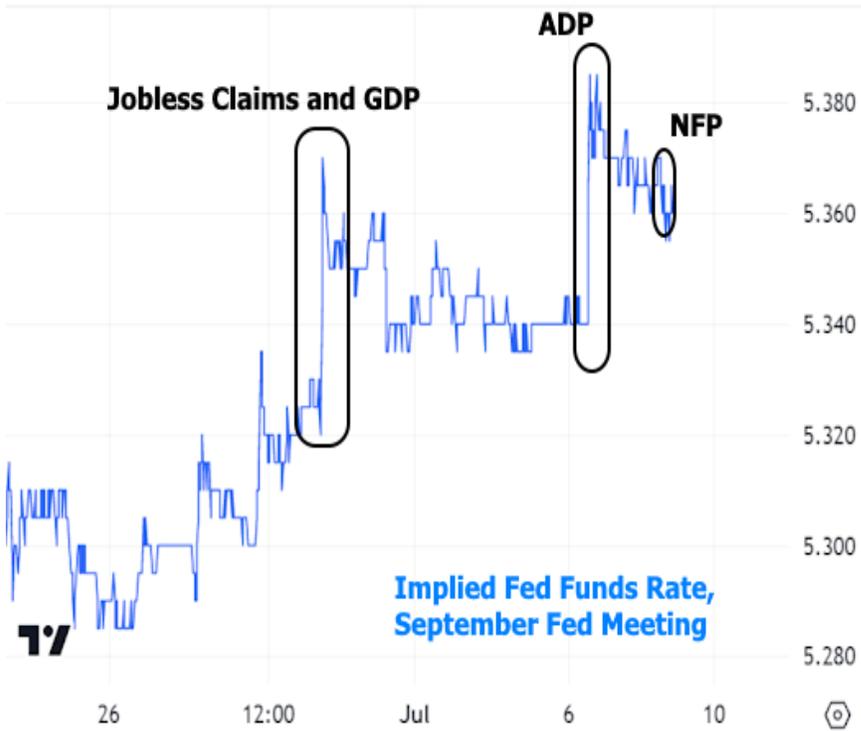
Although NFP didn't nearly live up to ADP's hype, it was nonetheless solid with 209k jobs created versus forecasts calling for 225k. Wages grew a bit faster than expected, and unemployment remained near record lows at 3.6%.



While this is good news for the economy and the labor market, bonds (which drive mortgage rates) like bad news and the news wasn't bad enough for bonds to undo the damage done on Thursday.



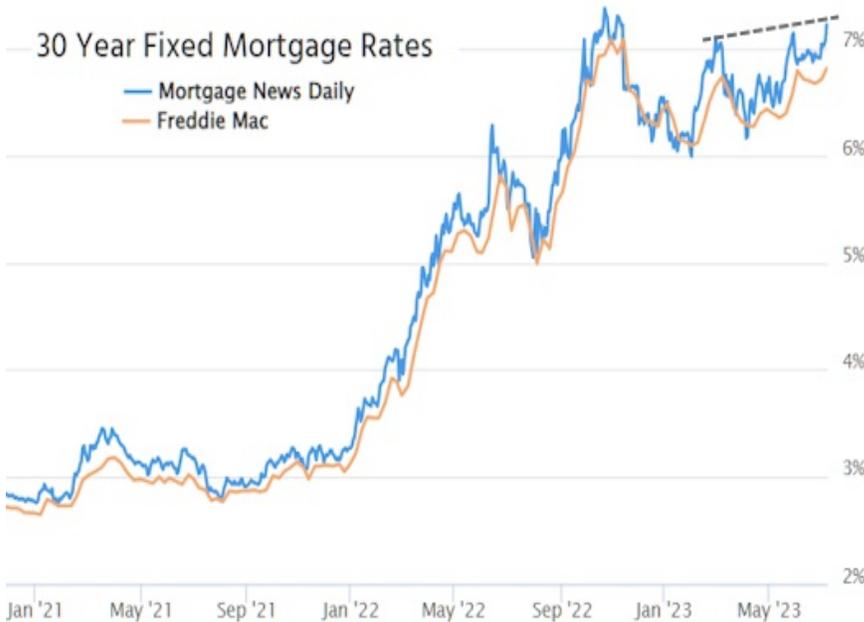
Incidentally, stocks occasionally like bad news these days too. This is a bit counterintuitive, but it has to do with the data's implication on the Fed's rate hike outlook. Specifically, the stronger data causes the market to predict a higher trajectory for the Fed Funds Rate:



In the bigger picture, the recent weakness is changing the shape of the trend in longer-term rates. The following chart uses Treasury yields to show a "breakout" from a recent trend of lower highs.



Mortgage rates are highly correlated with longer-term Treasuries so it's no surprise that they are also breaking out. In fact, they began to break out in late May and then moved even higher this week. The result is a new trend of "higher highs" that started in March:



The average lender moved well into the 7% range this week. That's much higher than suggested by Freddie Mac's weekly rate survey, which came in at 6.81% this week, but keep in mind that Freddie's survey has implied "points" (upfront loan costs that help bring the rate lower) that are not counted or reported. Contrast that to MND's index (the blue line in the chart above) which takes points into consideration. Lastly, Freddie's number is also an average of the 5 preceding days whereas MND is an up-to-the-moment check on prevailing rates.

What's next?

Expect the market to continue readily responding to economic data. One of the most important reports--the Consumer Price Index--will be out next Wednesday morning. If it shows inflation cooling more than expected, rates definitely have room to move lower. But if it takes a page out of this week's book and exceeds forecasts, rates will likely continue the trend of higher highs.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jul 03				
10:00AM	Jun ISM Manufacturing PMI	46	47	46.9
10:00AM	May Construction spending (%)	0.9%	0.6%	0.4%
Wednesday, Jul 05				
2:00PM	FOMC Minutes			
Thursday, Jul 06				
7:00AM	Jun/30 MBA Refi Index	421.3		439.2
7:00AM	Jun/30 MBA Purchase Index	162.4		170.3
7:30AM	Jun Challenger layoffs (k)	40.709K		80.089K
8:15AM	Jun ADP jobs (k)	497K	228K	267K
8:30AM	Jul/01 Jobless Claims (k)	248K	245K	236K
10:00AM	Jun ISM N-Mfg PMI	53.9	51	50.3
10:00AM	Jun ISM Biz Activity	59.2	51.9	51.5
10:00AM	May USA JOLTS Job Openings	9.8M	9.935M	10.32M
Friday, Jul 07				
8:30AM	Jun Unemployment rate mm (%)	3.6%	3.6%	3.7%
8:30AM	Jun Average earnings mm (%)	0.4%	0.3%	0.4%
8:30AM	Jun Non Farm Payrolls	209K	225K	306K
Monday, Jul 10				
10:00AM	May Wholesale inventories mm (%)	0%	-0.1%	-0.3%
3:00PM	May Consumer credit (bl)	\$7.24B	\$20.25B	\$20.32B
Tuesday, Jul 11				
6:00AM	Jun NFIB Business Optimism Index	91	89.9	89.4
Wednesday, Jul 12				

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
7:00AM	Jul/07 MBA Refi Index	416		421.3
7:00AM	Jul/07 MBA Purchase Index	165.3		162.4
8:30AM	Jun m/m Headline CPI (%)	0.2%	0.3%	0.1%
8:30AM	Jun y/y Headline CPI (%)	3%	3.1%	4%
8:30AM	Jun y/y CORE CPI (%)	4.8%	5%	5.3%
8:30AM	Jun m/m CORE CPI (%)	0.2%	0.3%	0.4%
Thursday, Jul 13				
8:30AM	Jul/08 Jobless Claims (k)	237K	250K	249K
8:30AM	Jun Core Producer Prices MM (%)	0.1%	0.2%	0.1%
8:30AM	Jun Core Producer Prices YY (%)	2.4%	2.6%	2.6%
Friday, Jul 14				
10:00AM	Jul Consumer Sentiment (ip)	72.6	65.5	64.4

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.

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