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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



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00

Freddie Mac

30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Rates as of: 7/22

Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.30	-0.10
MBS GNMA 5.5	99.73	-0.04
10 YR Treasury	4.2721	+0.0342
30 YR Treasury	4.4866	+0.0398

Pricing as of: 7/22 12:53PM EST

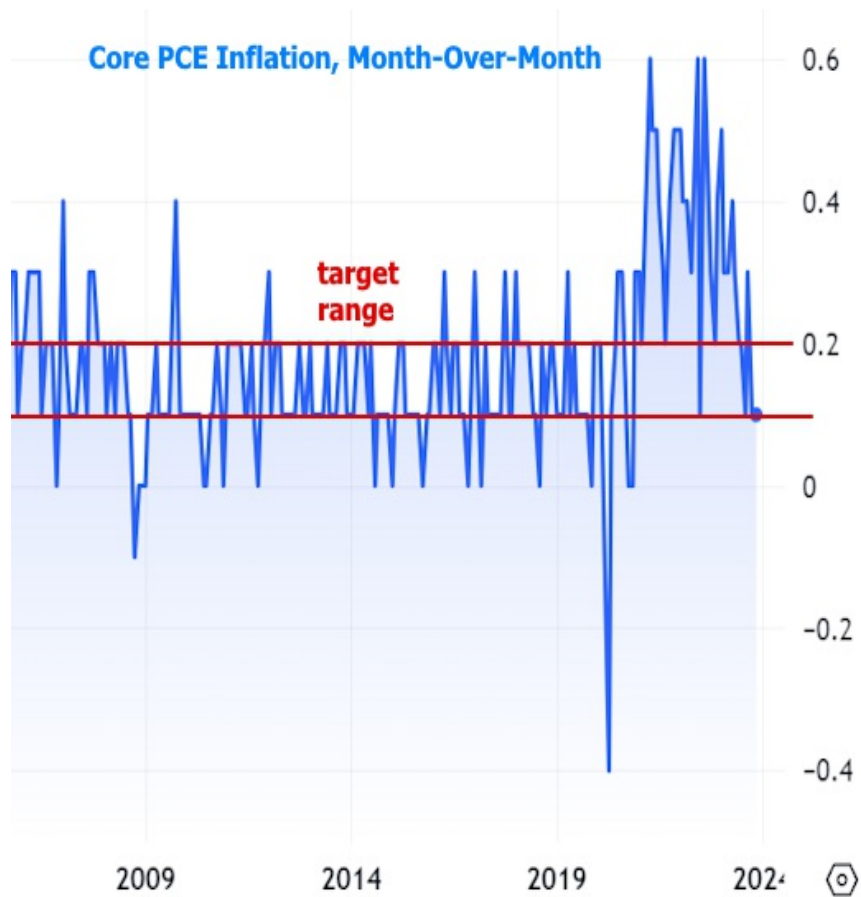
Recent Housing Data

		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%



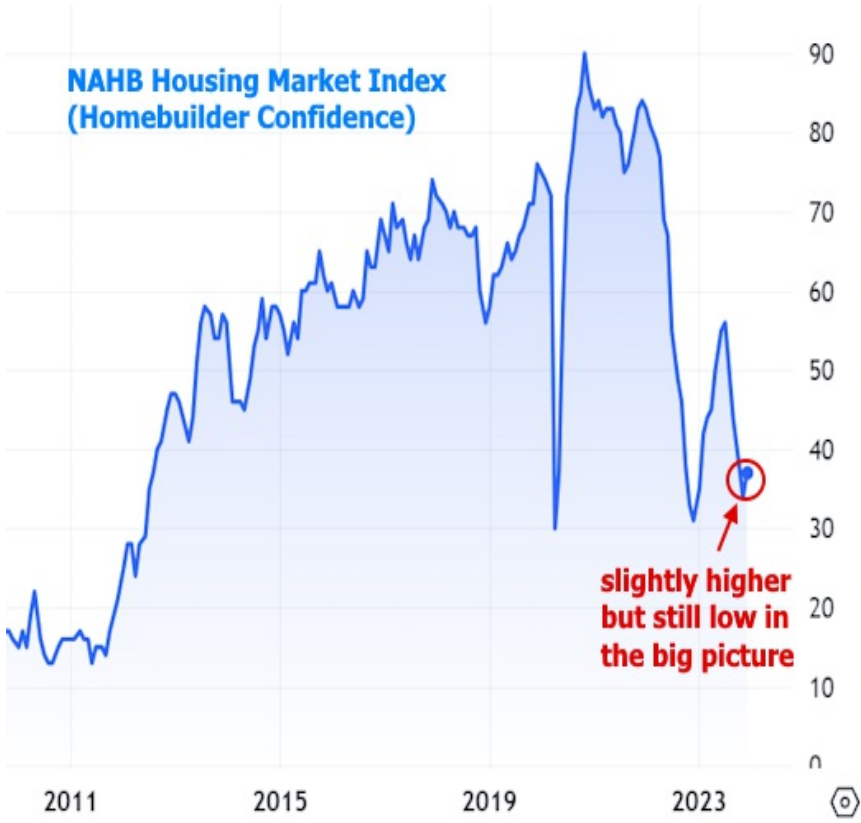
If this were the only way to view inflation, certainly the Fed would not yet be justified in cutting rates. To be fair, the Fed is not cutting rates. They are merely beginning to discuss what rate cut timing might look like if that line continues to fall as expected.

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.



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.





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.

MBA Purchase Index



MBA Refinance Index



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

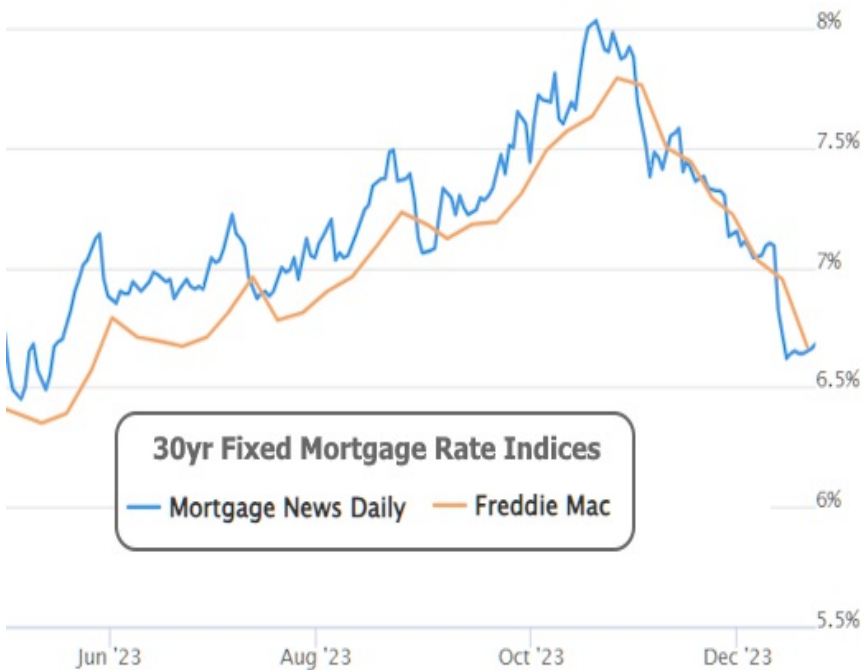
MBA Purchase Index



MBA Refinance Index



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

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its “Proposed Criteria for Evaluating Home Buyer Contract Forms” on Tuesday. The 15 criteria focus on the contracts’ form – whether the documents are readable and understandable – and content – whether they are fair to homebuyers.

- the document’s expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
- the right to terminate the contract
- the disclosure that compensation is negotiable
- the broker’s compensation clearly stated and that the buyer broker can’t receive additional compensation for facilitating a sale
- that any additional fees, such as for showing a home, will be deducted from the broker’s commission if there is a successful sale
- that the commission is due only if there is a successful closing
- that buyers have an obligation – for no longer than 60 days, CFA recommends – to pay a broker who earlier showed them a home they purchased after the contract ended
- seller concessions paid directly to buyers
- dual agency not pre-approved by the contract
- an explanation of how a broker treats different buyer clients interested in the same property
- that buyers should not be required to first go through mediation or arbitration if they have a complaint

Contact me for more information. 702-303-0243 or TPayne@loandepot.com

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