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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



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.44%	-0.04	0.00
15 Yr. Fixed	5.97%	-0.03	0.00
30 Yr. FHA	5.90%	-0.04	0.00
30 Yr. Jumbo	6.66%	-0.02	0.00
5/1 ARM	6.32%	-0.06	0.00
Freddie Mac			
30 Yr. Fixed	6.46%	-0.40	0.00
15 Yr. Fixed	5.62%	-0.54	0.00

Rates as of: 8/23

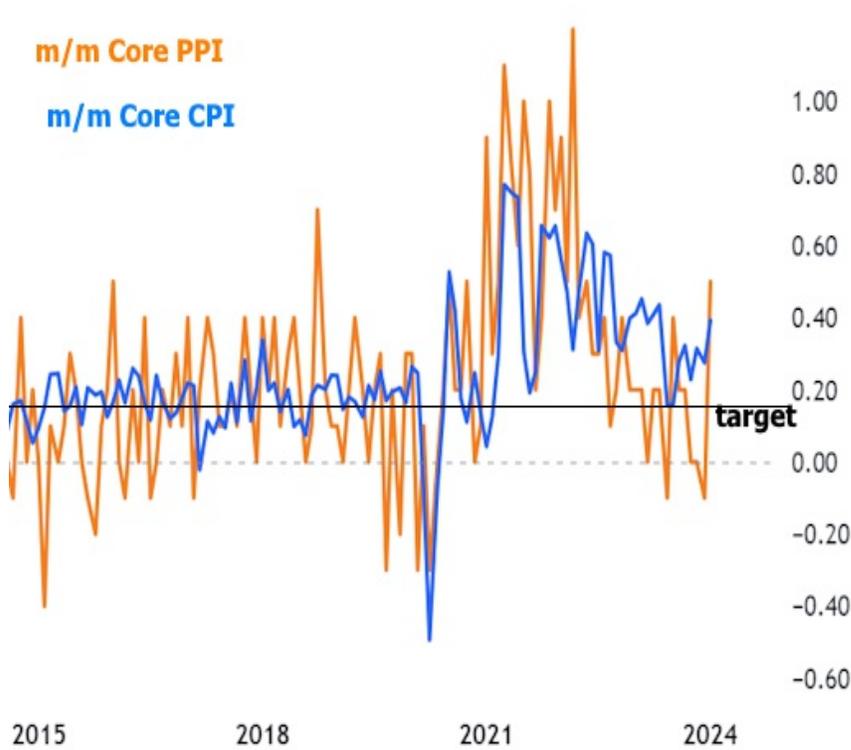
Market Data

	Price / Yield	Change
MBS UMBS 5.5	100.93	+0.26
MBS GNMA 5.5	100.83	+0.22
10 YR Treasury	3.7999	-0.0531
30 YR Treasury	4.0908	-0.0309

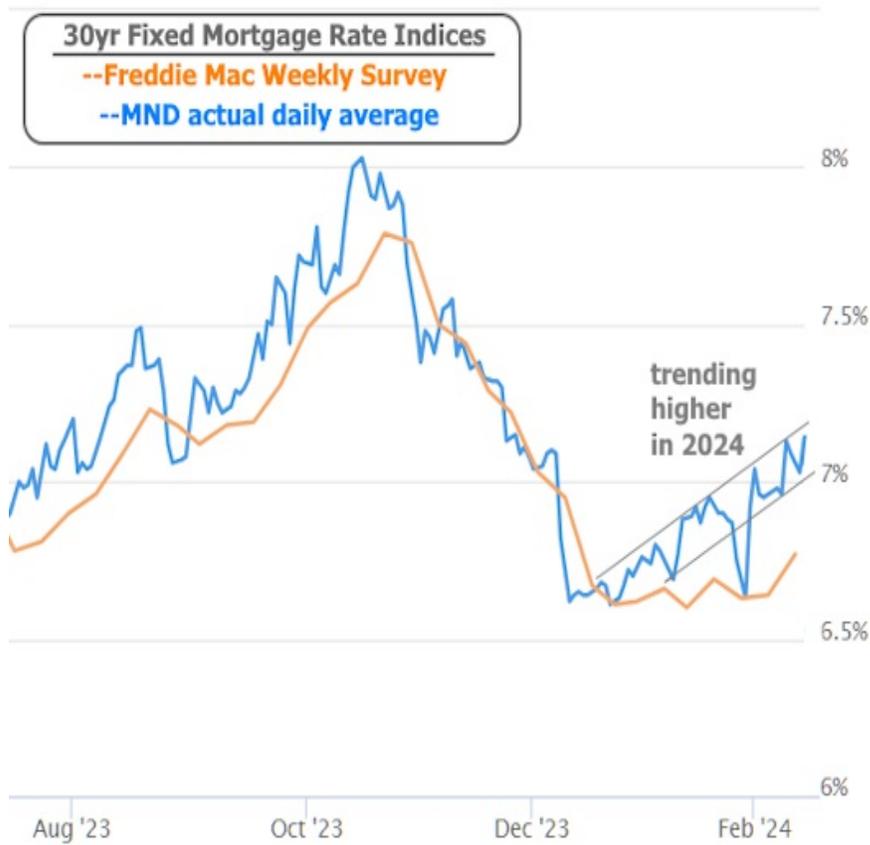
Pricing as of: 8/23 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Aug 14	251.3	+16.83%
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%



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.



(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.

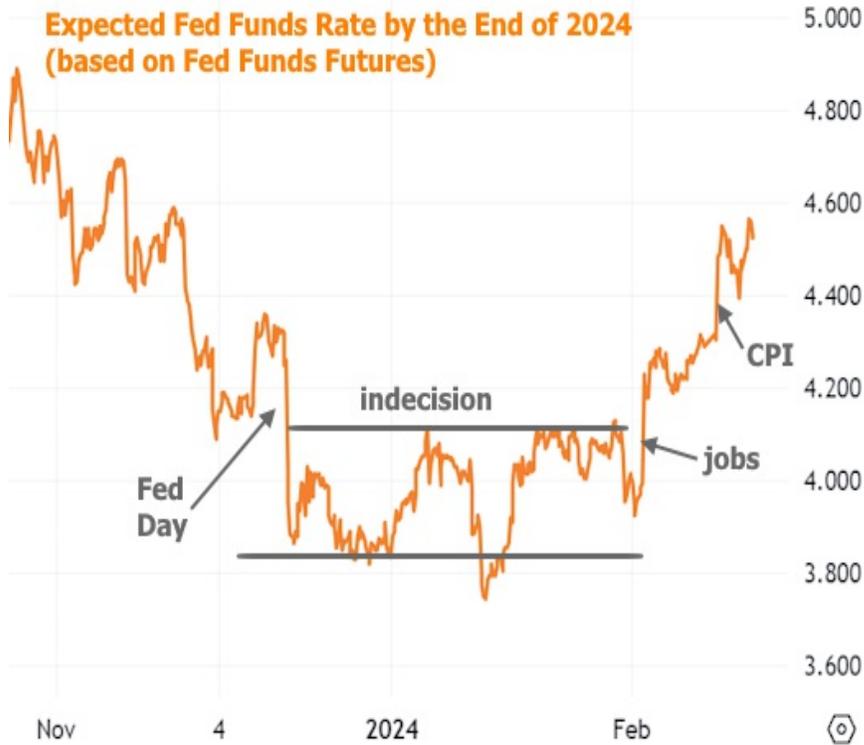


If PPI is guilty of anything, it's the crime of contributing to a delay in a rate reckoning. Part of the reason the market was willing to recover a good portion of the post-CPI losses was the notion that it could end up being an outlier--a small splash in a sea of data that generally confirmed inflation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

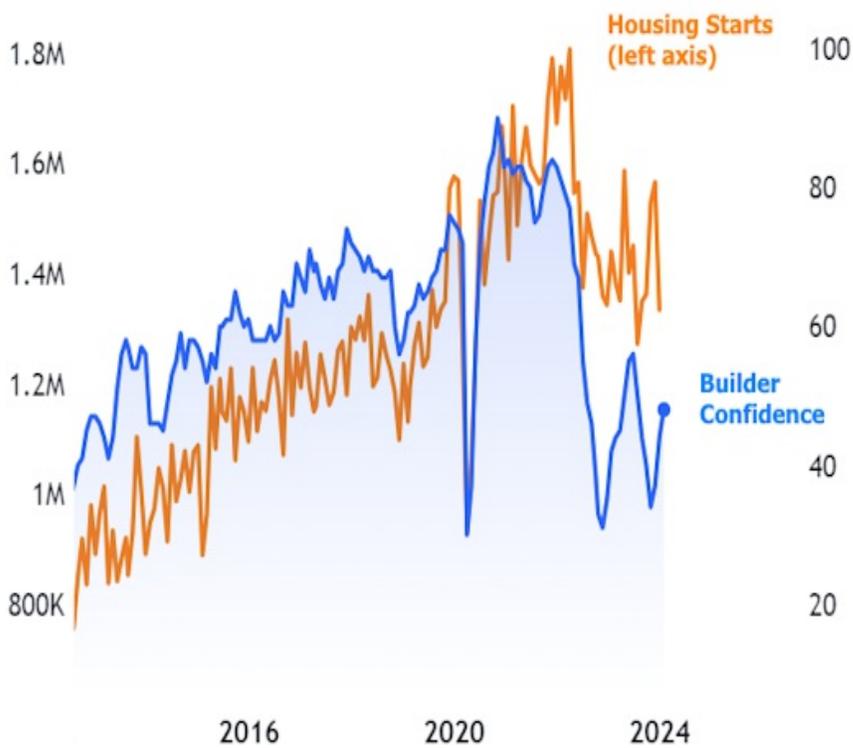
With both reports on the same page, market participants have to wonder if inflation is truly on the right path. Many Fed officials have reminded us not to focus too much on one bad month of inflation data, but that's not exactly the point. The point is that IF this week's CPI and PPI had been slightly 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.



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.



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

National Association of Realtors - New Rules & Open Houses

New rules stemming from the National Association of Realtors' commission lawsuit settlement went into effect Saturday following years of litigation, potentially upending the industry, including how agents get paid.

This week, I have been hearing from agents, brokers, MLS executives, portals and other insiders as the rules roll out.

COMMISSION QUESTIONS: In the wake of NAR's new settlement rules, many buyer's agents are suddenly confronting a new question: What commission should they ask for in their buyers' broker representation agreements?

Here are a few responses found in a real estate master-mind group:

"I'm asking the buyer to pay my rate but advising them the seller may be offering something towards that," one agent responded. "If that's the case they only have to pay what's left."

"Sit down with your buyer and a trusted loan officer" another suggested. "Have the loan officer complete the various costs including your compensation and without any compensation (seller contributes). Once the buyer sees how much they have to come up with, they can make a decision. Then you make yours."

Some commenters also said that their brokers are making recommendations.

"This thread is illegal," one commenter argued, echoing a number of other remarks. "It is price fixing and the whole reason the U.S. Department of Justice got involved. Commission/Concessions should only be discussed between the agent and his/her client, never among agents."

The debate highlights the fact that many practical issues stemming from the settlement are yet to be worked out — and that additional litigation is top of mind for many real estate professionals,

OPEN HOUSE, OPEN QUESTION: Among the real estate professionals watching how the settlement changes unfolded this weekend was Randy Bell of Life Realty – The District in Henderson, NV who told me that "Buyers appear to be leery about signing short-term agreements and may favor open houses over individual tours until they're at ease with the rule." He went on to state "It'll be very interesting to see whether open house traffic increases, which I expect it will once buyers understand they don't have the same friction with agreements by going directly to open houses,"

One stat I'm going to be looking at is the number of open houses relative to active listings. I'll have numbers for you in the weeks to come. ...More to follow in future Newsletters.

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