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## Sharply Lower Inflation Brings Fed Rate Cuts Into Focus

There was a lot riding on this week's economic data and it delivered in a big way. The Consumer Price Index (CPI) has had the biggest influence on interest rates of any of the scheduled monthly economic reports, and for good reason. It is one of the two biggest and most detailed inflation reports on any given month, and it comes out about 2 weeks before the other one.

That's incredibly important at this moment in economic history which has seen the first major battle against hyperinflation in more than 40 years. CPI had been an inconsequential report in the decade leading up to the post-pandemic inflation explosion, but ever since then, it's a bellwether for a potential shift.

Winds of change have seemingly picked up speed a few times over the past year, but the first few months of 2024 brought the most recent reality check. In other words, inflation looked to be dropping in late 2023, but then bounced noticeably in early 2024. It's only been in the last few months that the data has grown more favorable and really since the CPI report in early June that the market could begin to ask the question: is inflation finally turning a corner?

With that in mind, this week's CPI report was in a unique position to speak to the corner turning question. The answer ended up being great for rates.

CPI is a complex report, but the most important line item is "Core" CPI which excludes more volatile food and energy prices. The Federal Reserve targets a core inflation rate of 2% in year over year terms (or 0.168% in month over month terms). That's one more reason the early June report was exciting: monthly core CPI hit 0.163.

How'd we do this time around? Was 0.163 a fluke or a sign of a shift? While we can't know what the next report will look like, at 0.065, we can definitely say it's moving in the right direction.

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
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

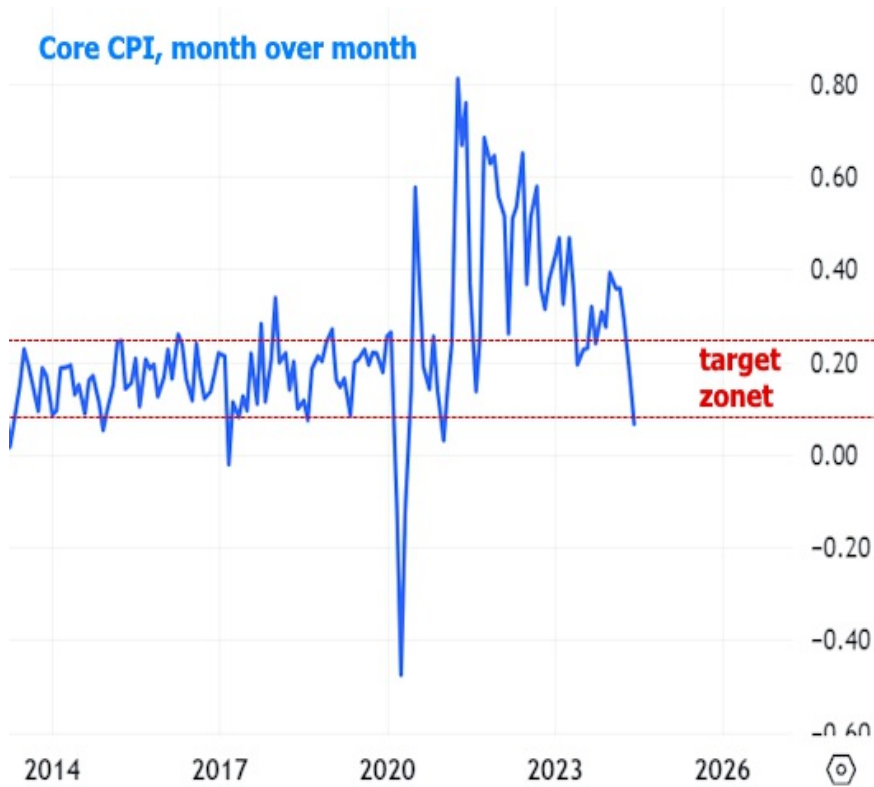
## Market Data

	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

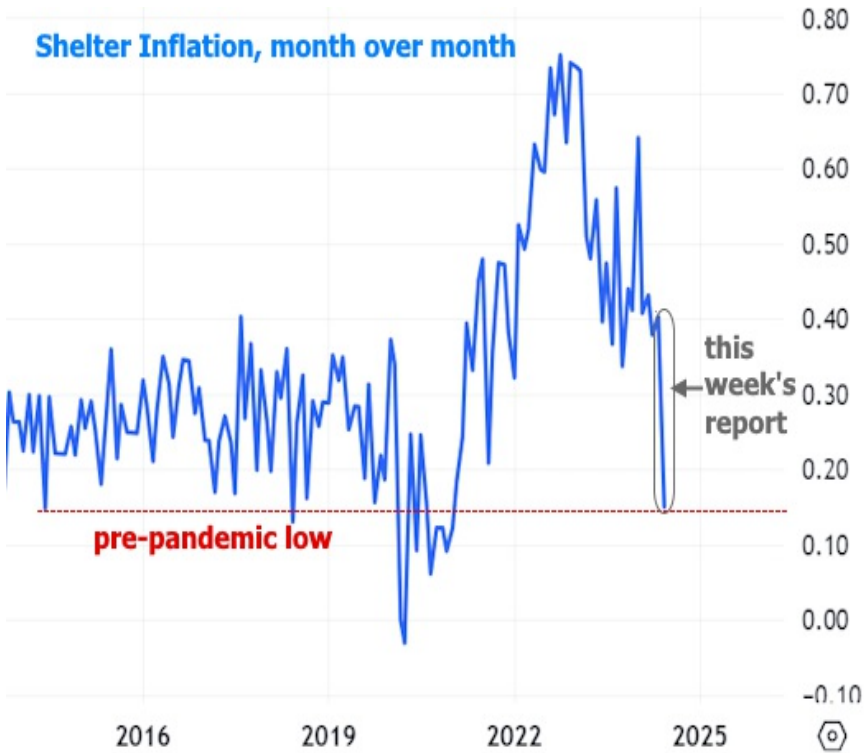
## Recent Housing Data

		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%



As the chart suggests, we can also say that monthly core inflation is not only the lowest it's been since topping out in 2021, but it's also in line with the lowest levels seen in more than a decade, initial covid lockdown months notwithstanding.

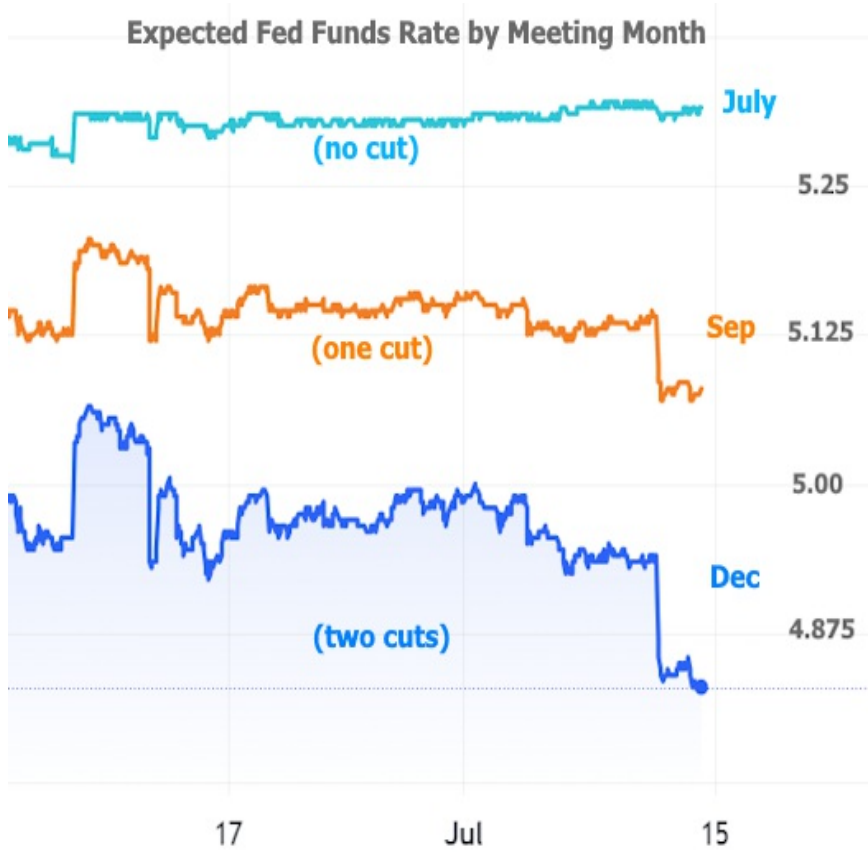
One of the persistent "yeah buts" that has held investors back from believing in the sustainability of low inflation readings has been elevated housing inflation. CPI measures this under the "shelter" category, which had fizzled sideways at levels that were too high for the Fed's liking for months and months. This week's data not only marked the first big break below that "fizzle" range, but it also showed shelter inflation back at the lower end of the pre-pandemic range. Even if it drops no further from here, this is fertile soil for Fed rate cuts.



So why isn't the Fed cutting already? Part of the reason is that they want to be absolutely sure inflation is going to go all the way back to 2%. Again, that's an annual target, and while the last two CPIs imply a much lower annual number, the last 12 CPIs are definitely not quite there yet.



To be fair, the Fed won't wait until this line actually hits 2%. They just want to see one of two things: either another CPI report like this week's, or some weakness elsewhere in the economy that threatens the labor market and cools wage growth. The market is already re-ramping rate cut bets for 2024, with the first seen in September and the 2nd in December.



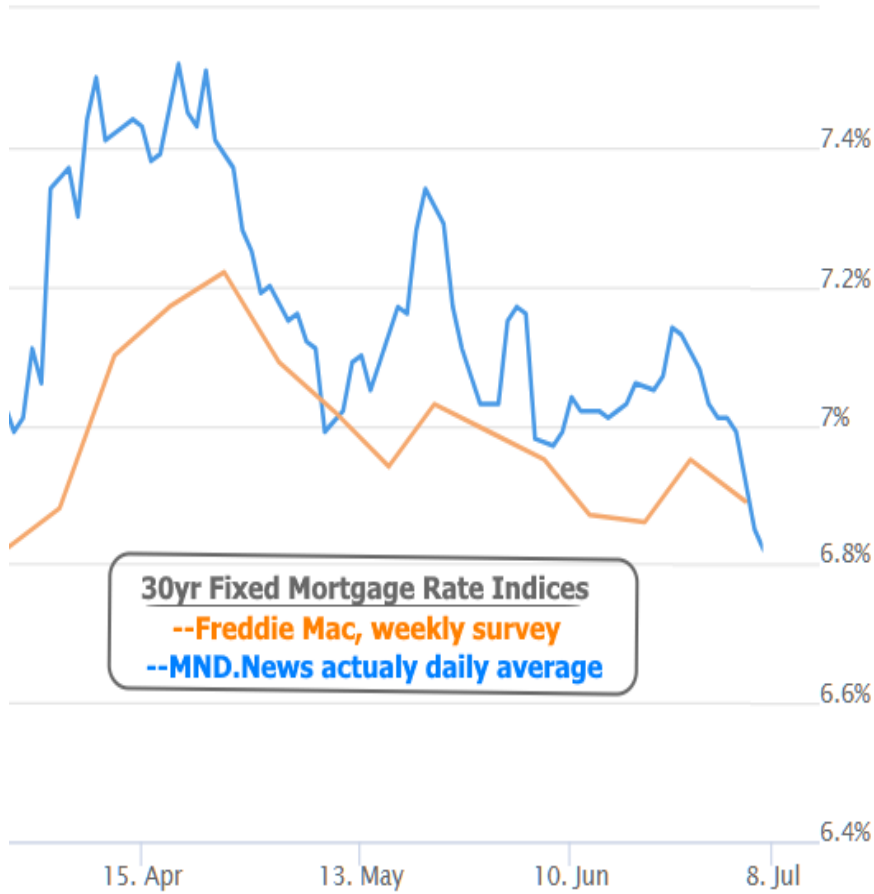
As for the more tangible reaction for consumer rates in the short term, CPI's impact is easily seen in terms of 10yr Treasury yields.



In the bigger picture, this victory actually goes a long way toward reinforcing the existing trend leading toward gradually lower rates. The CPI-driven drop helped yields make a new low--one of the things needed to establish and maintain such trends.



Mortgage rates benefited as well. Weekly survey numbers have yet to capture the impact, largely because CPI day is not part of the survey methodology. But the shift is easy to see in daily rate tracking.



The next week and a half will be relatively less exciting in terms of scheduled economic data. The key exception would be the Retail Sales report on Tuesday. Otherwise, the next big ticket doesn't arrive until Friday, July 26th. At that point, the stakes will be getting high yet again with the following weeks bringing a Fed announcement, the jobs report, and ultimately, the next CPI report.

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**Recent Economic Data**

Date	Event	Actual	Forecast	Prior
<b>Monday, Jul 08</b>				
11:00AM	Jun Consumer Inflation Expectations	3%		3.2%
3:00PM	May Consumer credit (bl)	\$11.35B	\$10B	\$6.4B
<b>Tuesday, Jul 09</b>				
6:00AM	Jun NFIB Business Optimism Index	91.5	89.5	90.5
<b>Wednesday, Jul 10</b>				
7:00AM	Jul/05 MBA Purchase Index	144.3		142.9
7:00AM	Jul/05 MBA Refi Index	532.3		544.1
<b>Thursday, Jul 11</b>				
8:30AM	Jun m/m CORE CPI (%)	0.1%	0.2%	0.2%

**Event Importance:**

- No Stars = Insignificant
- ☆ Low
- ★ Moderate
- ★★ Important
- ★★★ Very Important

Date	Event	Actual	Forecast	Prior
8:30AM	Jun y/y CORE CPI (%)	3.3%	3.4%	3.4%
<b>Friday, Jul 12</b>				
8:30AM	Jun Core Producer Prices MM (%)	0.4%	0.2%	0%
8:30AM	Jun Core Producer Prices YY (%)	3%	2.5%	2.3%
10:00AM	Jul Consumer Sentiment (ip)	66.0	68.5	68.2
10:00AM	Jul Sentiment: 1y Inflation (%)	2.9%	2.9%	3%
10:00AM	Jul Sentiment: 5y Inflation (%)	2.9%	3%	3%
<b>Monday, Jul 15</b>				
8:30AM	Jul NY Fed Manufacturing	-6.60	-6	-6.00
<b>Tuesday, Jul 16</b>				
8:30AM	Jun Retail Sales (%)	0%	0%	0.1%
8:30AM	Jun Import prices mm (%)	0%	0.2%	-0.4%
10:00AM	Jul NAHB housing market indx	42	44	43
<b>Wednesday, Jul 17</b>				
8:30AM	Jun Housing starts number mm (ml)	1.353M	1.30M	1.277M
8:30AM	Jun Building permits: number (ml)	1.446M	1.40M	1.399M
9:15AM	Jun Industrial Production (%)	0.6%	0.3%	0.7%
<b>Thursday, Jul 18</b>				
8:30AM	Jul/13 Jobless Claims (k)	243K	230K	222K
8:30AM	Jul Philly Fed Business Index	13.9	2.9	1.3

## 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.

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

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