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Mortgage Rates Near 23 Year Highs. Is There Any Hope?

Interest rates of all types have been under immense pressure since the beginning of 2022. That's when the Fed began raising rates at the fastest pace in decades to the highest levels in decades in order to combat a similarly fast-paced spike in inflation.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	0.00
Freddie Mac			
30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00

Rates as of: 5/17

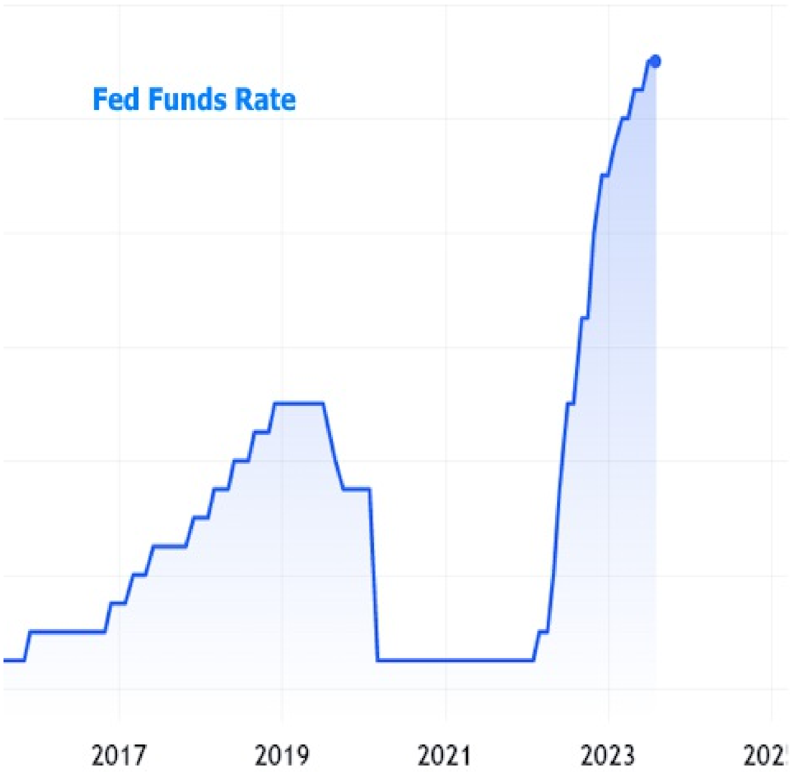
Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.40	-0.15
MBS GNMA 6.0	100.78	+0.04
10 YR Treasury	4.4223	+0.0454
30 YR Treasury	4.5610	+0.0549

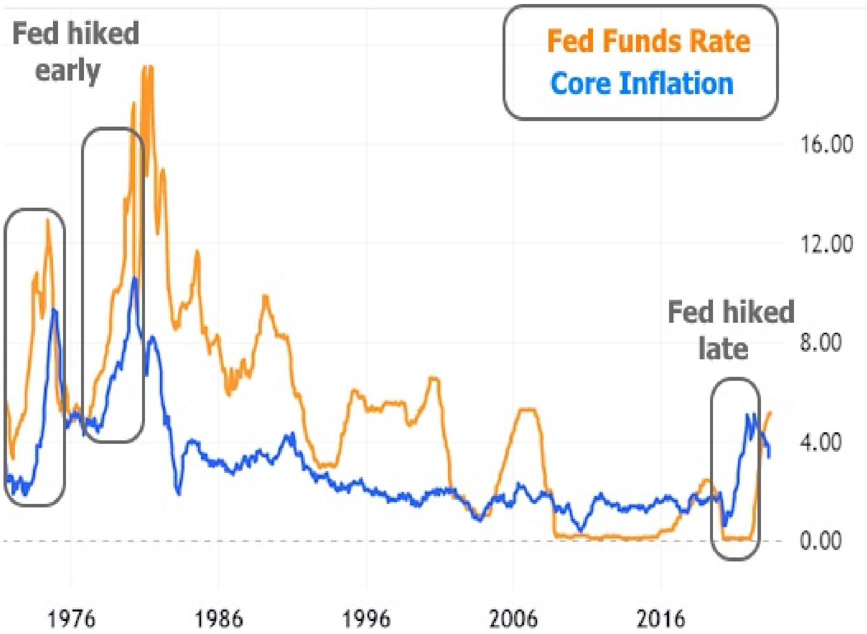
Pricing as of: 5/17 5:59PM EST

Recent Housing Data

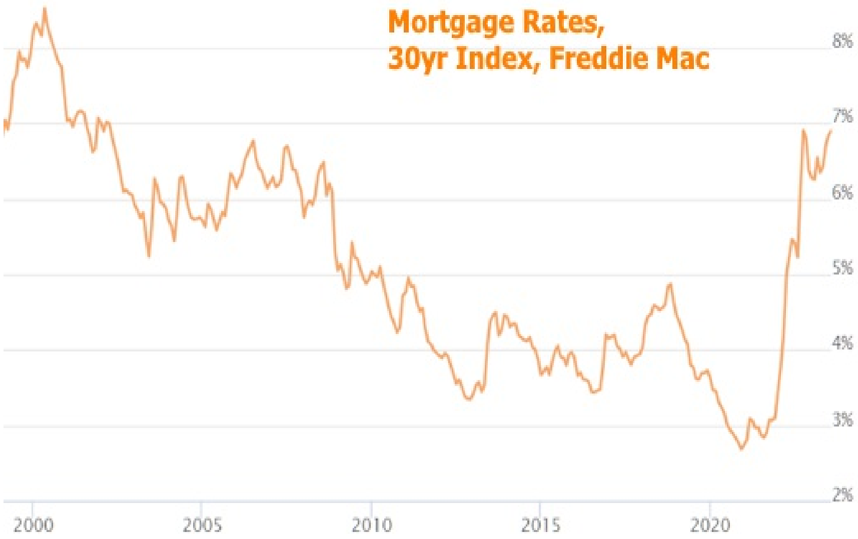
		Value	Change
Mortgage Apps	May 15	198.1	+0.51%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



This particular era of Fed rate hikes is particularly aggressive because the Fed got a late start in responding to price pressures. They argued that policies needed to remain accommodative for longer due to economic uncertainties surrounding covid. This is in stark contrast to the only comparable hyperinflation episodes starting in the late 70s. In the chart below, notice the orange line (Fed Funds Rate) moving higher sooner and bigger than inflation. The opposite is true of the present rate hike campaign.



The Fed Funds Rate doesn't directly dictate mortgage rates, but in general, tighter Fed policies put upward pressure on rates across the board. Mortgages are not immune.



As rates have risen, there have been several instances of relief and hope. These have occurred in part due to legitimate shifts in the data that suggested the worst might be over and in part due to the belief that things had moved too far, too fast to be sustained. In July and November 2022, it was economic data that helped. In March 2023, it was the bank failures. Each attempt has been thwarted with the most recent being the most gradual. It also represents the best example of the rate market coming to terms with a "higher for longer" reality that it didn't want to believe during the last two recovery attempts.

The net effect is that rates have been near their highest levels in 23 years for the longest stretch of time since the average 30yr fixed rate first crested 7% in November. NOTE: not every rate index is over 7%, but the following index accounts for upfront "points" that make other indices slightly lower. As always, the best way to use a mortgage rate index is to observe changes in relative terms. Actual rate quotes can vary widely for a wide variety of reasons.

Is there any hope for relief? There's always hope. The only question is one of timing. Timing will depend on economic data and inflation, among other things. Markets got a glimpse of just that sort of relief on Friday following the big jobs report from the Labor Department. It was still very strong in a historical context, but not quite as strong as economists had predicted.

Up until then, rates were in a bit of a panic this week due to a confluence of other data and events. Wednesday was saw the biggest jump after the ADP employment data and an announcement regarding the government's anticipated borrowing needs (via Treasuries).

U.S. Treasuries are at the core of the rate market. When investors become less interested in buying them or when the government becomes more interested in selling them, rates rise. The ADP data hit the demand side of the equation and the Treasury announcement hit the supply side. We can see how things played out in the following chart of 10yr Treasury yields as well as the much-needed response to Friday's more important jobs report.

Despite Friday's recovery, current rate levels are still uncomfortably close to long-term highs. It merely served to show us how "hope" can work. In order to see more of it, we'll need more data to make similar suggestions.

So what's the next big economic report to watch? Easy! The Consumer Price Index (CPI) on Thursday, August 10th. CPI is the only other piece of scheduled monthly economic data that could compete with the jobs report over the past 2 years when it comes to impact on rates. The last CPI report was good for rates, but the market needs to see a pattern that's repeated for several consecutive months. If inflation is lower than expected this time around, it would be a solid step in that direction, one that likely allows rates to continue to moderate after this week's push toward long-term highs.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jul 31				
9:45AM	Jul Chicago PMI			41.5
Tuesday, Aug 01				
10:00AM	Jul ISM Mfg Prices Paid			
10:00AM	Jul ISM Manufacturing PMI			
10:00AM	Jun USA JOLTS Job Openings			
Wednesday, Aug 02				
7:00AM	Jul/28 MBA Purchase Index	154.1		159.2
7:00AM	Jul/28 MBA Refi Index	433.6		444.5
8:15AM	Jul ADP jobs (k)	324K	189K	455K
Thursday, Aug 03				
7:30AM	Jul Challenger layoffs (k)			

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	Jul/29 Jobless Claims (k)	227K	227K	221K
8:30AM	Q2 Labor Costs Revised (%)			4.2%
9:45AM	Jul S&P Global Composite PMI			
10:00AM	Jul ISM N-Mfg PMI			53.9
10:00AM	Jun Factory orders mm (%)			
Friday, Aug 04				
8:30AM	Jul Average earnings mm (%)			
8:30AM	Jul Unemployment rate mm (%)			3.6%
8:30AM	Jul Non Farm Payrolls			
Tuesday, Aug 08				
10:00AM	Jun Wholesale inventories mm (%)	-0.5%	-0.3%	-0.4%
1:00PM	3-Yr Note Auction (bl)	42		
Wednesday, Aug 09				
7:00AM	Aug/04 MBA Refi Index	416.1		433.6
7:00AM	Aug/04 MBA Purchase Index	149.9		154.1
1:00PM	10-Year Note Auction	3.999%		3.857%
Thursday, Aug 10				
8:30AM	Aug/05 Jobless Claims (k)	248K	230K	227K
8:30AM	Jul m/m CORE CPI (%)	0.2%	0.2%	0.2%
8:30AM	Jul y/y CORE CPI (%)	4.7%	4.8%	4.8%
8:30AM	Jul m/m Headline CPI (%)	0.2%	0.2%	0.2%
8:30AM	Jul y/y Headline CPI (%)	3.2%	3.3%	3%
Friday, Aug 11				
8:30AM	Jul Producer Prices (%)	0.3%	0.2%	0%
10:00AM	Aug Consumer Sentiment (ip)	71.2	71	71.6
Thursday, Oct 12				
1:00PM	30-Yr Bond Auction (bl)	20		

Listen, Analyze, Solve

David started in the mortgage industry in 2001 and has kept the same philosophy from day one: "Keep the client's best interest at the forefront of every transaction." What works for one client will not necessarily work for the next. David first listens, then evaluates and finally researches options making sure all possibilities have been considered. Once the proper path is determined, David works to make the process as quick and painless as possible, providing excellent service and communicating every step along the way.

David Hanks