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# What Are Rates and Housing Worried About?

In the past 2 weeks, there's been big news about inflation and seemingly big news about Fed policy. Both are threats to low interest rates, but not just yet, apparently.

After taking last week's huge inflation numbers in stride (read more...), the bond market moved on to focus on Fed policy this week.

The Federal Reserve (aka, the Fed) is often a source of **confusion** for consumers when it comes to mortgage rates. The evening news says things like "the Fed kept rates unchanged," and people assume it has something to do with mortgage rates.

The Fed Funds Rate (the thing the Fed actually decides to hike, cut, or hold steady) has almost nothing to do with the mortgage market. Mortgage rates are infinitely more concerned with the Fed's **bond buying** policies.

Movement in the bond market is the **foundation** of day-to-day mortgage rate changes. Bonds can move for a variety of reasons, but the most reliable and most basic reason is "supply and demand." By acting as a massive buyer of bonds (including the bonds that directly underlie mortgages), the Fed increases demand relative to supply. Higher demand means higher bond prices, and higher bond prices equate to lower rates, all other things being equal.

In other words, Fed bond buying = lower rates, and they've been buying more than anyone for a long time. Ideally, the Fed won't need to do this forever, but **change is scary** when it refers to the Fed withdrawing support.

It was this sort of change that sparked the **taper tantrum** in 2013, which accounted for some of the most abrupt rate spikes in decades. Markets are understandably cautious about a repeat performance, and market participants **thought** they saw hints about tapering in Wednesday's Fed meeting minutes (a more detailed account of the meeting that took place 3 weeks ago).

But those comments were **nothing** like the discussion surrounding tapering in 2013. Back then, **multiple** Fed members were in agreement, and Bernanke (the Fed Chair at the time) was already on record discussing the conditions for tapering in specific terms.

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.27% | **0.00** | 0.00 |
| 15YR Fixed | 6.92% | **0.00** | 0.00 |
| 30YR FHA | 6.91% | **+0.01** | 0.00 |
| 30YR Jumbo | 7.52% | **-0.03** | 0.00 |
| 7/6 SOFR | 6.70% | **-0.08** | 0.00 |
| 30YR VA | 6.92% | **+0.01** | 0.00 |

Rates as of: 11/2

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.79 | **-0.02** |
| 10 YR Treasury | 4.9259 | **-0.0040** |
| 30 YR Treasury | 5.2895 | **-0.0187** |

Pricing as of: 11/2 5:59PM EST

## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Oct 21 | 195 | +3.39% |
| Building Permits | Sep | 1.4M | +0.43% |
| Housing Starts | Sep | 1.22M | -4.24% |
| New Home Sales | Sep | 676K | -1.17% |
| Pending Home Sales | Aug | 71.2 | 0% |
| Existing Home Sales | Oct | 3.99M | +0.25% |
| Builder Confidence | Oct | 29 | -9.38% |

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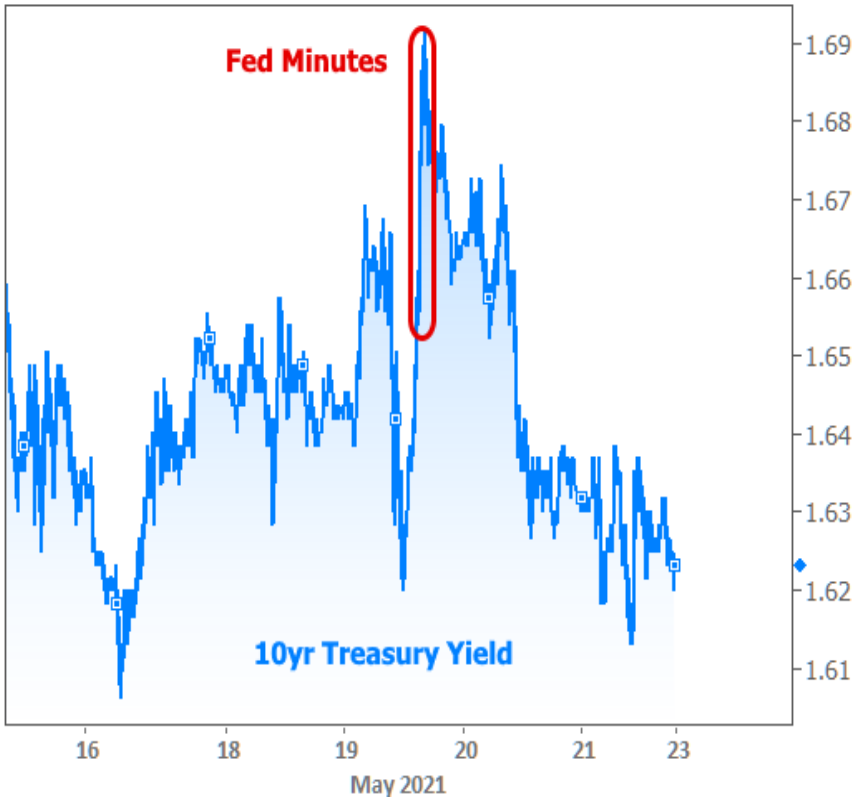
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This time around, the comments relating to tapering simply reiterated those from various Fed speeches in recent weeks. Not only is the Fed far from unanimous on this front, there's also a lot more uncertainty about when they'll pull the trigger.

Even then, to say the comments were highly conditional would be an **understatement**. See for yourself:

> "A number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases."

**Translation:** the Fed isn't even talking about tapering yet. There are just 4 Fed members who agree they **should** talk about it **in the future if** certain things happen. Pretty logical, actually... The market reaction ended up being logical as well: spooked at first, but quickly calming down.



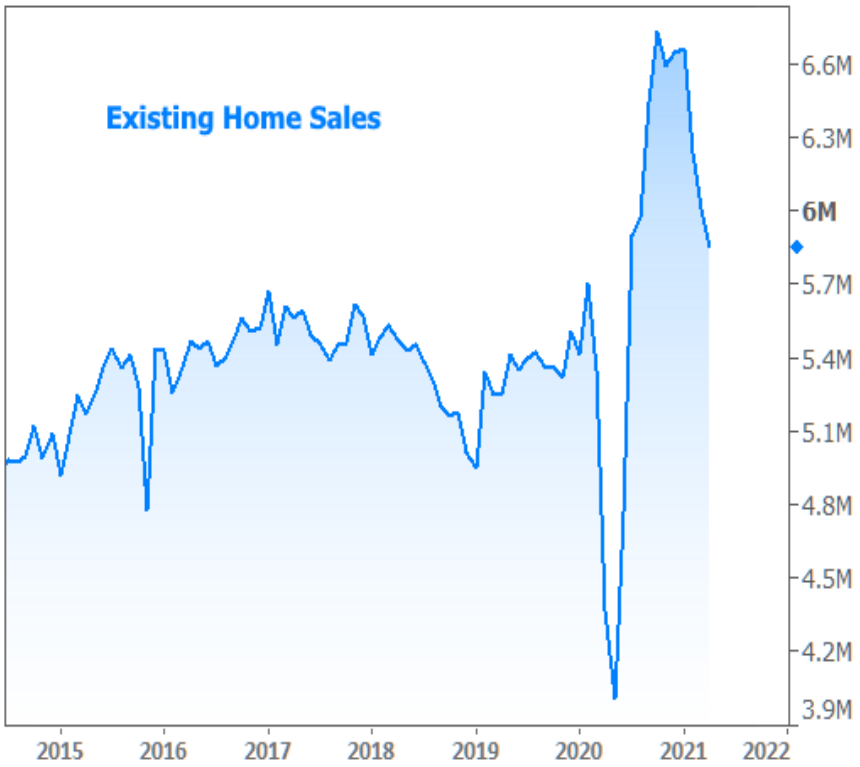

The Fed will need to see **several** months of strong economic data before any robust discussion of tapering. Even then, the pain of the taper tantrum in 2013 means that traders have been gradually getting in position for this discussion for many months. When the time comes, there will be much less to freak out about--at least as far as Fed bond buying is concerned.

In this week's economic data, Existing Homes Sales moved lower yet again.

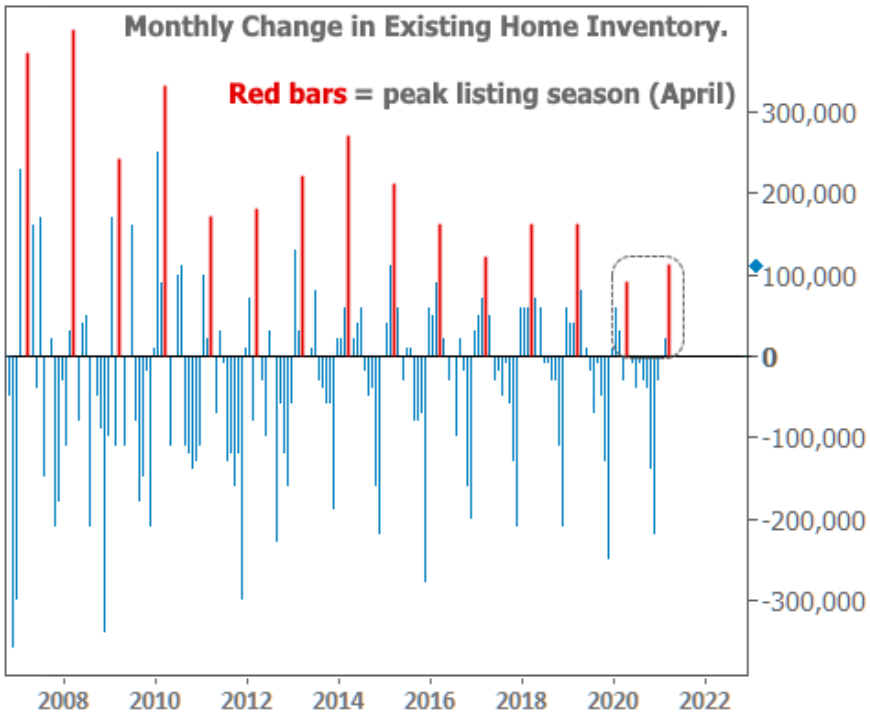
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How is it that sales keep declining when we're hearing so much about a veritable buying frenzy in many local real estate markets? The explanation has been and continues to be one of **inventory!** The following chart shows the monthly change in existing home inventory. It's a very seasonal thing, and it always peaks with April's numbers (reported near the end of May). Each red bar is April. With this week's report, the past 2 Aprils now stand as the lowest gainers for housing inventory in decades.

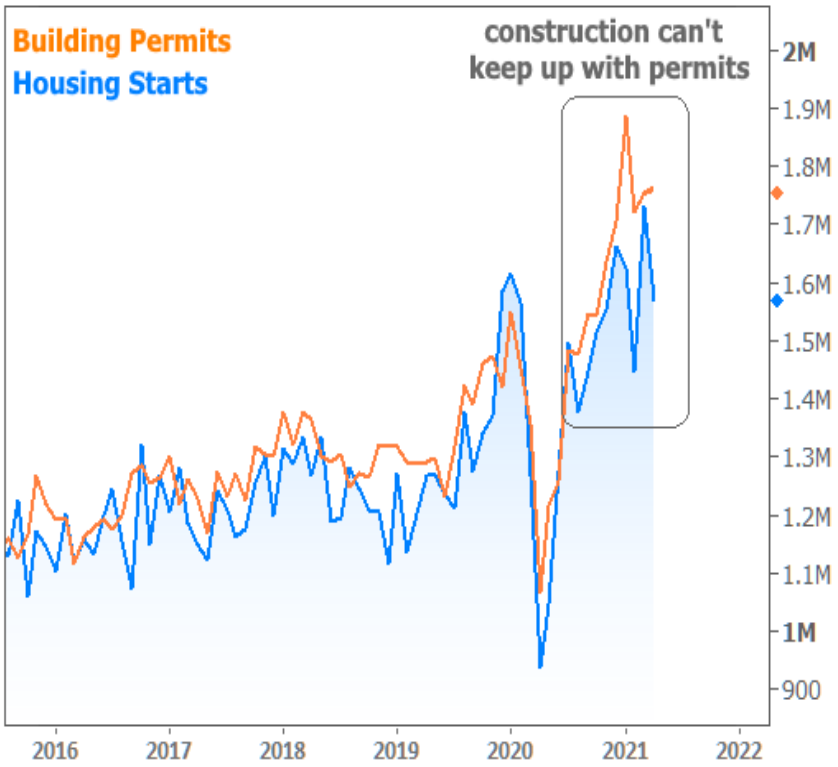



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But that's for **existing** homes. How about **new** homes? Well... builders are building as fast as they can. Supply chain disruptions, land availability, labor force issues, and price pressures are causing delays. Construction simply can't keep up with building permits.




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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Monday, May 17** | | | | |
| 8:30AM | May NY Fed Manufacturing | 24.3 | 23.90 | 26.30 |
| 10:00AM | May NAHB housing market indx | 83 | 83 | 83 |
| **Tuesday, May 18** | | | | |
| 8:30AM | Apr House starts mm: change (%) | -9.5 | | 19.4 |
| 8:30AM | Apr Build permits: change mm (%) | 0.3 | | 2.3 |
| 8:30AM | Apr Housing starts number mm (ml) | 1.569 | 1.710 | 1.739 |
| 8:30AM | Apr Building permits: number (ml) | 1.760 | 1.770 | 1.759 |
| **Wednesday, May 19** | | | | |
| 7:00AM | w/e MBA Purchase Index | 265.3 | | 276.7 |
| 7:00AM | w/e MBA Refi Index | 3413.3 | | 3281.0 |
| **Thursday, May 20** | | | | |
| 8:30AM | May Philly Fed Business Index | 31.5 | 43.0 | 50.2 |
| 8:30AM | w/e Jobless Claims (k) | 444 | 425 | 473 |
| 10:00AM | Apr Leading index chg mm (%) | 1.6 | 1.4 | 1.3 |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Friday, May 21** | | | | |
| 9:45AM | May PMI-Services (Markit) | 70.1 | 64.5 | 64.7 |
| 9:45AM | May PMI-Manufacturing (Markit) | 61.5 | 60.2 | 60.5 |
| 10:00AM | Apr Exist. home sales % chg (%) | -2.7 | 2.0 | -3.7 |
| 10:00AM | Apr Existing home sales (ml) | 5.85 | 6.09 | 6.01 |
| **Tuesday, May 25** | | | | |
| 9:00AM | Mar CaseShiller 20 yy (%) | 13.3 | 12.3 | 11.9 |
| 9:00AM | Mar Monthly Home Price yy (%) | 13.9 | | 12.2 |
| 9:00AM | Mar Monthly Home Price mm (%) | 1.4 | | 0.9 |
| 9:00AM | Mar CaseShiller 20 mm SA (%) | 1.6 | 1.2 | 1.2 |
| 10:00AM | Apr New Home Sales (ml) | 0.863 | 0.970 | 1.021 |
| 10:00AM | May Consumer confidence | 117.2 | 119.2 | 121.7 |
| 10:00AM | Apr New Home Sales (%) (%) | -5.9 | 12.8 | 20.7 |
| **Wednesday, May 26** | | | | |
| 7:00AM | w/e MBA Purchase Index | 269.8 | | 265.3 |
| 7:00AM | w/e MBA Refi Index | 3168.8 | | 3413.3 |
| 1:00PM | 5-Yr Note Auction (bl) | 61 | | |
| **Thursday, May 27** | | | | |
| 8:30AM | Q1 GDP Prelim (%) | 6.4 | 6.5 | 6.4 |
| 8:30AM | Apr Durable goods (%) | -1.3 | 0.7 | 0.8 |
| 8:30AM | Apr Core CapEx (%) | 2.3 | 0.8 | 1.2 |
| 10:00AM | Apr Pending Sales Index | 106.2 | | 111.3 |
| 10:00AM | Apr Pending Home Sales (%) | -4.4 | 0.8 | 1.9 |
| 1:00PM | 7-Yr Note Auction (bl) | 62 | | |
| **Friday, May 28** | | | | |
| 8:30AM | Apr Core PCE Inflation (y/y) (%) | 3.1 | 2.9 | 1.8 |
| 9:45AM | May Chicago PMI | 75.2 | 68.0 | 72.1 |
| 10:00AM | May Sentiment: 5y Inflation (%) | 3.0 | | 3.1 |
| 10:00AM | May Sentiment: 1y Inflation (%) | 4.6 | | 4.6 |
| 10:00AM | May Consumer Sentiment (ip) | 82.9 | 82.9 | 82.8 |
| **Wednesday, Jul 07** | | | | |
| 2:00PM | FOMC Minutes | | | |
| **Wednesday, Jul 21** | | | | |
| 1:00PM | 20yr Treasury Auction | | | |

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## 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.

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