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Rates Are Jumping Faster Than Most People Know

Welcome to February 2023, where we've seen the first really serious leap higher in rates since October.

At the beginning of the month, the average 30yr fixed rate was around 6%. Now it's closer to 7%. That's not a typo, but it may be a surprise considering the widespread media coverage of the Freddie Mac weekly rate survey, which reported a modest jump from 6.12 to 6.32 this week.

Freddie isn't wrong, but the data is now stale. Due to its methodology, Freddie's survey is essentially a measure of this past Monday's rates versus the previous Monday, but not reported until Thursday. Thus, any additional movement throughout the week goes unreported until the following week.

In addition to being stale, the survey rate includes a certain amount of additional upfront closing costs (aka "points"). Understandably, it's easy for those costs to get lost in the shuffle if we're reading headlines like "mortgage rates rise to 6.32% this week."

By the time we account for the additional upfront costs and the remaining days of the week (all of which saw additional increases in rates), the average lender is actually closer to 6.8% for a conventional 30yr fixed according to MND.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.86%	-0.05	0.00
15 Yr. Fixed	6.31%	-0.02	0.00
30 Yr. FHA	6.32%	-0.06	0.00
30 Yr. Jumbo	7.04%	-0.03	0.00
5/1 ARM	6.53%	-0.02	0.00
Freddie Mac			
30 Yr. Fixed	6.78%	-0.08	0.00
15 Yr. Fixed	6.07%	-0.09	0.00

Rates as of: 7/26

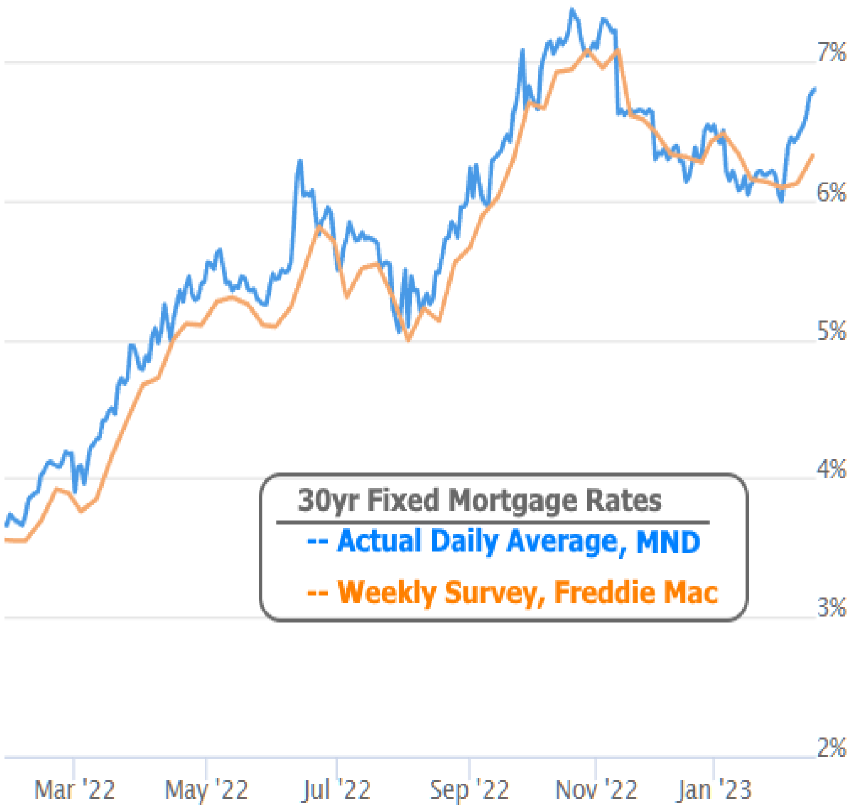
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.68	+0.27
MBS GNMA 5.5	99.98	+0.13
10 YR Treasury	4.1958	-0.0474
30 YR Treasury	4.4523	-0.0305

Pricing as of: 7/26 5:59PM EST

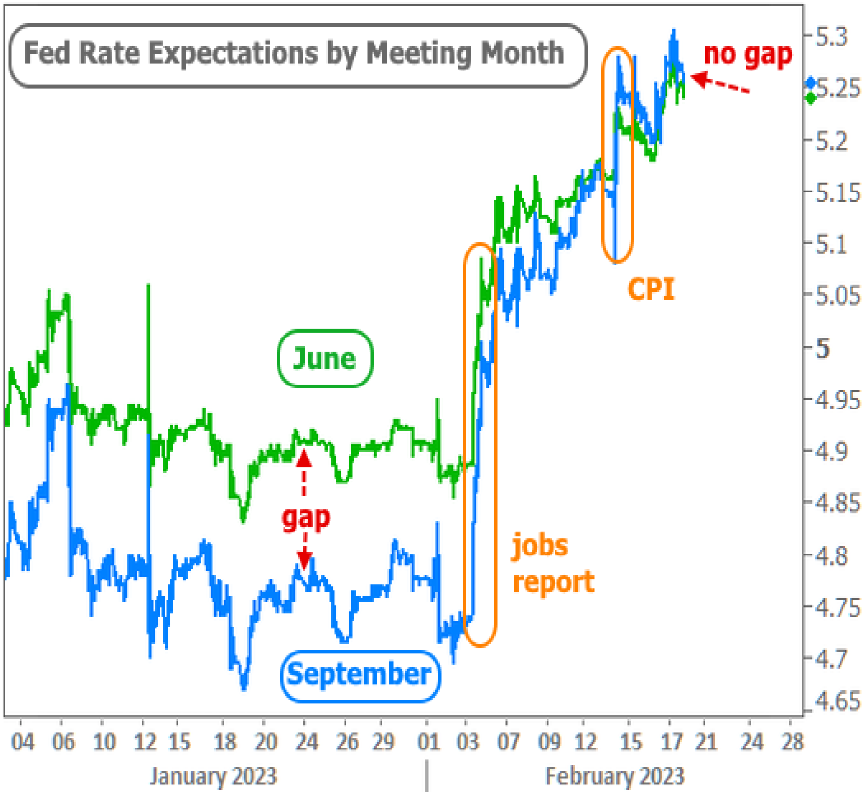
Recent Housing Data

		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%

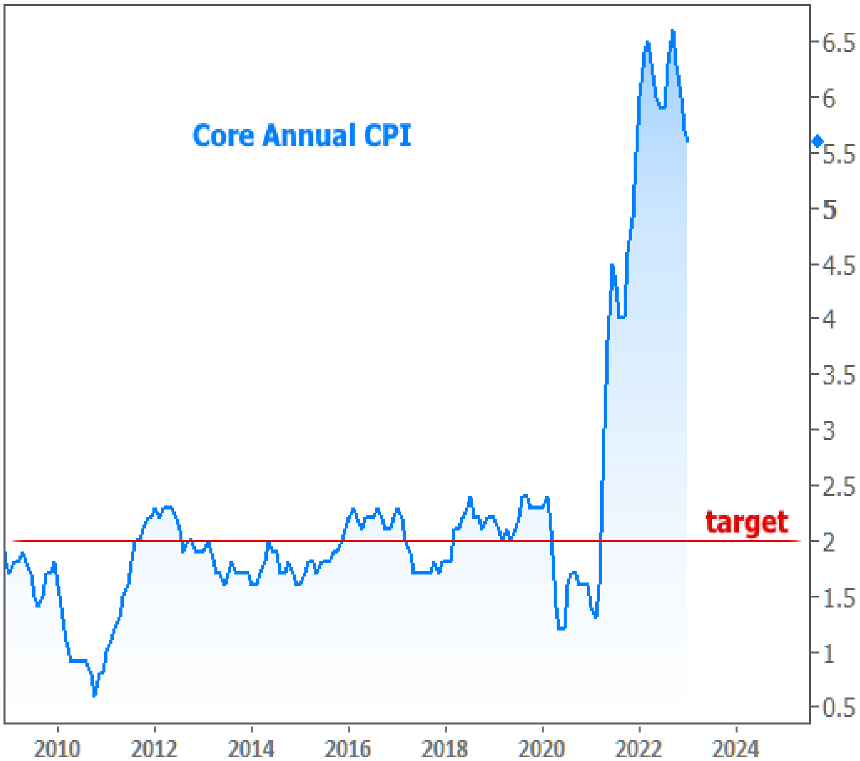


February's abrupt rate spike has been driven by economic data. It began with the jobs report on February 3rd but continued with this week's Consumer Price Index (CPI), the most impactful inflation report. Financial markets see this data having an impact on the Fed's rate hike outlook.

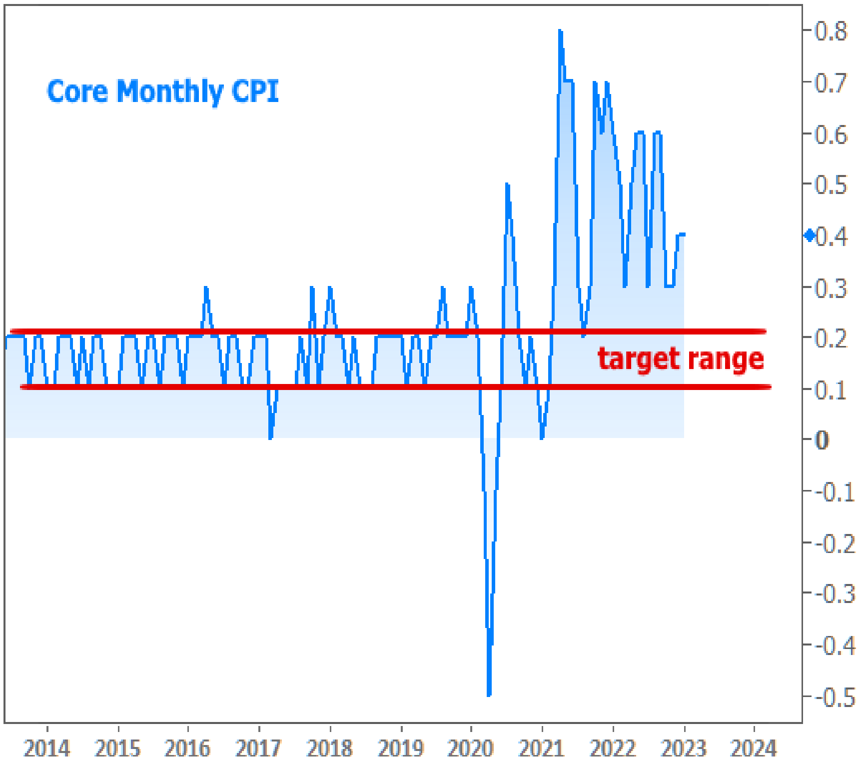
Whereas the Fed was previously seen cutting rates as early as September, markets now expect the Fed to keep rates high through the end of the year. The Fed Funds Rate doesn't directly dictate mortgage rates, but changes in the market's outlook for the Fed's rate tend to line up with mortgage rate momentum quite well. The following chart shows the September rate outlook rising in line with June's rate outlook whereas traders had seen September's rate being lower until early February.



Let's take a closer look at this week's key contributor to the upward pressure: CPI. The Fed would prefer the annual pace of inflation per CPI to be 2% at the "core" level (market jargon for an inflation number that excludes the more volatile food and energy prices). Core CPI is definitely not anywhere close to 2%.



OK, but it's falling, right? And if it continues to fall, perhaps we can foresee a return to 2% in the future. Markets understand it will take time for annual numbers to fall. That's why monthly numbers are more important these days. Unfortunately, the monthly numbers remained elevated in this week's data.



The chart above shows some promise with monthly CPI certainly not as high as it had been. On the other hand, it ticked higher from last month and has yet to move below 0.3% for well over a year. Some simple math tells us a monthly reading of 0.3% would put annual inflation at 3.6%, which is still way too high for the Fed to consider cutting rates. If core CPI were to be operating in the 0.1-0.2 range for several months, mortgage rates would have a much easier time calming down and moving back into the 5% range.

Away from the inflation front, other economic data continues sending mixed signals. The second biggest report of the week ended up working against us. Retail Sales had been in negative territory for a few months, but surged up to +3.0% in January (reported this week).

The following day, a less consequential (but still important) report on inflation at the wholesale level--the Producer Price Index (PPI) painted a similar picture. Core PPI rose to 0.5% from 0.3% last month, far exceeding analyst expectations.

While inflation may indeed fall into line in the coming months, and while economic data may increasingly show the restrictive effects of higher interest rates, until those changes are more apparent in the data, rates will have a hard time moving too much lower.

The Fed's approach to its rate-setting policy is also an important ingredient in the outlook. Several Fed members speculated that the pace of rate hikes could increase back to 0.50% per Fed meeting. That would be significant as the Fed just downshifted to 0.25% hikes at the last meeting and had been fairly unified in communicating that 0.25% would be the appropriate pace going forward.

We'll hear a bit more from the Fed next week, but the catch is that it will be a historical account of the meeting that took place on February 1st. Markets will be interested to see how much debate there had been about downshifting to 0.25%. Traders will also tune in to various Fed speeches throughout the week to see if the next meeting is at risk of seeing a bigger rate hike.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Feb 14				
8:30AM	Jan y/y CORE CPI (%)	5.6	5.5	5.7
8:30AM	Jan m/m CORE CPI (%)	0.4	0.4	0.3
Wednesday, Feb 15				

Event Importance:

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

Date	Event	Actual	Forecast	Prior
7:00AM	w/e MBA Purchase Index	179.6		190.0
7:00AM	w/e MBA Refi Index	480.5		549.3
8:30AM	Jan Retail Sales (%)	3.0	1.8	-1.1
8:30AM	Feb NY Fed Manufacturing	-5.80	-18.00	-32.90
9:15AM	Jan Industrial Production (%)	0.0	0.5	-0.7
10:00AM	Feb NAHB housing market indx	42	37	35
10:00AM	Dec Business Inventories (%)	0.3	0.3	0.4
Thursday, Feb 16				
8:30AM	Jan Core Producer Prices YY (%)	5.4	4.9	5.5
8:30AM	Jan Core Producer Prices MM (%)	0.5	0.3	0.1
8:30AM	Jan Build permits: change mm (%)	0.1		-1.0
8:30AM	Jan House starts mm: change (%)	-4.5		-1.4
8:30AM	Jan Housing starts number mm (ml)	1.309	1.360	1.382
8:30AM	Jan Building permits: number (ml)	1.339	1.350	1.337
8:30AM	Feb Philly Fed Business Index	-24.3	-7.4	-8.9
8:30AM	w/e Jobless Claims (k)	194	200	196
Friday, Feb 17				
8:30AM	Jan Import prices mm (%)	-0.2	-0.2	0.4
10:00AM	Jan Leading index chg mm (%)	-0.3	-0.3	-0.8
Monday, Feb 20				
12:00AM	Presidents Day			
Tuesday, Feb 21				
9:45AM	Feb Markit Composite PMI	50.2	47.5	46.8
10:00AM	Jan Exist. home sales % chg (%)	-0.7	2.0	-1.5
10:00AM	Jan Existing home sales (ml)	4.00	4.10	4.02
Wednesday, Feb 22				
7:00AM	w/e MBA Purchase Index	147.1		179.6
7:00AM	w/e MBA Refi Index	469.9		480.5
1:00PM	5-Yr Note Auction (bl)	43		
Thursday, Feb 23				
8:30AM	Q4 GDP Prelim (%)	2.7	2.9	2.9
8:30AM	w/e Jobless Claims (k)	192	200	194
1:00PM	7-Yr Note Auction (bl)	35		
Friday, Feb 24				
8:30AM	Jan Core PCE Inflation (y/y) (%)	4.7	4.3	4.4
10:00AM	Feb Consumer Sentiment (ip)	67.0	66.4	66.4
10:00AM	Jan New Home Sales (%) (%)	7.2		2.3
Wednesday, Apr 19				
1:00PM	20-Yr Bond Auction (bl)	12		