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## On The Road To Rate Cuts, Markets Asking "Are We There Yet?" (Spoiler Alert: No)

Back in late 2023, we got in the car with the Federal Reserve with the promise of a trip to our favorite place: the land of lower interest rates. In 2024, we keep asking "are we there yet?" The more we ask, the farther we seem to be from the destination.

This trip began with all the best intentions. Softer inflation and cooler economic data led the Fed to expect an opportunity to cut rates several times in 2024. The Fed communicated as much in mid-December. Markets took things a step further with futures contracts pricing in 6 cuts by the end of the year. "6 rate cuts" was a refrain that echoed throughout the mortgage and housing industries. Suddenly, too many people were risking disappointment by not understanding the HIGHLY conditional logic behind the 6 cut mantra.

It wasn't necessarily a mistake for the market to get so far ahead of the Fed's official outlook. After all, the Fed has a history of cutting rates MUCH faster than its projections suggest. But the decision would ultimately be dependent on continued progress on inflation, and more economic cooling.

With the release of this week's inflation data, we now have two consecutive months that raise serious objections to the notion that the Fed will be able to cut any time soon.

This is a chart of the core Consumer Price Index (CPI) in year over year terms. This is the inflation metric that the Fed wants to see at 2% and they've been clear in saying they can cut rates if they're confident that we'll get there. It shows clear, substantial progress toward that goal:

### National Average Mortgage Rates



	Rate	Change	Points
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#### Mortgage News Daily

30 Yr. Fixed	7.11%	-0.01	0.00
15 Yr. Fixed	6.61%	-0.01	0.00
30 Yr. FHA	6.58%	-0.01	0.00
30 Yr. Jumbo	7.37%	0.00	0.00
5/1 ARM	7.29%	-0.01	0.00

#### Freddie Mac

30 Yr. Fixed	7.09%	-0.35	0.00
15 Yr. Fixed	6.38%	-0.38	0.00

Rates as of: 5/14

### Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.70	+0.32
MBS GNMA 6.0	101.56	+0.33
10 YR Treasury	4.3667	-0.0717
30 YR Treasury	4.5335	-0.0515

Pricing as of: 5/15 8:44AM EST

### Recent Housing Data

		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
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%



The following chart shows the same thing, but now in more granular month-over-month terms. This allows us to better assess progress toward the 2% annual goal. It shows the past range that's been consistent with that annual goal, but more importantly, it shows inflation moving up and out of that range last month. This week's report maintained the same "too high" level.

Core Consumer Price Index,  
month over month

The news wasn't quite as bad from the week's other key inflation report, but it certainly didn't help. The Producer Price Index (PPI), which measures wholesale inflation, has also now seen the highest two consecutive months since inflation first began to calm down in 2022.

**Core Producer Price Index (PPI)  
month over month**

While PPI doesn't usually move markets as much as CPI, and while the results were arguably not as troubling, it actually caused a bigger jump in rates because it added insult to CPI's injury. It also happened to be flanked by upbeat labor market data. The following chart shows ongoing jobless claims, which had recently crested 1.9 million for only the second time since hitting long term lows.



On the road to lower rates, this week's economic reports are tantamount to the driver actually making good on the threat to "turn this car around!" Here's how rates reacted, as seen in terms of 10yr Treasury yields (highly correlated with mortgage rates in terms of day to day movement).



And here's the context going back to the initial rate rally in November and December:



The trajectory for mortgage rates is substantially similar as seen in the chart below, at least if you're looking at the blue line. The orange line shows Freddie Mac's weekly rate survey which was badly tricked by the timing of rate movement over the past two weeks in conjunction with its laggy methodology. Specifically, it's a 5 day average ending on Wednesday. As such, if the previous week sees decent improvement on Thursday and Friday, and the new week doesn't see most of its deterioration until Thursday and Friday, the most recent mark will move down instead of up. This is exactly what happened during this cycle.



Looking ahead, next week's obvious focus is Wednesday's Fed Announcement. To be sure, there is no chance of a rate cut at this meeting. Instead, markets will focus intently on the Fed's updated rate projections. These only come out 4 times a year, so this will be the first update since December 13th and it will provide valuable insight as to how the past 2 months of higher inflation readings have affected the Fed's rate outlook.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Mar 12				
8:30AM	Feb m/m Headline CPI (%)	0.4%	0.4%	0.3%
8:30AM	Feb y/y CORE CPI (%)	3.8%	3.7%	3.9%
8:30AM	Feb m/m CORE CPI (%)	0.4%	0.3%	0.4%
Wednesday, Mar 13				
7:00AM	Mar/08 MBA Refi Index	480.3		428.1
7:00AM	Mar/08 MBA Purchase Index	147.7		141.1

Event Importance:

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

Date	Event	Actual	Forecast	Prior
Thursday, Mar 14				
8:30AM	Feb Core Producer Prices MM (%)	0.3%	0.2%	0.5%
8:30AM	Feb Core Producer Prices YY (%)	2%	1.9%	2%
8:30AM	Mar/02 Continued Claims (ml)	1811K	1900K	1906K
8:30AM	Mar/09 Jobless Claims (k)	209K	218K	217K
8:30AM	Feb Producer Prices (%)	0.6%	0.3%	0.3%
8:30AM	Feb Retail Sales (%)	0.6%	0.8%	-0.8%
10:00AM	Jan Business Inventories (%)	0%	0.2%	0.4%
Friday, Mar 15				
8:30AM	Mar NY Fed Manufacturing	-20.9	-7	-2.4
8:30AM	Feb Import prices mm (%)	0.3%	0.3%	0.8%
9:15AM	Feb Industrial Production (%)	0.1%	0%	-0.1%
10:00AM	Mar Consumer Sentiment (ip)	76.5	76.9	76.9
Monday, Mar 18				
10:00AM	Mar NAHB housing market indx	51	48	48
Tuesday, Mar 19				
8:30AM	Feb Building permits: number (ml)	1.518M	1.495M	1.489M
8:30AM	Feb Housing starts number mm (ml)	1.521M	1.425M	1.331M
Wednesday, Mar 20				
2:00PM	Fed Interest Rate Decision	5.5%	5.5%	5.5%
2:00PM	FOMC Economic Projections			
2:30PM	Fed Press Conference			
Thursday, Mar 21				
8:30AM	Mar Philly Fed Business Index	3.2	-2.3	5.2
8:30AM	Mar/16 Jobless Claims (k)	210K	215K	209K
9:45AM	Mar S&P Global Manuf. PMI	52.5	51.7	52.2
9:45AM	Mar S&P Global Composite PMI	52.2		52.5
9:45AM	Mar S&P Global Services PMI	51.7	52	52.3
10:00AM	Feb Existing home sales (ml)	4.38M	3.94M	4M

## About Michael

If you are thinking about buying or refinancing a home in the Kansas City area, you've probably faced the dilemma of hiring the right Loan Officer to handle your mortgage. You may be concerned about working with someone that doesn't know the area, or who doesn't listen to you. Maybe you're worried about a loan officer who is more concerned with a commission than making sure you're properly taken care of.

Great news - I can help!

IF YOU ARE THINKING OF BUYING A HOME... I would love to share with you the mortgage loan products that are available to you, and also talk about what homes might be coming onto the market very soon. As a Kansas City resident who also went to college just down the street in Lawrence, I'm not just your loan officer but also your neighbor. I'd love to talk to you about my knowledge not only about the Kansas City market, and what neighborhoods would be perfect to you but also help you truly understand the landscape of the mortgage industry today, and introduce you to great Real Estate Agents that are ready to go to work for you and find you the perfect home. I'll help guide you through appraisals, inspections, title searches, and finally closing.

IF YOU ARE A REALTOR LOOKING FOR A REFERRAL PARTNER... I would love to sit down with you over a cup of coffee and show you ways to generate leads for your business and help you grow your clientele through some easy processes that NO other Real Estate Agents are doing. I am a growing Social Media guru that can show you my tips and tricks on how I've doubled my Twitter base in just a month!

If it sounds like I can help you, please contact me directly through Linked In, email me at [mbaker@affinityhomeloan.com](mailto:mbaker@affinityhomeloan.com) or call/text me at 913-735-5363. If you're not yet ready for a conversation, but you'd like to learn more about me and how I can help you or about the mortgage process in general, including great blog posts to send out to your clients, check out my website at <http://www.michaelbakerhomeloans.com>.

**Michael Baker**

