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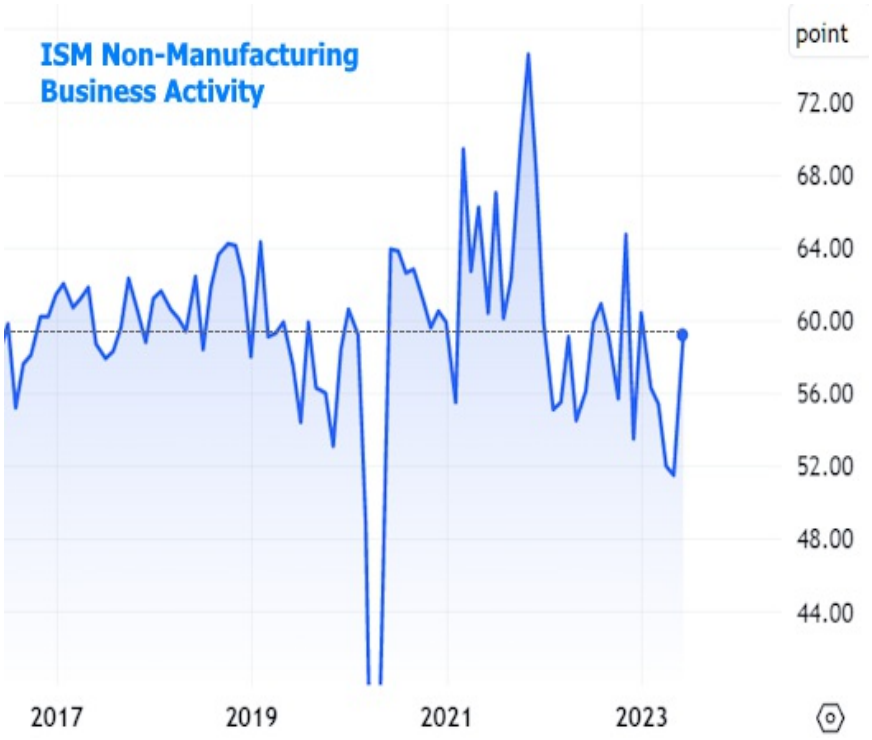
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Mortgage Rates Back Over 7% as Markets Digest Economic Data

Until a few weeks ago, it looked like we might have seen the last of 7% mortgage rates, but the last 2 weeks have been brutal. The culprit has been a collection of several scheduled economic reports that were stronger than economists expected.

Generally speaking, strong economic data puts upward pressure on rates. This is a particularly sensitive relationship at the moment because the Fed has clearly stated it will hike rates a few more times unless the economy downshifts more abruptly than it has been. With that in mind, some of the recent data hasn't shown any downshift at all!

One solid example from this week was the business activity index in the services sector (via ISM), which rebounded massively:



On the same morning, the ADP employment data proved to be a much bigger deal, coming in at 497k versus a median forecast of 228k. Although the track record is far from perfect, ADP's stated goal is to predict the all-important nonfarm payroll (NFP) count in the Labor Department's big monthly jobs report. In this week's case, NFP was set to come out the following morning.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.30%	+0.03	0.00
15YR Fixed	6.91%	-0.01	0.00
30YR FHA	6.95%	+0.04	0.00
30YR Jumbo	7.45%	-0.07	0.00
7/6 SOFR	6.71%	+0.01	0.00
30YR VA	6.97%	+0.05	0.00

Rates as of: 11/3

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.95	+0.20
10 YR Treasury	4.9502	-0.0201
30 YR Treasury	5.3308	-0.0010

Pricing as of: 11/4 10:29AM EST

Recent Housing Data

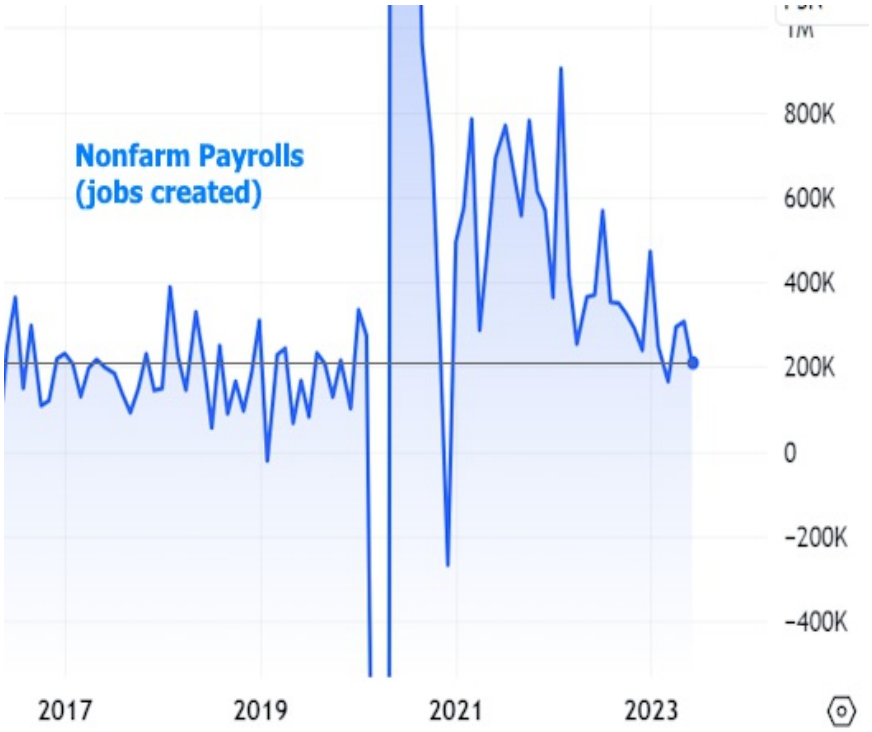
		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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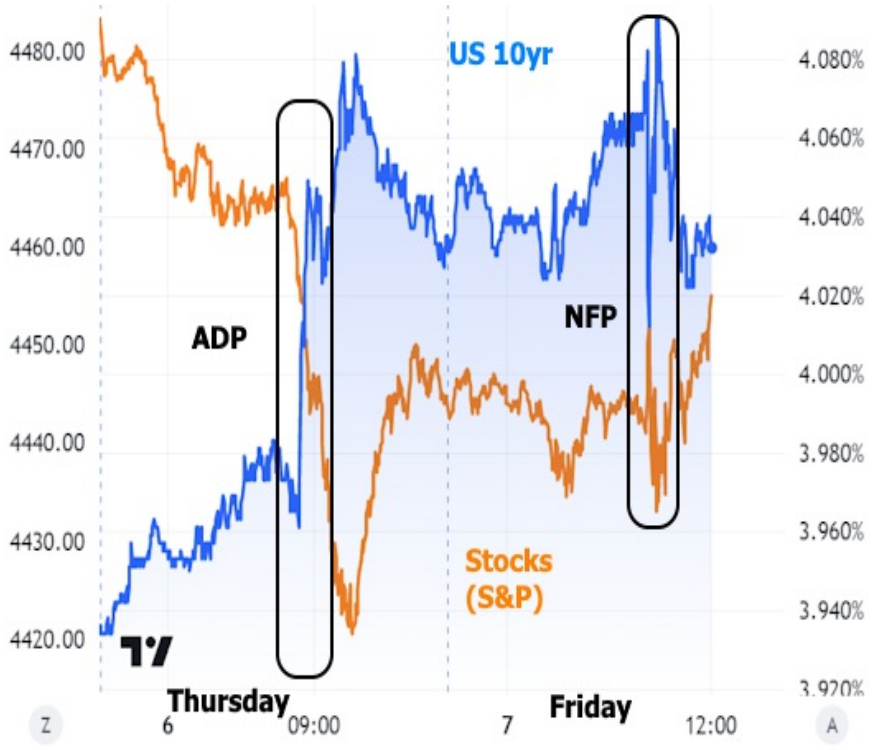
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Although NFP didn't nearly live up to ADP's hype, it was nonetheless solid with 209k jobs created versus forecasts calling for 225k. Wages grew a bit faster than expected, and unemployment remained near record lows at 3.6%.



While this is good news for the economy and the labor market, bonds (which drive mortgage rates) like bad news and the news wasn't bad enough for bonds to undo the damage done on Thursday.

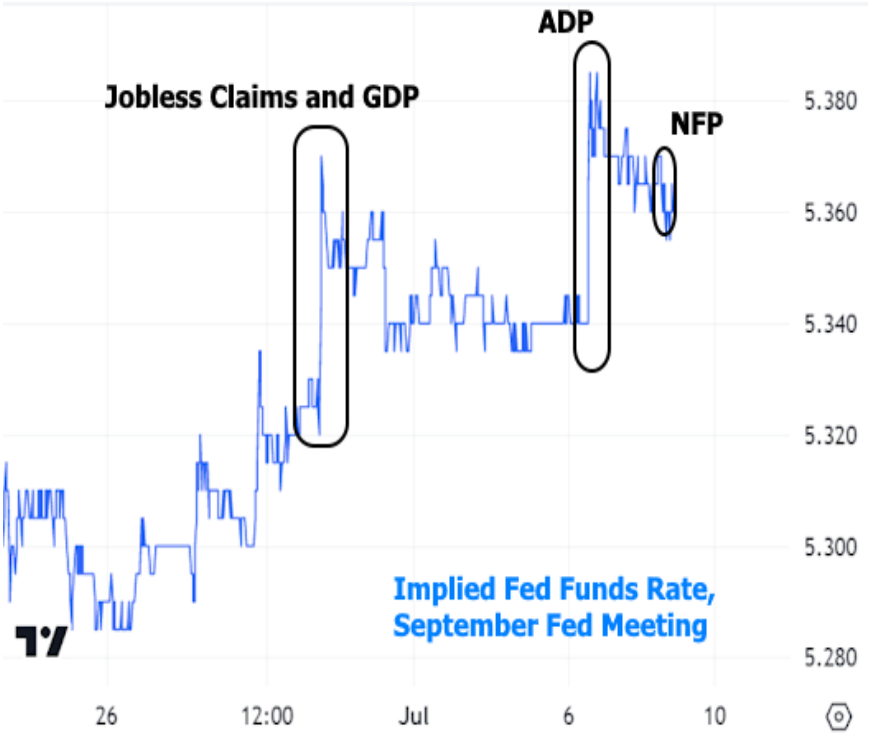


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Incidentally, stocks occasionally like bad news these days too. This is a bit counterintuitive, but it has to do with the data's implication on the Fed's rate hike outlook. Specifically, the stronger data causes the market to predict a higher trajectory for the Fed Funds Rate:



In the bigger picture, the recent weakness is changing the shape of the trend in longer-term rates. The following chart uses Treasury yields to show a "breakout" from a recent trend of lower highs.

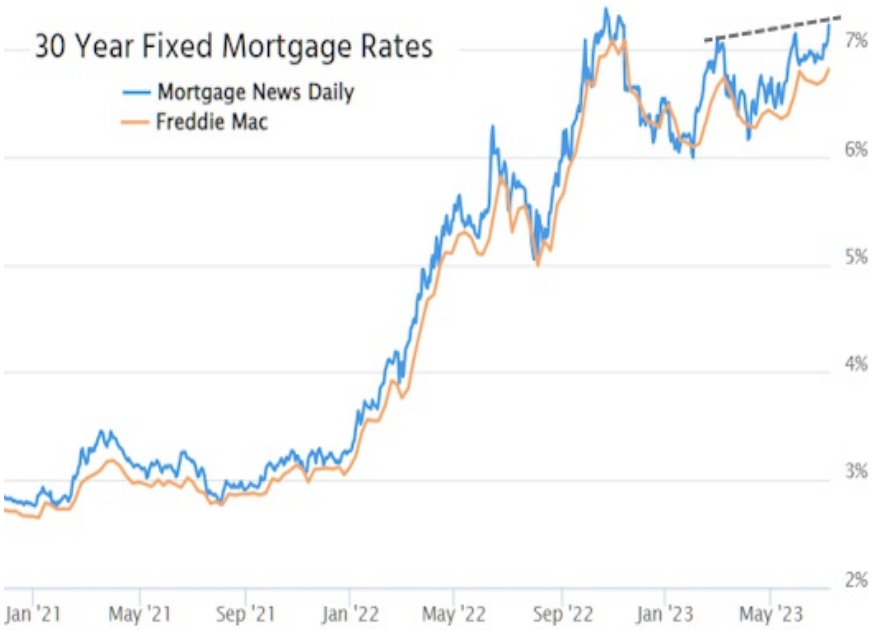
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Mortgage rates are highly correlated with longer-term Treasuries so it's no surprise that they are also breaking out. In fact, they began to break out in late May and then moved even higher this week. The result is a new trend of "higher highs" that started in March:



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The average lender moved well into the 7% range this week. That's much higher than suggested by Freddie Mac's weekly rate survey, which came in at 6.81% this week, but keep in mind that Freddie's survey has implied "points" (upfront loan costs that help bring the rate lower) that are not counted or reported. Contrast that to MND's index (the blue line in the chart above) which takes points into consideration. Lastly, Freddie's number is also an average of the 5 preceding days whereas MND is an up-to-the-moment check on prevailing rates.

What's next?

Expect the market to continue readily responding to economic data. One of the most important reports--the Consumer Price Index--will be out next Wednesday morning. If it shows inflation cooling more than expected, rates definitely have room to move lower. But if it takes a page out of this week's book and exceeds forecasts, rates will likely continue the trend of higher highs.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jul 03				
10:00AM	Jun ISM Manufacturing PMI	46	47	46.9
10:00AM	May Construction spending (%)	0.9%	0.6%	0.4%
Wednesday, Jul 05				
2:00PM	FOMC Minutes			
Thursday, Jul 06				
7:00AM	Jun/30 MBA Refi Index	421.3		439.2
7:00AM	Jun/30 MBA Purchase Index	162.4		170.3
7:30AM	Jun Challenger layoffs (k)	40.709K		80.089K
8:15AM	Jun ADP jobs (k)	497K	228K	267K
8:30AM	Jul/01 Jobless Claims (k)	248K	245K	236K
10:00AM	Jun ISM N-Mfg PMI	53.9	51	50.3
10:00AM	Jun ISM Biz Activity	59.2	51.9	51.5
10:00AM	May USA JOLTS Job Openings	9.8M	9.935M	10.32M
Friday, Jul 07				
8:30AM	Jun Unemployment rate mm (%)	3.6%	3.6%	3.7%
8:30AM	Jun Average earnings mm (%)	0.4%	0.3%	0.4%
8:30AM	Jun Non Farm Payrolls	209K	225K	306K
Monday, Jul 10				
10:00AM	May Wholesale inventories mm (%)	0%	-0.1%	-0.3%
3:00PM	May Consumer credit (bl)	$7.24B	$20.25B	$20.32B
Tuesday, Jul 11				
6:00AM	Jun NFIB Business Optimism Index	91	89.9	89.4
Wednesday, Jul 12				

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
7:00AM	Jul/07 MBA Refi Index	416		421.3
7:00AM	Jul/07 MBA Purchase Index	165.3		162.4
8:30AM	Jun m/m Headline CPI (%)	0.2%	0.3%	0.1%
8:30AM	Jun y/y Headline CPI (%)	3%	3.1%	4%
8:30AM	Jun y/y CORE CPI (%)	4.8%	5%	5.3%
8:30AM	Jun m/m CORE CPI (%)	0.2%	0.3%	0.4%
Thursday, Jul 13				
8:30AM	Jul/08 Jobless Claims (k)	237K	250K	249K
8:30AM	Jun Core Producer Prices MM (%)	0.1%	0.2%	0.1%
8:30AM	Jun Core Producer Prices YY (%)	2.4%	2.6%	2.6%
Friday, Jul 14				
10:00AM	Jul Consumer Sentiment (ip)	72.6	65.5	64.4

The Right Advice Is What Saves You Money

A Mortgage is a financial tool. The right tools help you build. At Cornerstone First, my tool belt is filled with many different tools so I can say "Yes" to more clients and referral partners.

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