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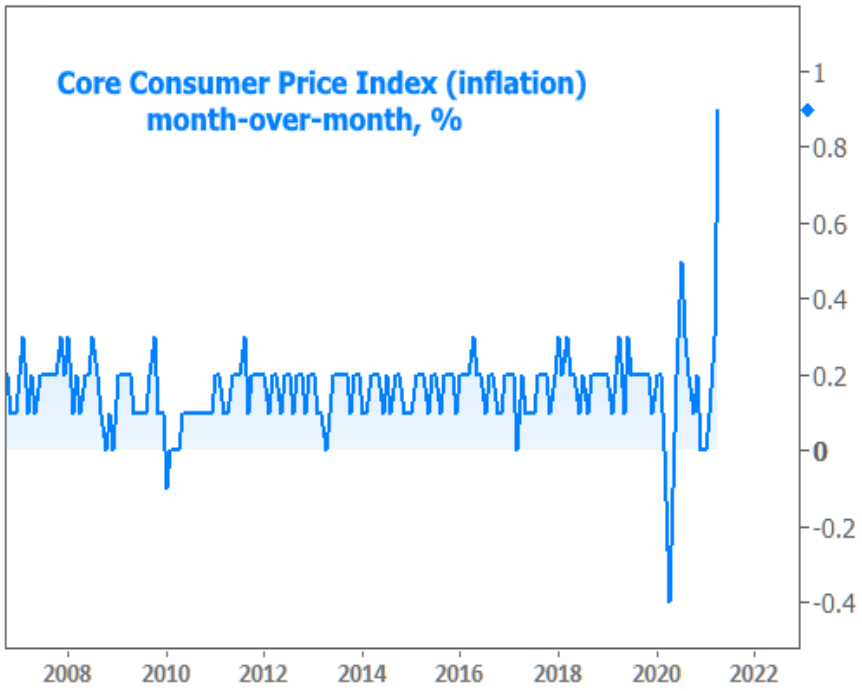
# Big Inflation Scare, But Rates Remain Resilient

The 70's and 80's brought unforgettable economic lessons about inflation. Since then, certain market participants have been watching inflation like **hawks**, even when they didn't need to.

After the start of the pandemic, the massive amount of fiscal stimulus (covid relief bill) and monetary accommodation from the Fed (bond buying and rate cuts) had inflation hawks on **high alert**. Fed speakers have been consistent in their response: **yes**, inflation was likely to spike this spring for a variety of reasons, but it wouldn't necessarily be evidence of a sustainable shift.

Inflation can be measured in a few ways, but the most basic and most popular is via price indices published by the government. The **Consumer Price Index (CPI)** is one of the two dominant forces in that regard and this week brought a fresh update for the month of April.

While analysts agreed with the Fed's inflation warning, this week's **actual** CPI data eclipsed even the **most aggressive** forecasts, both in monthly and annual terms.




## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.33% | -0.12 | 0.00 |
| 15YR Fixed | 6.89% | -0.10 | 0.00 |
| 30YR FHA | 6.95% | -0.10 | 0.00 |
| 30YR Jumbo | 7.44% | -0.06 | 0.00 |
| 7/6 SOFR | 6.81% | -0.19 | 0.00 |
| 30YR VA | 6.97% | -0.10 | 0.00 |

Rates as of: 11/20

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.51 | +0.41 |
| 10 YR Treasury | 4.9403 | -0.1033 |
| 30 YR Treasury | 5.3324 | -0.0738 |

Pricing as of: 11/20 5:59PM EST

## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Nov 11 | 199.8 | -2.35% |
| Building Permits | Oct | 1.3M | -7.5% |
| Housing Starts | Oct | 1.31M | +7.21% |
| New Home Sales | Sep | 676K | -1.17% |
| Pending Home Sales | Oct | 63 | -4.69% |
| Existing Home Sales | Oct | 3.99M | +0.25% |
| Builder Confidence | Nov | 25 | -13.79% |

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**What's so bad about inflation though?** After all, hasn't the Fed said they want inflation to remain a bit higher relative to their typical target?

Yes, the Fed is actually **trying** to keep inflation higher than normal because they argue it will foster a stronger economic recovery for a wider slice of society. Regardless of one's opinion on that complicated topic, everyone agrees that **"too much"** inflation is a **bad** thing.

One of the most relevant negative impacts of high inflation on the mortgage/housing market is that it puts upward pressure on rates.

Here's a **quick explainer** as to why:

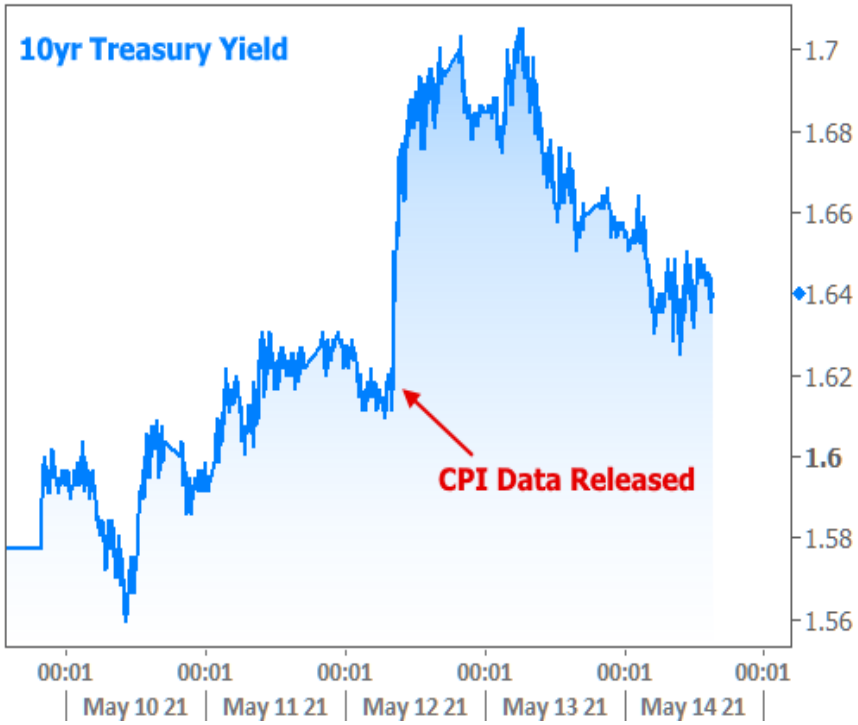
> Mortgage rates are primarily determined by trading in the bond market. Investors who buy bonds earn returns by collecting payments over time based on terms agreed to upfront. Inflation robs those payments of future purchasing power (I'm giving you $100/month for 30 years, but what if a pack of gum costs $100 in 30 years?). As such, if investors expect higher inflation, they adjust by charging higher rates today.

That scenario played out immediately in the bond market on Wednesday with 10yr Treasury yields spiking **abruptly** in the wake of the inflation report.

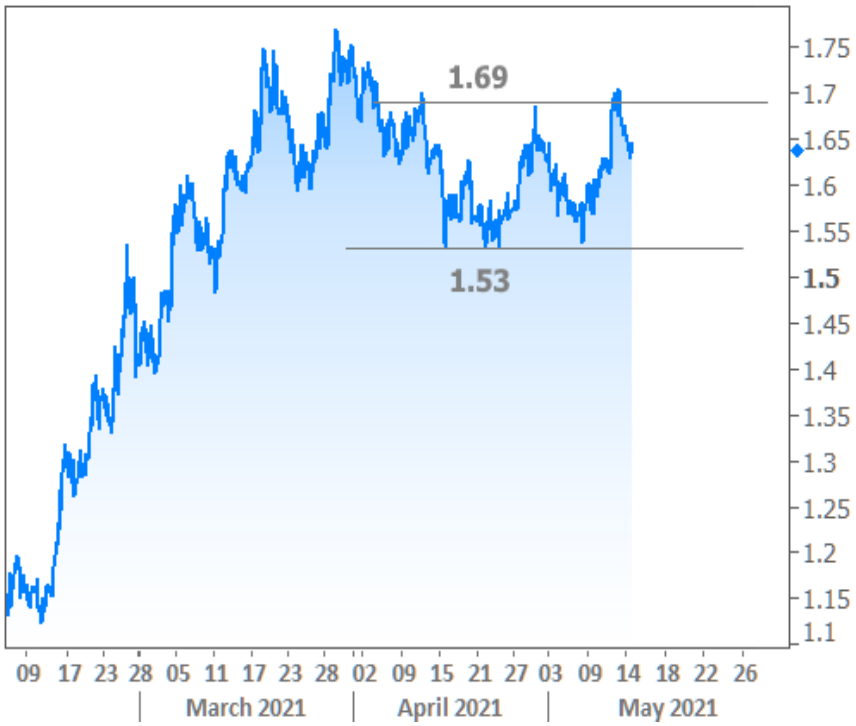
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That looks fairly dramatic on the 5-day chart, but in the bigger picture, the bond market arguably took the inflation surprise **in stride.**




The 2nd half of the week was spent recovering back into the prevailing range with a weak Retail Sales report doing nothing to stand in the way. We'll stop short of giving the data credit for the rate recovery simply because this series remains exceptionally volatile. No one wants to read too much into another **"rebound month"** following last month's stimulus check effect.

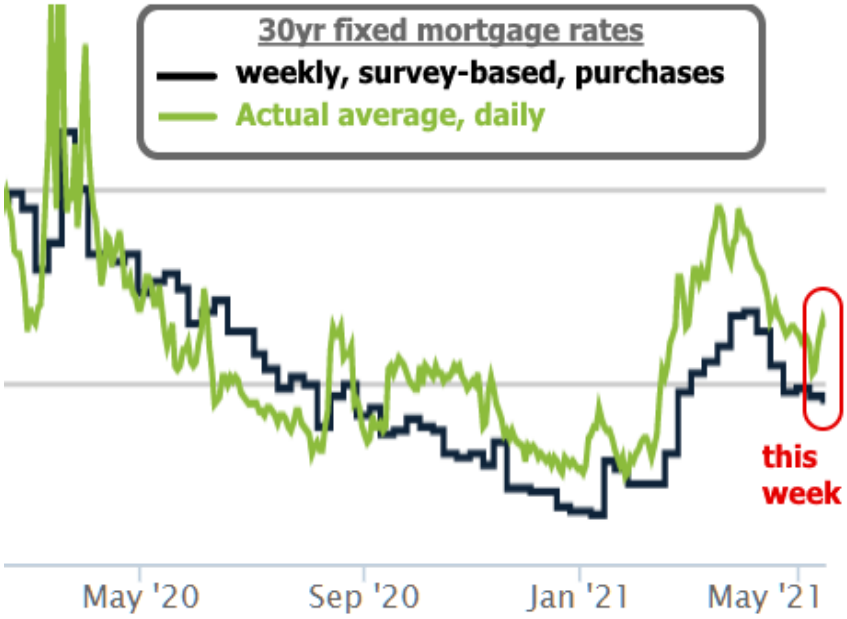
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Mortgage rates were logically **higher** on the week, even if multiple headlines suggested they were **lower**. Those headlines almost certainly cite Freddie Mac's weekly survey data. By the time the survey is released on Thursday, it can be very stale if rates experienced much volatility earlier in the week.




Next week brings a **slew of housing-related reports** with Builder Confidence leading off on Monday. Residential construction numbers follow on Tuesday and the important Existing Home Sales report will be released on Friday. Analysts expect the housing data to hold fairly steady with last month's levels.

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## Recent Economic Data

## Event Importance:

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# US Housing Market Weekly

May 14, 2021

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Tuesday, May 11** | | | | |
| 1:00PM | 3-Yr Note Auction (bl) | 58 | | |
| **Wednesday, May 12** | | | | |
| 7:00AM | w/e MBA Purchase Index | 276.7 | | 274.5 |
| 7:00AM | w/e MBA Refi Index | 3281.0 | | 3188.7 |
| 8:30AM | Apr Consumer Price Index (CPI) (%) | 0.8 | 0.2 | 0.6 |
| 8:30AM | Apr Core CPI (Annual) (%) | 3.0 | 2.3 | 1.6 |
| **Thursday, May 13** | | | | |
| 8:30AM | Apr Producer Prices (%) | 0.6 | 0.3 | 1.0 |
| 8:30AM | Apr Core Producer Prices YY (%) | 4.1 | 3.7 | 3.1 |
| 8:30AM | w/e Continued Claims (ml) | 3.655 | 3.640 | 3.690 |
| 8:30AM | w/e Jobless Claims (k) | 473 | 450 | 498 |
| **Friday, May 14** | | | | |
| 8:30AM | Apr Retail Sales (%) | 0.0 | 1.0 | 9.8 |
| 8:30AM | Apr Export prices mm (%) | 0.8 | 0.6 | 2.1 |
| 8:30AM | Apr Import prices mm (%) | 0.7 | 0.6 | 1.2 |
| 9:15AM | Apr Industrial Production (%) | 0.7 | 1.0 | 1.4 |
| 10:00AM | May 1yr Inflation Outlook (%) | 4.6 | | 3.4 |
| 10:00AM | May 5yr Inflation Outlook (%) | 3.1 | | 2.7 |
| 10:00AM | May Consumer Sentiment | 82.8 | 90.4 | 88.3 |
| 10:00AM | Mar Business Inventories (% ) | 0.3 | 0.3 | 0.5 |
| **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** | | | | |
| 12:00AM | Roll Date - Ginnie Mae 30YR | | | |
| 7:00AM | w/e MBA Purchase Index | 265.3 | | 276.7 |
| 7:00AM | w/e MBA Refi Index | 3413.3 | | 3281.0 |
| 10:30AM | w/e Crude Oil Inventory (ml) | 1.321 | 1.623 | -0.427 |
| **Thursday, May 20** | | | | |
| 8:30AM | May Philly Fed Business Index | 31.5 | 43.0 | 50.2 |
| 10:00AM | Apr Leading index chg mm (%) | 1.6 | 1.4 | 1.3 |
| **Friday, May 21** | | | | |
| 10:00AM | Apr Exist. home sales % chg (%) | -2.7 | 2.0 | -3.7 |

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| 10:00AM | Apr Existing home sales (ml) | 5.85 | 6.09 | 6.01 |
| **Monday, Jul 12** | | | | |
| 1:00PM | 10-yr Note Auction (bl) | 38 | | |
| **Tuesday, Jul 13** | | | | |
| 1:00PM | 30-Yr Bond Auction (bl) | 24 | | |


## Who is Mid Valley Financial?

Since 1985, Mid Valley Financial has been a trusted partner for complex real estate financing solutions. We specialize in handling unique and challenging loan scenarios, including those with non-traditional income or asset documentation. Our expertise in hard money and private money lending offers quick funding and flexible terms for real estate investors, business owners, and agricultural operators. Whether you need funds for purchasing, renovating, or refinancing properties, our experienced team is here to help.

Beyond hard money lending, we offer a comprehensive suite of competitively priced home loan options, including conventional, FHA, VA, and jumbo loans. So whether you are a first-time homebuyer, looking to secure the family estate or vacation property, or have unique financial circumstances, our experienced team can help you find the best solution.

Our commitment to exceptional customer service and innovative financing solutions has made us one of the leading direct lenders and mortgage brokers in the California real estate market. With a proven track record of success and a focus on building long-term relationships, we're here to help you achieve your financial goals.

**Mid Valley Financial**

EQUAL HOUSING LENDER

EQUAL HOUSING OPPORTUNITY


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