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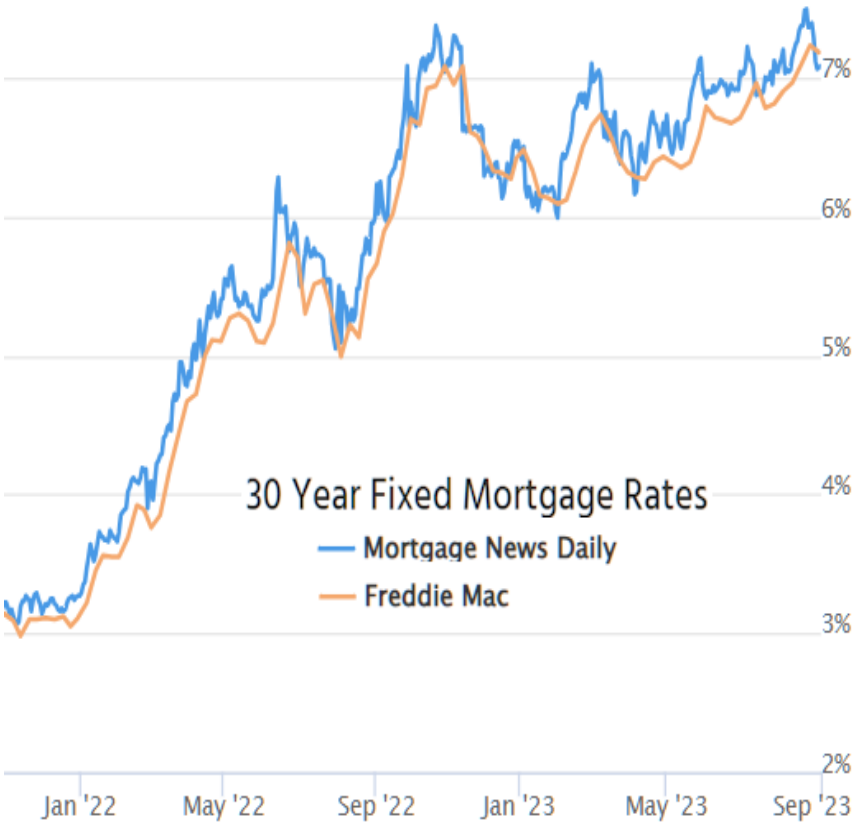
# It's Complicated, But Also Simple

Depending on the company you keep over this Labor Day weekend, you might hear that rates are high, housing in the verge of collapse, and the economy is headed for a hard, recessionary landing. Or you might hear that rates are coming down, housing has turned a corner, and the economy remains surprisingly resilient. No one is wrong, yet, and it'll be a while before we find out who's right.

**Rates**

Rates are high!




Depending on one's perspective, rates are down sharply over the past week and a half to the lowest levels of the month:

## National Average Mortgage Rates




| | Rate | Change | Points |
|---|---|---|---|
| **Mortgage News Daily** | | | |
| 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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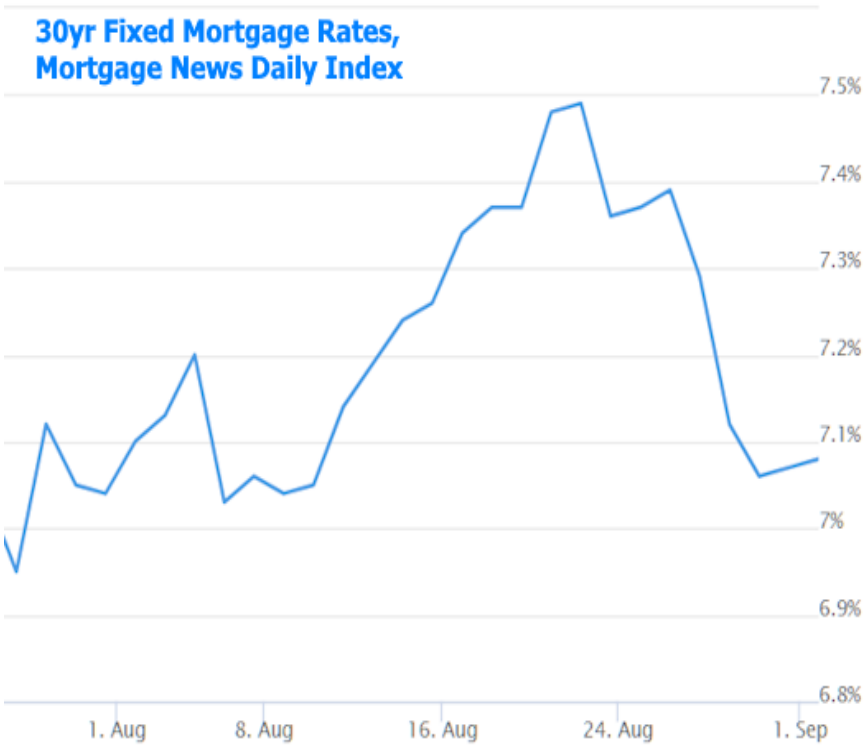


**Inflation**

Despite the recent improvement, we are indeed near multidecade highs. If Family Feud asked which economic phenomenon should be blamed for high rates, the survey would say "inflation" before all other factors.

Of course you'd need a spin off show to assign blame for the inflation itself. Some respondents would blame the Fed's aggressive stimulus in 2020-21. Others would blame all the various forms of post-covid fiscal stimulus. Some would focus on supply/demand dynamics, both before and after the start of the Ukraine War. A few might go off the beaten path with a more esoteric answer.

Once we'd binge-watched the episodes that helped us debate the sources of inflation, we could move on to documentaries that discussed whether inflation was under control or still a big issue. Members of the Fed have been steadfast in referring to inflation being too high.

But just this week, the Fed's own preferred gauge of inflation came in at levels consistent with "just right" inflation. Those who disagree with the Fed would point to that fact in addition to the fact that the Fed's tight monetary policies historically take time to fully impact the economy and that we're already seeing the early signs of that impact. Their conclusion: the Fed should start being a bit friendlier to rates NOW if they want to avoid a recessionary "hard landing" scenario.

Who's right? It's complicated. Inflation is moving in the right direction, but not for all the right reasons. Specifically, core inflation in the services sector, excluding housing (all the rage these days) is up in each of the past two months. Housing-related inflation is moving in the right direction, but is still way too high.

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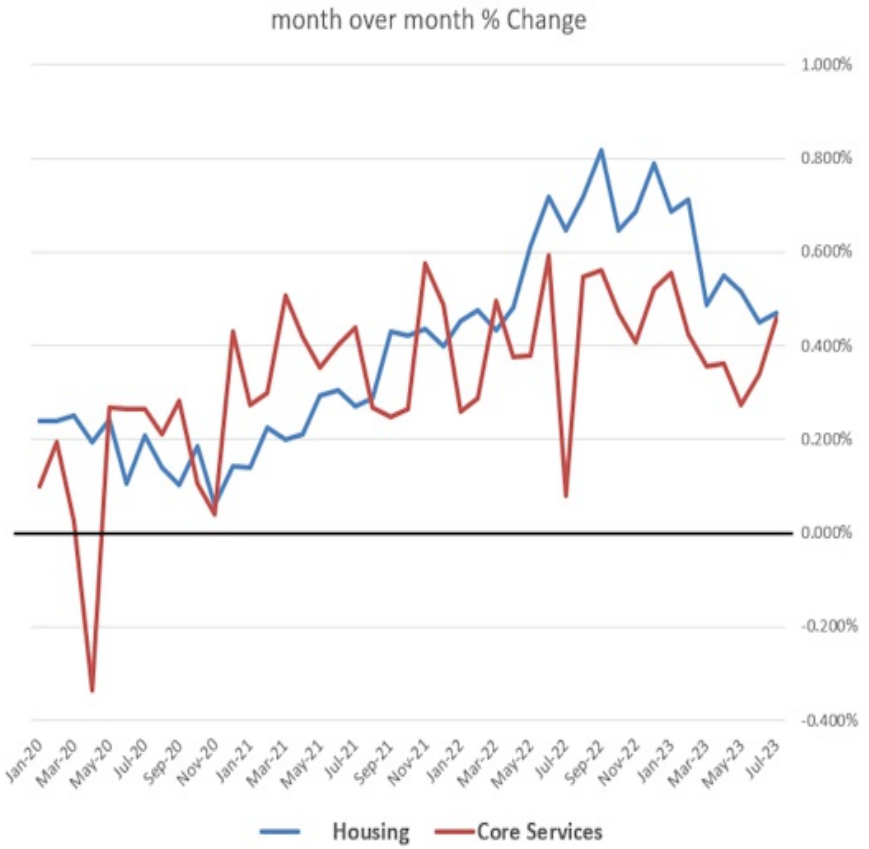


It's also worth noting that the Fed is well aware of the progress, but their inflation targets are expressed in ANNUAL terms. They would point out that our observation above about inflation being at levels consistent with "just right" is only true if nothing changes over the next 9-10 months. As of today, annual inflation is still way too high.




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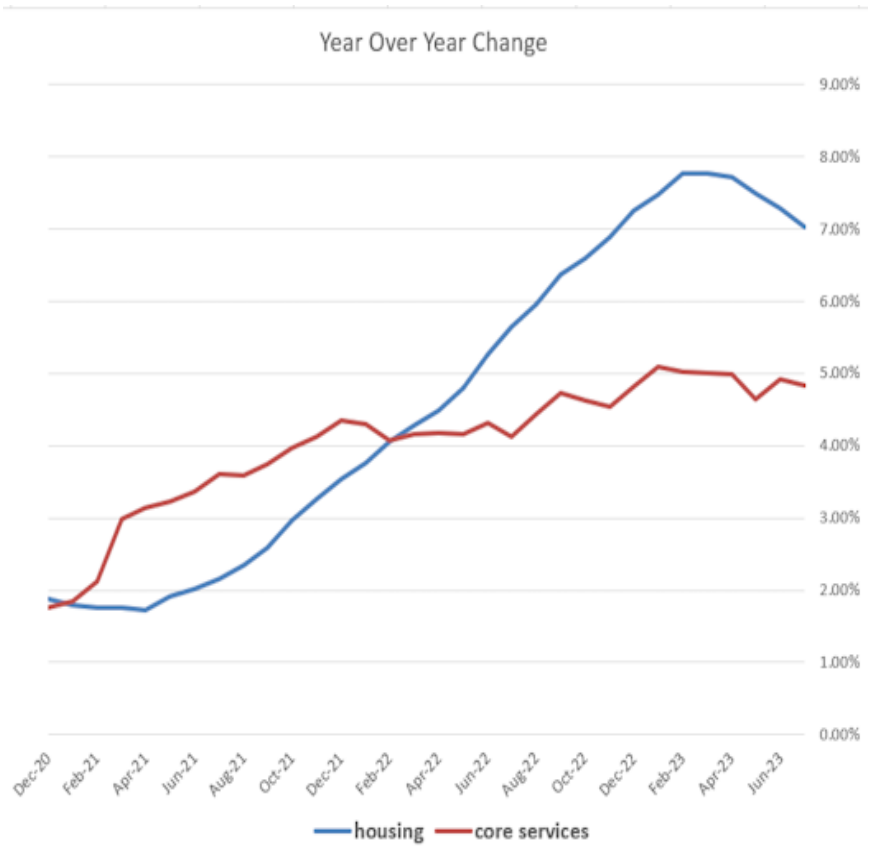
The housing and core services components are even higher, and core services excluding housing (red line below) really hasn't made any meaningful progress in 2023




**Landings, Hard and Soft**

The Fed hikes rates in order to make your cars, homes, and credit card payments higher in the hopes you'll buy less stuff. Then prices can fall (or at least stop rising so fast) and then everyone can afford to buy more stuff again, but in not such a crazy way as 2021-22.

The Fed is often criticized for keeping rates too high for too long, thus contributing to a sharper downturn in the economy (after all, the economy is driven by you spending your money on stuff), aka "the hard landing." The fact is that true recessions almost always have a root cause in addition to rates being too high, but the Fed's detractors would like a bit more clairvoyance. In a perfect world, the Fed could sense a build-up of recessionary risks and begin gently toning down the high rate rhetoric a bit earlier than the data might suggest.

**It's Complicated.**

Unfortunately for people debating hard/soft landings, and especially for the Fed, the only way to even begin to hope to correctly time an early policy de-escalation in the pursuit of a soft landing would be to rely on and scrutinize the incoming data. So to rephrase the concept above, the Fed could sense a recession brewing before the data confirms it by keeping a close eye on that same data. Basically, they need to be able to predict the future.

Predictions are tough--especially about the future. For the Fed or anyone else trying to predict the near term economic future, the data is open to interpretation. This week's examples included home prices, job openings, and Friday's all-important nonfarm payrolls or NFP (the headline number in the Labor Department's Employment Situation, known simply as "the jobs report").

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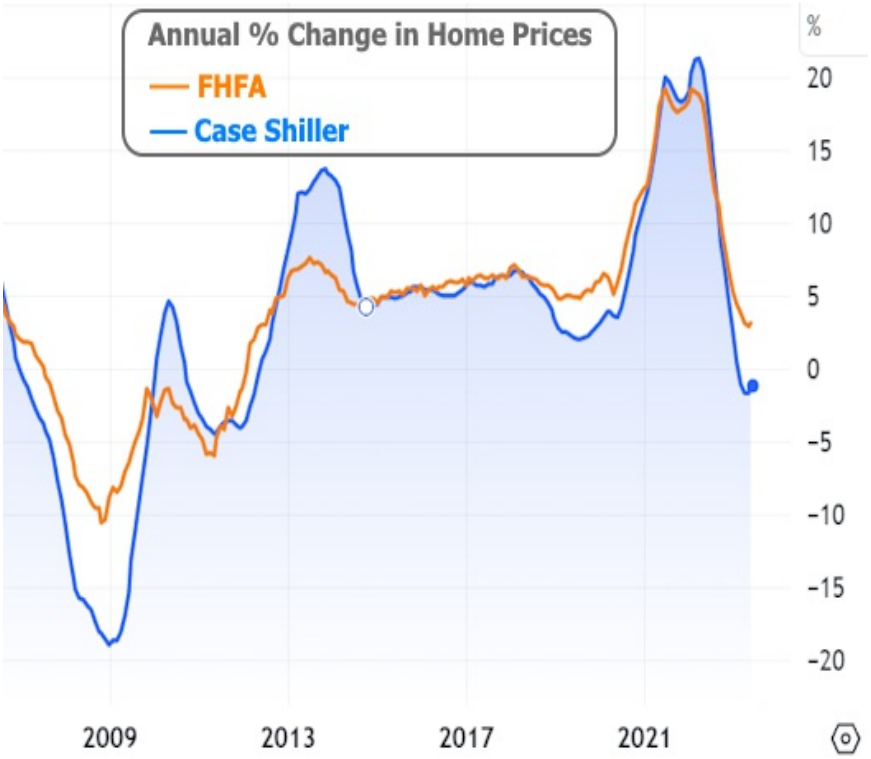
**Home Prices.**

This actually isn't a big topic of concern for non-housing economists at the moment. It's fairly well understood that a tight supply situation is keeping prices from falling despite the high outright levels and high mortgage costs. It doesn't hurt that the mortgage market is worth infinitely more confidence in 2023 than it was on its best day in 2007.

The more volatile Case Shiller price index (which only measures the biggest 20 metro areas) barely turned negative in year-over-year terms. The broader FHFA index bounced before going any lower than +2.8%.




Disclaimers are always in order when observing any "bounce" in the market or the economy: we can only see the latest bounce, and they can happen in both directions! In other words, we can't really know if prices will keep moving up at any particular pace. But by looking at month-over-month data, we can see price changes turning positive in February and remaining positive since then.

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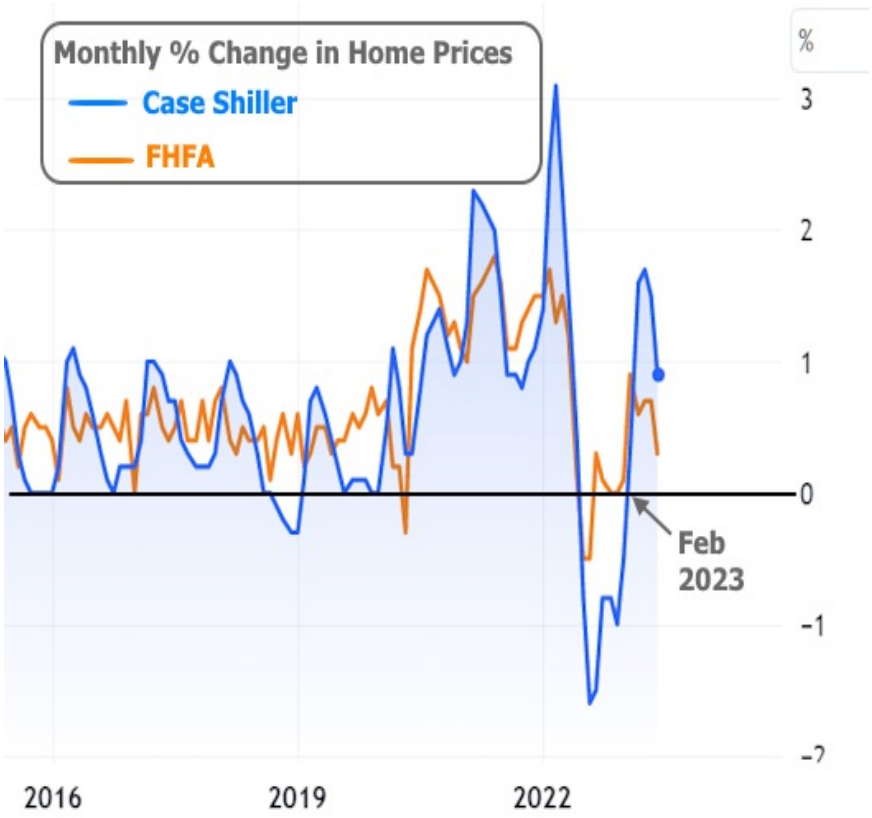


**Several Ways to Measure Jobs**

If we don't care too much about home prices to help us predict the future, and if inflation (and its delayed reaction to policy) is the reason we're trying to predict the future in the first place, where else can we look? Survey says "labor market" on that one, and the 2nd place answer isn't even close.

Weekly jobless claims data is about as timely as it gets. Claims are up a bit in 2023 vs 2022, but after spiking for a few weeks this summer, they've been in a flat trend near multi-decade lows. This week brought yet another confirmation of that trend.

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Zooming in:




Earlier in the week, the JOLTS report (job openings and labor turnover survey) came out much lower than expected. Openings were back to early 2021 levels and "quits" (an equally important metric showing how readily workers would give up a job, either because they don't need the income or because they can easily get another one) are now back in line with pre-pandemic levels.

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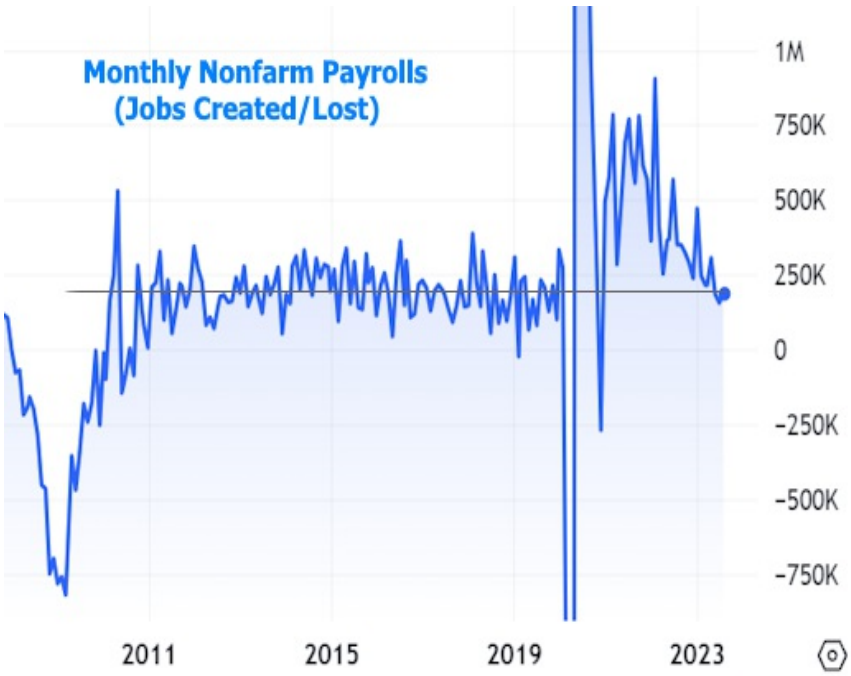
More than any other economic data this week, the chart above is the sort of thing that the market thinks the Fed should keep in mind when it meets to decide on the next rate hike (or lake thereof) in a few weeks. That said, the Fed would be within their right to conclude that openings and quits are normalizing-which is to be expected. Indeed, Powell has previously expressed surprise and bewilderment at the persistent levitation skills of this data series.

The data above would be balanced with the fact that payroll counts--while lower than they were a few months ago--are only now getting back in line with pre-pandemic norms.

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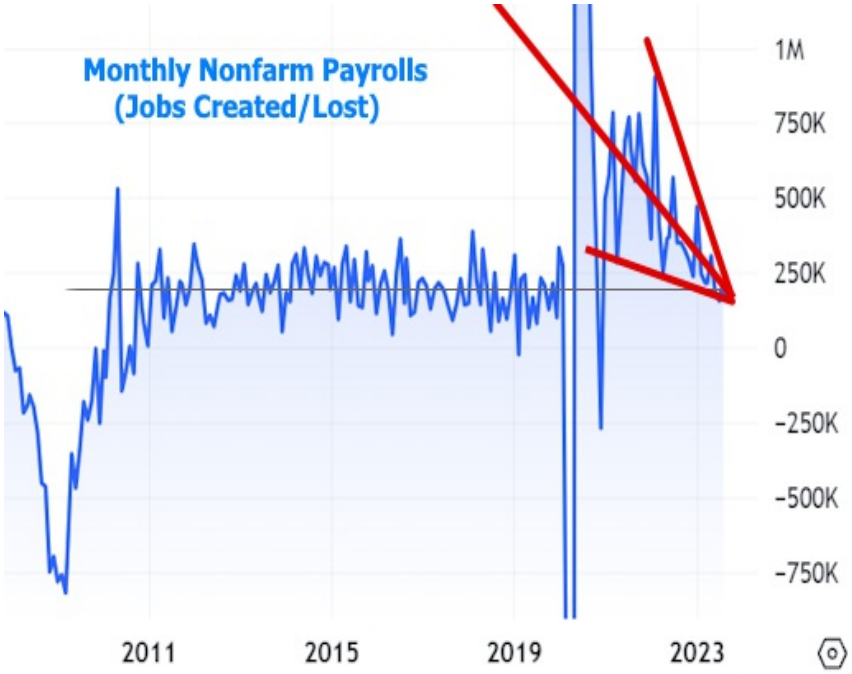
**It's Not Complicated! It's Simple!**

If you were to produce Family Feud, Junior Edition, and you polled 100 five year olds and asked them where the blue line in the chart above is going next, what do you imagine 95% of them would say? If you're mind when somewhere like this, you're not alone:




The Fed isn't stupid. They can see that trend. They also acknowledge there are things about this economic cycle that have surprised them, and that it's more dangerous in the long term to cut rates too soon as opposed to too late. Crude mark-ups aside, both the Fed would likely be a bit surprised that payrolls haven't moved lower, sooner. The market definitely seemed surprised on Friday. Bonds (represented by 10yr Treasury yields below) lost a good amount of the ground they'd gained earlier in the week after the job openings data. Stocks are included because they often mirror the movement in the 10yr when the market is adjusting its expectations for Fed policy.

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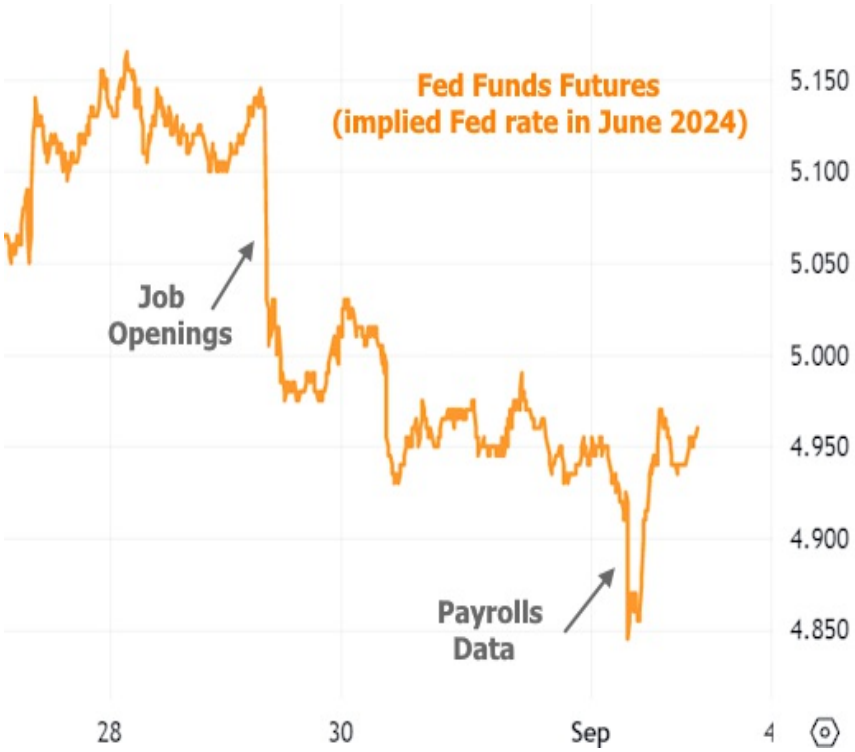
10yr Treasuries aren't the best tool for measuring Fed expectations. We can actually go right to the source with a chart of Fed Funds Futures--contracts that allow traders to bet on the level of the Fed Funds Rate for a specific month in the future. There's more movement in months that are a bit farther in the future. The following chart shows expectations for the middle of 2024.




Not as much of a give-back as the 10yr made it seem, but no improvement either. The important takeaway from this chart is that the market is giving the Fed some respect. Traders think the Fed will see the warning signs in the data and begin to consider rate cuts in 2024. The market is also acknowledging the soft landing potential for the economy with the harsher treatment of longer-term rates like 10yr Treasuries.

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To reiterate, while all of the interdependent forces influencing rates and the economy are complicated at first glance, if economic data keeps doing what it's been doing, things are actually pretty simple. The only thing that's unequivocally complicated is accurately predicting the future.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Tuesday, Aug 29** | | | | |
| 9:00AM | Jun Case Shiller Home Prices-20 y/y (%) | -1.2% | -1.3% | -1.7% |
| 9:00AM | Jun FHFA Home Price Index m/m (%) | 0.3% | | 0.7% |
| 9:00AM | Jun FHFA Home Prices y/y (%) | 3.1% | | 2.8% |
| 9:00AM | Jun CaseShiller 20 mm nsa (%) | 0.9% | 0.6% | 1.5% |
| 10:00AM | Jul USA JOLTS Job Openings | 8.827M | 9.465M | 9.582M |
| 10:00AM | Aug CB Consumer Confidence (%) | 106.1 | 116 | 117 |
| **Wednesday, Aug 30** | | | | |
| 7:00AM | Aug/25 MBA Refi Index | 407.1 | | 397.1 |
| 7:00AM | Aug/25 MBA Purchase Index | 144.9 | | 142 |
| 8:15AM | Aug ADP jobs (k) | 177K | 195K | 324K |
| 8:30AM | Q2 GDP Advance (%) | 2.1% | 2.4% | 2% |
| 10:00AM | Jul Pending Home Sales (%) | 0.9% | -0.6% | 0.3% |
| **Thursday, Aug 31** | | | | |
| 8:30AM | Aug/26 Jobless Claims (k) | 228K | 235K | 230K |
| 8:30AM | Jul Core PCE Inflation (y/y) (%) | 4.2% | 4.2% | 4.1% |
| 8:30AM | Jul Core PCE (m/m) (%) | 0.2% | 0.2% | 0.2% |
| 9:45AM | Aug Chicago PMI | 48.7 | 44.1 | 42.8 |
| **Friday, Sep 01** | | | | |
| 8:30AM | Aug Average earnings mm (%) | 0.2% | 0.3% | 0.4% |
| 8:30AM | Aug Non Farm Payrolls | 187K | 170K | 187K |
| 8:30AM | Aug Unemployment rate mm (%) | 3.8% | 3.5% | 3.5% |
| 10:00AM | Aug ISM Manufacturing PMI | 47.6 | 47 | 46.4 |
| **Monday, Sep 04** | | | | |
| 12:00AM | Labor Day | | | |
| **Wednesday, Sep 06** | | | | |
| 7:00AM | Sep/01 MBA Purchase Index | | | |
| 7:00AM | Sep/01 MBA Refi Index | 388.1 | | 407.1 |
| 9:45AM | Aug S&P Global Services PMI | 50.5 | 51 | 52.3 |
| 10:00AM | Aug ISM N-Mfg PMI | 54.5 | 52.5 | 52.7 |
| **Thursday, Sep 07** | | | | |
| 8:30AM | Q2 Labor Costs Revised (%) | 2.2% | 1.9% | 3.3% |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| 8:30AM | Sep/02 Jobless Claims (k) | 216K | 234K | 228K |


## 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.

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EQUAL HOUSING LENDER

EQUAL HOUSING OPPORTUNITY


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