



Mid Valley Financial

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Rates Bounce Higher as Inflation Data Throws a Wrench in The Outlook

Inflation is the biggest problem for interest rates these days and this week brought two reports that pushed rates higher. Both are released by the Bureau of Labor Statistics and both pointed toward higher inflation in different ways.

The Consumer Price Index (CPI), the first of the two reports, is a well-known source of drama for financial markets in the past few years. Rates are so sensitive to CPI these days that it only took a small deviation from expectations to push mortgage rates to the highest levels in 2 months.

The other report is the Producer Price Index (PPI). Despite being released by the same agency, this report hasn't had remotely as much of an impact over the past few years. That began to change in late 2023 as PPI surged sharply lower, helping to build a case for inflation calming down.

This week's release was the latest example of PPI getting the market's attention, but not because it built a case for lower inflation. In fact, it added a bit of insult to the already large injury done by CPI 3 days earlier.

The following chart shows the most important component of each of the two reports: the month over month "core" reading. Markets react more to core inflation because it is less prone to temporary distortions caused by food and energy prices. Note that core PPI is still significantly more volatile than core CPI.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00

Freddie Mac

30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Rates as of: 7/22

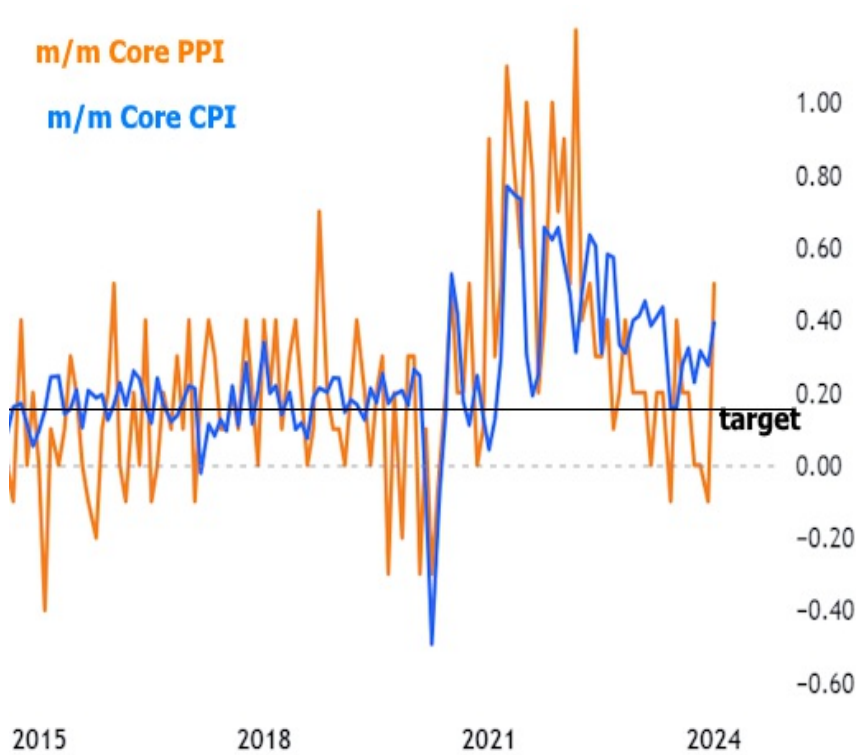
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2525	+0.0146
30 YR Treasury	4.4725	+0.0257

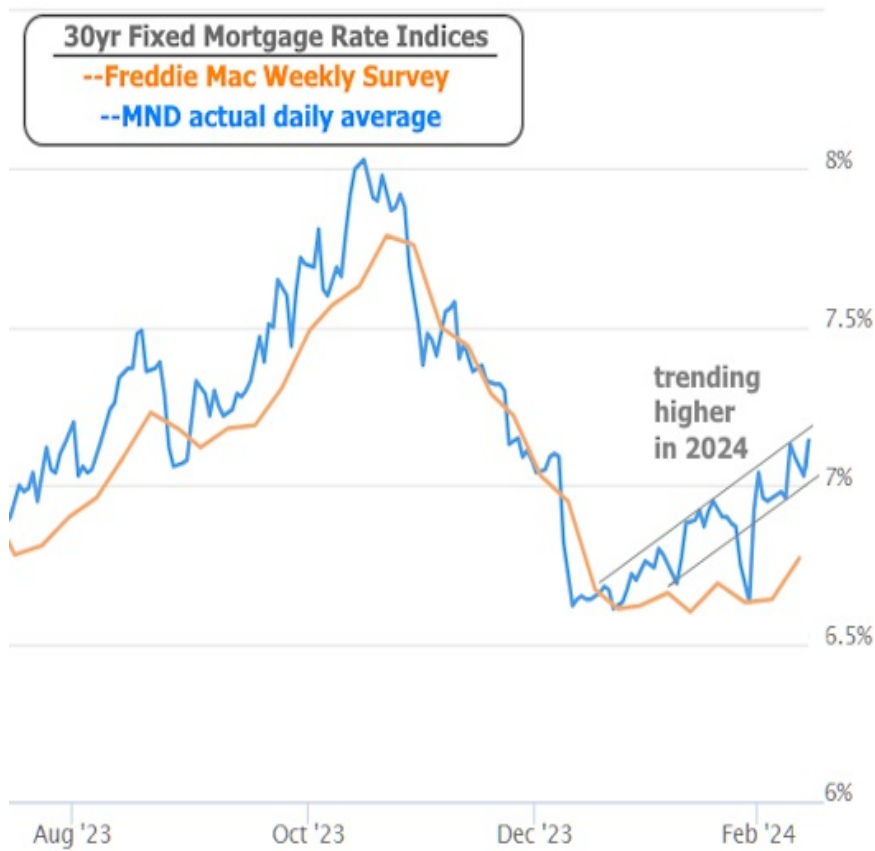
Pricing as of: 7/22 5:05PM EST

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%



Volatility aside, this was the biggest spike in 2 years to the highest levels in nearly as long. Thankfully, the market still isn't willing to move nearly as much for PPI, so the damage was not nearly as big as the CPI reaction in terms of upward rate movement. Nonetheless, it was enough to take rates up to slightly higher 2-month highs and keep the 2024 uptrend intact.



(Curious why the two lines are so far apart in the chart above? See our coverage of this phenomenon in [last week's newsletter](#))

To be clear, the 2024 uptrend in rates would have been intact with or without PPI. It didn't move the needle enough to make things much worse and it certainly could not have moved the needle very far in the opposite direction. We can see the bond market's relative reaction to each report by looking at minute-by-minute trading in 10yr Treasuries. Both the movement and the volume tell the story.



If PPI is guilty of anything, it's the crime of contributing to a delay in a rate reckoning. Part of the reason the market was willing to recover a good portion of the post-CPI losses was the notion that it could end up being an outlier--a small splash in a sea of data that generally confirmed inflation was heading the right direction.

With both reports on the same page, market participants have to wonder if inflation is truly on the right path. Many Fed officials have reminded us not to focus too much on one bad month of inflation data, but that's not exactly the point. The point is that IF this week's CPI and PPI had been slightly better than expected as opposed to worse, the Fed would be that much closer to having the confidence needed to consider rate cuts in March, especially if the March CPI report ends up in lower.

As it stands, this week's data was somewhat of a reset that delays such realizations for the Fed. Even if the CPI drops sharply in March, this week's report will make them think twice about declaring victory.

In addition to competing inflation narratives, there's also the rest of the economy to consider. We don't have to go back more than 2 weeks to see the other massively important economic report (the big jobs report) showing job creation surging much faster than expected. Like CPI, this could also prove to be an outlier, but not one that would be forgotten in one short month. The jobs report and CPI singlehandedly pushed 2024's Fed rate expectations up and out of a low, sideways range. It will take some time and convincing to undo that damage.



In housing-specific news, this week was a mixed bag with new residential construction falling well short of forecasts. The headline Housing Starts metric stood at 1.33 million for January after hitting 1.56 million in December. Despite that drop, homebuilders were in better spirits according to the Housing Market Index published by the National Association of Homebuilders (NAHB). Perhaps the divergence can be reconciled by considering that builder sentiment had been extremely low while housing starts have been declining at a far more measured pace.



Markets are closed on Monday next week for Presidents Day. The most noteworthy calendar event is the release of Minutes from the most recent Fed meeting. This is not a new policy or rate announcement--just a more detailed account of the conversation at the last meeting. In addition multiple Fed speakers will hit the wires throughout the week, potentially helping refine the approach to the next round of jobs/inflation data.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Feb 13				
8:30AM	Jan m/m Headline CPI (%)	0.3%	0.2%	0.2%
8:30AM	Jan y/y CORE CPI (%)	3.9%	3.7%	3.9%
8:30AM	Jan y/y Headline CPI (%)	3.1%	2.9%	3.4%
8:30AM	Jan m/m CORE CPI (%)	0.4%	0.3%	0.3%
Wednesday, Feb 14				
7:00AM	Feb/09 MBA Purchase Index	149.6		153.5
7:00AM	Feb/09 MBA Refi Index	489.6		500.2
Thursday, Feb 15				
8:30AM	Feb/10 Jobless Claims (k)	212K	220K	218K
8:30AM	Jan Import prices mm (%)	0.8%	0%	0%
8:30AM	Feb Philly Fed Business Index	5.2	-8	-10.6
8:30AM	Jan Retail Sales (%)	-0.8%	-0.1%	0.6%
9:15AM	Jan Industrial Production (%)	-0.1%	0.3%	0.1%
10:00AM	Feb NAHB housing market indx	48	46	44
Friday, Feb 16				
8:30AM	Jan Housing starts number mm (ml)	1.331M	1.46M	1.46M
8:30AM	Jan Building permits: number (ml)	1.47M	1.509M	1.493M
8:30AM	Jan Core Producer Prices MM (%)	0.5%	0.1%	-0.1%
8:30AM	Jan Core Producer Prices YY (%)	2%	1.6%	1.8%
10:00AM	Feb Consumer Sentiment (ip)	79.6	80	79
Wednesday, Feb 21				
2:00PM	FOMC Minutes			
Thursday, Feb 22				
8:30AM	Feb/17 Jobless Claims (k)	201K	218K	212K
9:45AM	Feb S&P Global Services PMI	51.3	52	52.5
10:00AM	Jan Existing home sales (ml)	4M	3.97M	3.78M

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Who is Mid Valley Financial?

Mid Valley Financial, located in Fresno, CA, is the Central Valley's premier destination for a wide range of residential and commercial real estate loans. Our commitment to excellence has made us a trusted partner for property buyers and investors seeking tailored financial solutions.

****Why Choose Us:****

With a track record spanning back to our inception in 1985, we have established ourselves as a reliable and innovative lender. We proudly serve properties exclusively within California, having funded loans in all 58 counties of the state. Our deep-rooted experience enables us to navigate complex loan scenarios with expertise and efficiency.

****Our Approach:****

At Mid Valley Financial, we prioritize your financial goals. Whether you're a first-time homebuyer, envisioning your dream property, refinancing an existing mortgage, or looking to tap into your property's equity, our seasoned loan officers offer a wealth of knowledge and over 300 years of collective experience. We ensure that your funds are prepared when you need them, providing a smooth and swift loan process.

****Unlocking Possibilities:****

As one of California's leading direct lenders, we've streamlined the loan process, minimizing obstacles that often deter borrowers. Many of our clients receive approvals within an hour, showcasing our dedication to quick and hassle-free solutions.

****Your Journey with Us:****

Contact the MVF team today and let us put your journey to property ownership on cruise control. Our mission is to empower borrowers while fostering enduring and meaningful relationships. With highly competitive rates, a commitment to transparency, and a dedication to your financial success, Mid Valley Financial is your partner in realizing your real estate aspirations.

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