



Mid Valley Financial

Mortgage Banker, Since 1985

Broker CA DRE#01206057 | NMLS ID#219418

7644 N. Palm Avenue Fresno, CA 93711

Office: (559) 432-8221

Mobile: (559) 432-8221

Fax: (559) 432-8298

info@mvloans.com

[View My Website](#)

Sharply Lower Inflation Brings Fed Rate Cuts Into Focus

There was a lot riding on this week's economic data and it delivered in a big way. The Consumer Price Index (CPI) has had the biggest influence on interest rates of any of the scheduled monthly economic reports, and for good reason. It is one of the two biggest and most detailed inflation reports on any given month, and it comes out about 2 weeks before the other one.

That's incredibly important at this moment in economic history which has seen the first major battle against hyperinflation in more than 40 years. CPI had been an inconsequential report in the decade leading up to the post-pandemic inflation explosion, but ever since then, it's a bellwether for a potential shift.

Winds of change have seemingly picked up speed a few times over the past year, but the first few months of 2024 brought the most recent reality check. In other words, inflation looked to be dropping in late 2023, but then bounced noticeably in early 2024. It's only been in the last few months that the data has grown more favorable and really since the CPI report in early June that the market could begin to ask the question: is inflation finally turning a corner?

With that in mind, this week's CPI report was in a unique position to speak to the corner turning question. The answer ended up being great for rates.

CPI is a complex report, but the most important line item is "Core" CPI which excludes more volatile food and energy prices. The Federal Reserve targets a core inflation rate of 2% in year over year terms (or 0.168% in month over month terms). That's one more reason the early June report was exciting: monthly core CPI hit 0.163.

How'd we do this time around? Was 0.163 a fluke or a sign of a shift? While we can't know what the next report will look like, at 0.065, we can definitely say it's moving in the right direction.

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

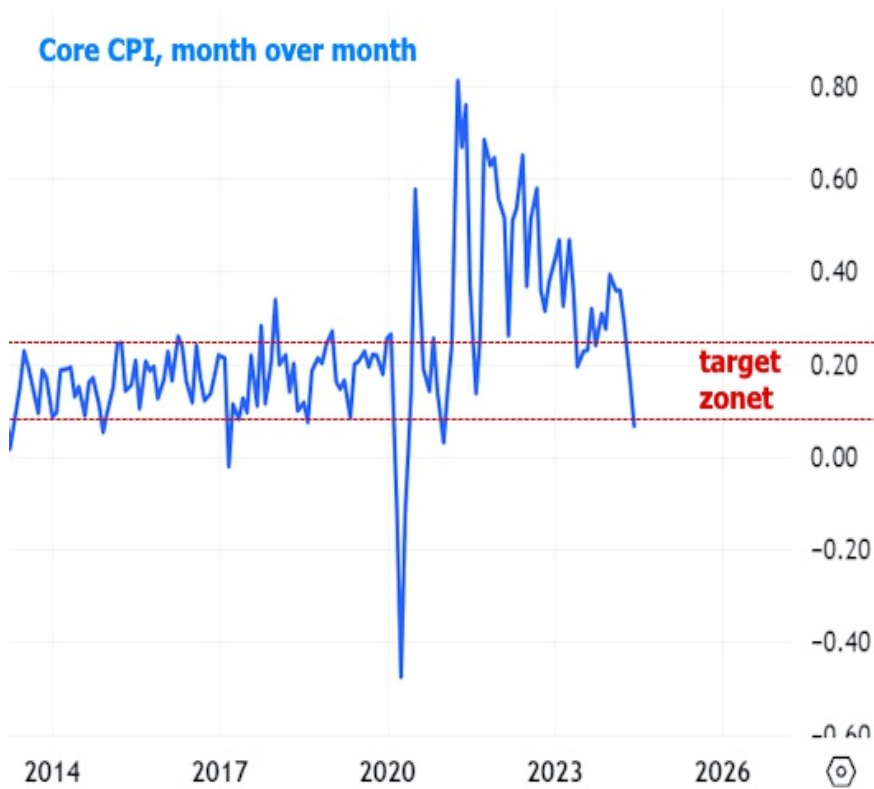
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.37	-0.03
MBS GNMA 5.5	99.76	-0.02
10 YR Treasury	4.2613	+0.0234
30 YR Treasury	4.4786	+0.0318

Pricing as of: 7/22 3:07PM EST

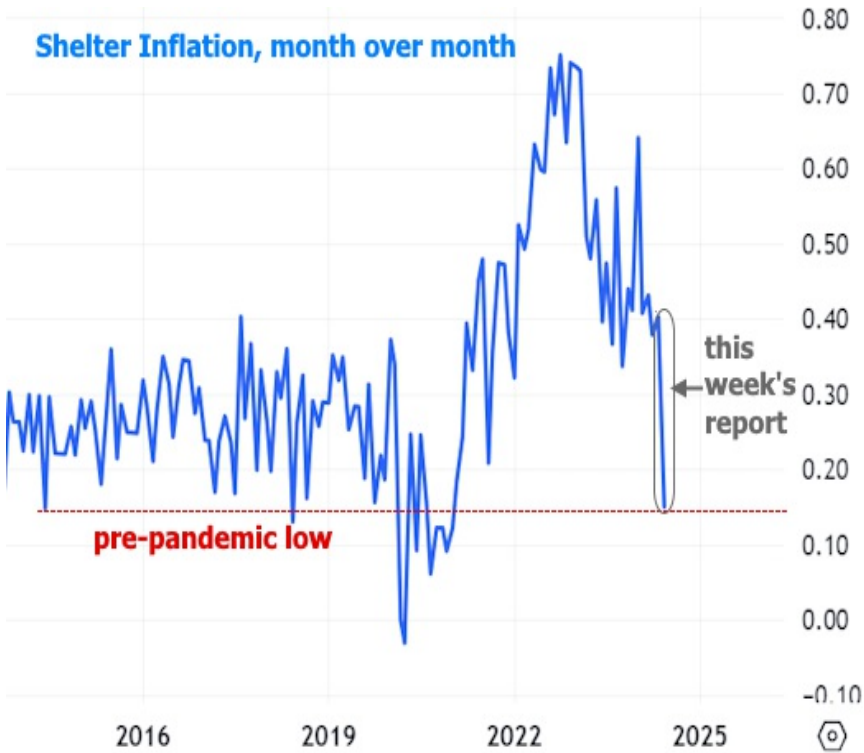
Recent Housing Data

		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%



As the chart suggests, we can also say that monthly core inflation is not only the lowest it's been since topping out in 2021, but it's also in line with the lowest levels seen in more than a decade, initial covid lockdown months notwithstanding.

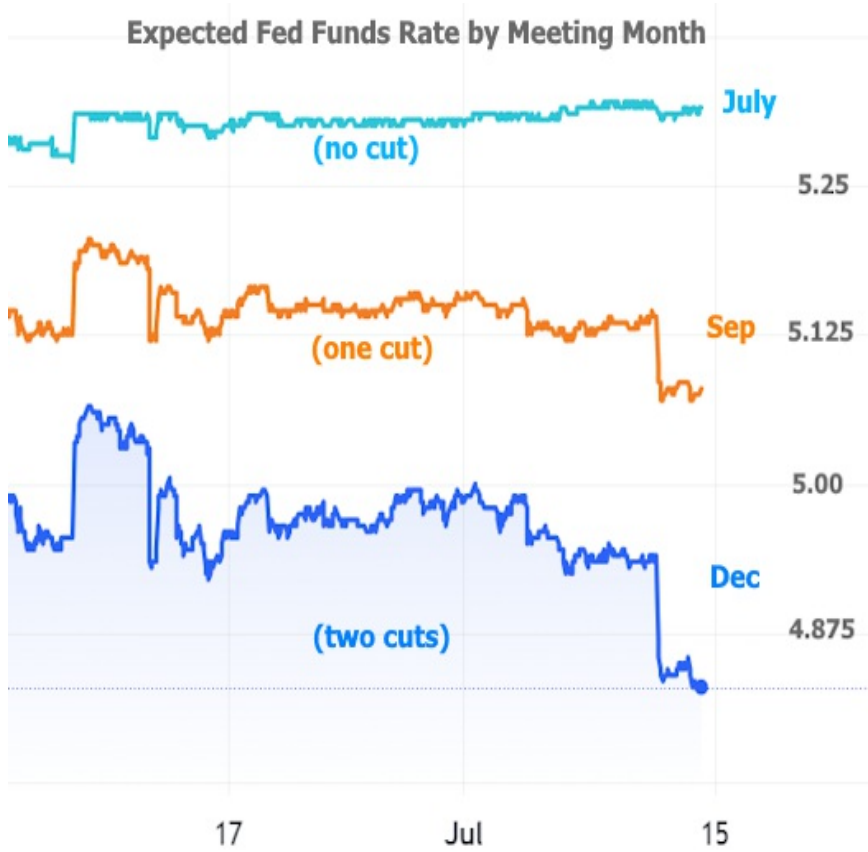
One of the persistent "yeah buts" that has held investors back from believing in the sustainability of low inflation readings has been elevated housing inflation. CPI measures this under the "shelter" category, which had fizzled sideways at levels that were too high for the Fed's liking for months and months. This week's data not only marked the first big break below that "fizzle" range, but it also showed shelter inflation back at the lower end of the pre-pandemic range. Even if it drops no further from here, this is fertile soil for Fed rate cuts.



So why isn't the Fed cutting already? Part of the reason is that they want to be absolutely sure inflation is going to go all the way back to 2%. Again, that's an annual target, and while the last two CPIs imply a much lower annual number, the last 12 CPIs are definitely not quite there yet.



To be fair, the Fed won't wait until this line actually hits 2%. They just want to see one of two things: either another CPI report like this week's, or some weakness elsewhere in the economy that threatens the labor market and cools wage growth. The market is already re-ramping rate cut bets for 2024, with the first seen in September and the 2nd in December.



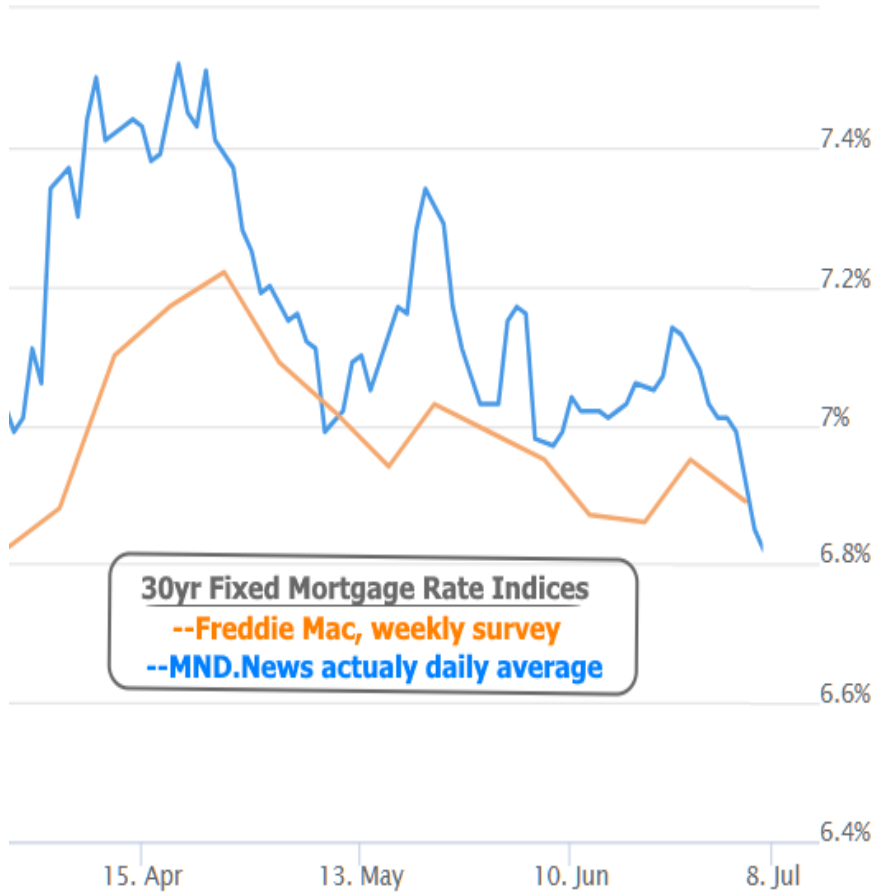
As for the more tangible reaction for consumer rates in the short term, CPI's impact is easily seen in terms of 10yr Treasury yields.



In the bigger picture, this victory actually goes a long way toward reinforcing the existing trend leading toward gradually lower rates. The CPI-driven drop helped yields make a new low--one of the things needed to establish and maintain such trends.



Mortgage rates benefited as well. Weekly survey numbers have yet to capture the impact, largely because CPI day is not part of the survey methodology. But the shift is easy to see in daily rate tracking.



The next week and a half will be relatively less exciting in terms of scheduled economic data. The key exception would be the Retail Sales report on Tuesday. Otherwise, the next big ticket doesn't arrive until Friday, July 26th. At that point, the stakes will be getting high yet again with the following weeks bringing a Fed announcement, the jobs report, and ultimately, the next CPI report.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jul 08				
11:00AM	Jun Consumer Inflation Expectations	3%		3.2%
3:00PM	May Consumer credit (bl)	\$11.35B	\$10B	\$6.4B
Tuesday, Jul 09				
6:00AM	Jun NFIB Business Optimism Index	91.5	89.5	90.5
Wednesday, Jul 10				
7:00AM	Jul/05 MBA Purchase Index	144.3		142.9
7:00AM	Jul/05 MBA Refi Index	532.3		544.1
Thursday, Jul 11				
8:30AM	Jun m/m CORE CPI (%)	0.1%	0.2%	0.2%

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	Jun y/y CORE CPI (%)	3.3%	3.4%	3.4%
Friday, Jul 12				
8:30AM	Jun Core Producer Prices MM (%)	0.4%	0.2%	0%
8:30AM	Jun Core Producer Prices YY (%)	3%	2.5%	2.3%
10:00AM	Jul Consumer Sentiment (ip)	66.0	68.5	68.2
10:00AM	Jul Sentiment: 1y Inflation (%)	2.9%	2.9%	3%
10:00AM	Jul Sentiment: 5y Inflation (%)	2.9%	3%	3%
Monday, Jul 15				
8:30AM	Jul NY Fed Manufacturing	-6.60	-6	-6.00
Tuesday, Jul 16				
8:30AM	Jun Retail Sales (%)	0%	0%	0.1%
8:30AM	Jun Import prices mm (%)	0%	0.2%	-0.4%
10:00AM	Jul NAHB housing market indx	42	44	43
Wednesday, Jul 17				
8:30AM	Jun Housing starts number mm (ml)	1.353M	1.30M	1.277M
8:30AM	Jun Building permits: number (ml)	1.446M	1.40M	1.399M
9:15AM	Jun Industrial Production (%)	0.6%	0.3%	0.7%
Thursday, Jul 18				
8:30AM	Jul/13 Jobless Claims (k)	243K	230K	222K
8:30AM	Jul Philly Fed Business Index	13.9	2.9	1.3

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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