MORTGAGE RATES WEEKLY

NMLS #8588

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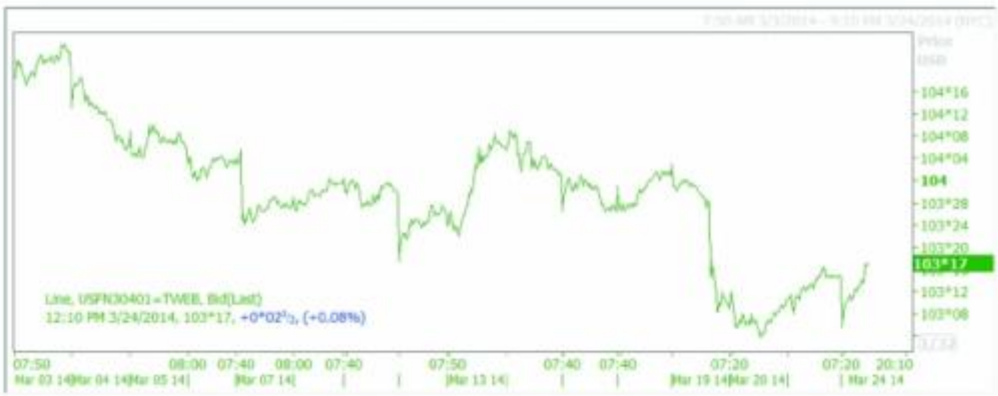

What the Yellen just happened

Mortgage prices fell last week almost a half point, driving rates up over .125 percent. That isn't a large move, but the direction isn't consistent with the news we received on the economy. On the housing front, we had Housing starts, Building Permits and Existing Home Sales. These numbers reflected the weakness that we have seen from the housing market all winter. CPI came in at the expected .1 percent and continues to show that inflation should be a major concern, although that could be changing. I will get into some of the inflation risks we may be starting to see in a future article.

The economic news wasn't last week's big news, though. The big news, for the week, was Janet Yellen's first FOMC meeting as the Fed Chairman. Long known as a dove, it was assumed that Yellen would be slow to raise rates as long as unemployment remains high and inflation remains low. In Yellen's 2010 nomination hearing for Vice Chair of the Fed, she talked about the Phillips curve model that relates slack in the market (unemployment) to inflation, and stated that it has solid theoretical and empirical support.

So what did she do? Not nearly as much as the market seems to think she did. As expected, the Fed "tapered" another 10 billion reducing asset purchases to $55 billion. They also removed the 6.5% unemployment threshold. That wasn't a surprise. They replaced it with language focused on the two typical topics that Fed always focuses on; Full employment and 2 percent inflation.

The Fed's Summary of Economic Projections did reflect some optimistic views from many of the members and introduced the Fed actually raising the fed funds rate, with the average in the neighborhood of 1 percent by the end of 2015 and 2 percent by the end of 2016. Although this is did reflect a little bit more of a hawkish tone, it certainly wasn't shocking. The big news seemed to be when Yellen answered a reporters question about when the Fed might start raising rates. Her answer was that is might be 6 months after the end of QE. The market assumption was 12 months. The good news is, I think this was more of a poorly though out response than a suddenly more hawkish Fed Chairman.

So now that we are through that, where do we focus? The economy, of course. Everything else is just noise. Important noise, but only important in the short run as the data will ultimately dictate where we go from here.

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