

## Mortgage Rates Move Slightly Lower, Despite Mixed Signals in Inflation Data

Today's big to-do was the release of August's Consumer Price Index (CPI), a critical inflation report with the power to significantly influence rate momentum. In a nutshell, if inflation came in higher than expected, odds favored higher rates and vice versa. Luckily, those odds didn't pan out.

While headline inflation at the core level (excluding food/energy) was right in line with expectations in year-over-year terms, the monthly count was a bit higher than expected. The variation is due to rounding (i.e. core monthly inflation was 0.278% but rounded up to 0.3%). Markets had been expecting 0.2%.

The 0.3 vs 0.2 result in monthly core inflation should or could have been enough to push rates higher today. Indeed, bonds initially agreed as both 10yr Treasuries and mortgage-backed securities (the stuff that dictates mortgage rates) shot to their worst levels in several weeks in the moments following the data.

But then the paradoxical reaction set in. After about an hour, bonds were back to pre-data levels and they continued to make modest improvements into the afternoon. This allowed the average mortgage lender to offer slightly lower rates compared to yesterday, but the change is small enough that it would only show up in the form of slightly lower upfront costs (the rate itself would be the same as yesterday).

As for the "why" behind the paradoxical reaction, let's put it this way: if rates had moved slightly higher today, we wouldn't take the time to tell you why they should have gone lower, nor would we have much to point to inside the CPI data to support that conclusion. As such, the best we can say is that traders must have been braced for an even higher result and the actual numbers were close enough to the range of expectations to avoid triggering new concerns.



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