Rodney's Take

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The Coolheaded Fed and Mortgage Rates

I've always believed that the Federal Reserve and other parts of the government get data sooner than the markets, but if that was the case last week, then Chair Powell played it very cool. If Powell and his cohorts knew during their meetings on Tuesday and Wednesday that the U.S. Bureau of Labor Statistics (BLS) would release a red-hot jobs report on Friday, you'd think he would be more hawk than dove. While he did stand firm on several more rate hikes, he sounded almost disinterested and gave no clue that their greatest concern, an inflation-inducing jobs market, was about to add a half-million jobs.

Maybe it was the easing Employment Cost Index from earlier in the week that allowed the central bankers to breathe easier, or perhaps it was the falling growth rate of average hourly earnings. Both metrics point to less wage pressure on inflation, which is the ultimate goal of the Fed, but they don't tell us where that pressure will stop, or when.

Employers still report that they can't fill positions, and the economy shows almost two job openings for every unemployed person. At this point, the level of openings compared with available workers has been so high for so long as to strain belief. Are employers actually losing business because they can't hire people? If so, wouldn't they adjust the main variable, wages, to remedy the situation? If they say paying more won't work because of the effects on existing employees or the lack of power to raise prices, then we're getting the wrong message. The BLS should be reporting that there are

almost two jobs for every unemployed worker *at current wages*. Otherwise, they make it sound like a communications or geographical issue, where the available workers can't figure out how to find the willing employers, or perhaps the workers and jobs are in much different locales.

While the financial world has been focused on jobs and future Fed actions, mortgage rates have been on the move. After peaking at 7.08% in early November, the national average 30-year mortgage rate has fallen almost a full point, to 6.09%. Given that we've just lived through a decade of mortgage rates in the 3% to 4% range, 6.09% probably doesn't look like a deal to would-be homebuyers, but the trajectory is pointing in the right direction. I'm hoping that when rates start with a "5" we will start to see more movement in the sector, with prices firming up, although not rising, and more existing homeowners putting their abodes on the market.

A couple more data points that might give the housing market a nudge are the number of vacant existing homes and rental properties. Only 0.8% of existing homes are vacant, whereas just 5.8% of rental properties are vacant. Until recently, rental vacancies and existing home vacancies hadn't been this low since 1984 and 1978, respectively. Since reaching 11.1% and almost 3% for rentals and existing homes during the Great Financial Crisis, vacancy rates drifted lower for a decade. As I've discussed before, tight inventory limits the wiggle room in residential real estate, acting as a cushion that won't let prices fall too far.

If we think of these two situations together, it could bode well for the markets in the months ahead. If the Fed takes the jobs numbers from the BLS with a grain of salt because they aren't leading to wage-push inflation and investors drive bond rates (and, therefore, mortgage rates) lower, 2023 could shape up to be a decent year.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.