October 10, 2024

The 50 basis point cut, the first since March 2020, was anticipated by many analysts, and the Fed did not disappoint -- In fact, their announcement included language indicating further rate reductions are on the way. As the Fed becomes increasingly confident that inflation is at bay, the focus on the labor market will be guiding policy for the foreseeable future.

October 4th’s unexpectedly strong jobs report, with a gain of 254,000 jobs and a slight reduction of the unemployment rate to 4.1 percent, likely means the next cut will be a more moderate quarter point. And all of that good news for the housing market as lower rates improve affordability for buyers and entice more sellers to list. The Fed meets again in early November Nov, and all eyes will be on Chairman Powell and how the Fed sees the pace of easing going forward.

This brings to mind several key questions regarding the impact of the Fed rate cut. Is the optimism that it will bring lower mortgage rates, higher inventory, more mortgage applications and a gain in pending sales warranted? In other words, are we at an inflection point in the market?

The answer is that while the weekly data prints are moving in the right direction, it may be too soon to tell. What we do know is mortgage rates

started to fall in early July as the anticipated rate cut was “baked in” by the markets. Overall we have seen a reduction in rates from a high of near 8 percent in October 2023 to 6.09 per cent according to last week’s the weekly survey from Freddie Mac. Fannie Mae’s Home Purchase Sentiment Index for September increased to its highest level in more than 2 years as consumers reported optimism that mortgage rates would to decline over the next 12 months. How much is enough? According to a survey done last year from John Burns Research & Consulting, the “magic” or highest acceptable mortgage rate for a new home purchase is 5.5 percent. So, the drop to 6 per cent is welcome but may not be enough to ignite buyer interest. At the very least, we know any rate cut will take time to work through the markets.

The number of homes for sale in the FMLS market area has been increasing since the beginning of last year. New listings in September were 12% higher than last year but remember, the total number of active listings remains well below pre-pandemic levels. Context is key here. While the anticipated increase in activity driven by lower rates has yet to emerge but we’ll be looking for some movement in the pending sales data for September. Stay tuned.

There are several economic shocks that could impact the course of rates over the coming months that bear mentioning. Hurricanes Helene and Milton came barreling out of the gulf in the last two weeks and wreaked havoc on the southeast, including parts of Georgia, Florida, and the Carolinas. Initial estimates of $200 billion in damages may be conservative and the directly impacted communities will need a lot of time to recover.

In addition, the escalation of conflict in the Middle East is raising the potential of an oil price shock that would have a negative impact of the world economy and re-ignite inflation across the globe. A disruption in the supply of oil will mean higher energy prices and this price pressure will quickly work its way to consumers. On a positive note, the settlement of the dockworkers strike after less than a week means there is one source of supply-chain disruption that happily is no longer at issue.

This leaves us with a supply and affordability constrained housing market that needs a continuation of rate reductions in order to find its balance and move ahead. The September data will be our first clue.