Palisadian-Post
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Page 14 Thursday, October 12, 2023 ◆ Pacific Palisades, California $1.50

Inflation and Interest

Unraveling the Future of Mortgage Rates

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Special to the Palisadian-Post

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If you're considering a home purchase within the year, you're likely keeping a watchful eye on mortgage rates. These rates directly impact what you can comfortably afford when securing a home loan.

Given that today's rates are higher than what many of us have seen in a long time, you could be wondering whether they'll come down anytime soon. To answer this question, let's look at the big picture of where rates have been historically, where they are today in part due to inflation and where they're likely headed in the future.

First, let's provide context for mortgage rate fluctuations for the past several decades.

Freddie Mac has meticulously monitored the 30-year fixed mortgage rate since April 1971. Its weekly release of the Primary Mortgage Market Survey offers a crucial lens into rate trends.

If you were to look at its chart, you'd see that between 1971 and 2001, rates fluctuated between 7% and 18%. But in the early 2000s, rates started coming down, with rates in the fives by the end of the decade.

Today's rates are in the sevens—and feel high because buyers have grown accustomed to mortgage rates oscillating between 3% and 5% over the past 15 years. So, even though today's rates are in line with the 52-year average, they still elicit a degree of sticker shock from many, especially first-time buyers. And while many buyers have adapted to the increase, a lower rate would undoubtedly be met with enthusiasm.

To gauge the feasibility of rates coming down, let's look at how inflation impacts mortgage rates.

Since early 2022, the Federal Reserve has been actively trying to curb inflation. This pursuit is significant, as historical data points to a strong link between inflation and mortgage rates.

If you track the average 30-year fixed-rate mortgage rate and the average annual inflation rate, you'll see the two often move in sync. In the past, when inflation came down, mortgage rates followed, and vice versa. However, although inflation has shown a degree of moderation this year, mortgage rates have yet to echo this decline.

But the market may finally be on the cusp of mortgage rates aligning with inflation and trending downward. Especially since the Federal Reserve did not hike the benchmark rate at its last meeting. There will be two more meetings by the end of the year, which will shed more light on where inflation, and mortgage rates, are headed.

That said, most economists predict rates in the sixes by mid-2024. That might not be the massive change some are hoping for, but depending on your price point and how much you put down, a 1% change could mean between a few hundred to a few thousand dollars per month in savings.

For some buyers, that's worth waiting for. Others may prefer to buy now while there's more negotiating power and refinance when rates come down.

Either way, it's helpful to be realistic about market expectations when determining your timeline and planning for your future.

Anna Bilan-Vogelsang is a sales partner at Amalfi Estates, whose team has sold over $2 billion in properties and was selected by the Wall Street Journal as one of the top 10 teams in the country out of one million agents. If you are thinking of buying a home or selling your own, contact Bilan-Vogelsang at 310-999-3703 or anna@amalfiestates.com. Follow her on Instagram @anna.bilan.vogelsang for new listings and local market updates.