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The FRED® Blog

What's the story with mortgage rates?

Accounting for inflation's effects

Posted on June 2, 2022

FRED ECONOMIC DATA | ST. LOUIS FED

CPI **+3.2** % Chg. from Yr. Ago on Feb 2024

Civ. Unemploy. Rate **3.9** % on Feb 2024

10-Yr. Treas. Rate **4.27** % on 2024-03-21

Real GDP **+3.2** %, Comp. Annual Rate of Chg. on Q4 2023

IP **+0.1** % Chg. on Feb 2024

Payroll Employment **+275** Chg., Thous. of Persons on Feb 2024

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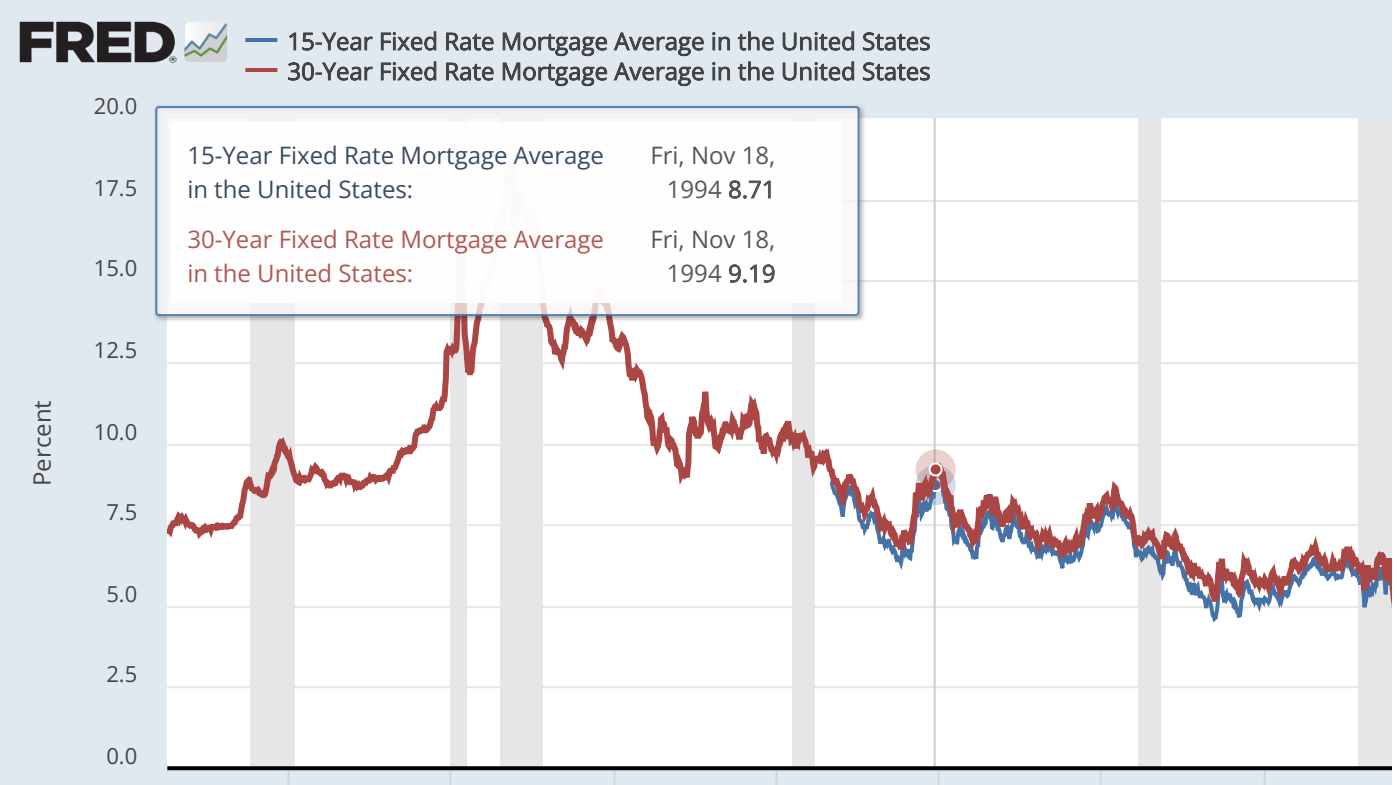

No doubt about it, mortgage rates are up. The FRED graph above shows the rates for the most popular fixed-rate mortgages: the 15-year and 30-year. Every data point is the average rate offered at that point in time for new mortgages. Although the graph shows the recent data, at this point very few people are actually paying these increased rates.

One could say that current mortgage holders are enjoying a good deal: They're paying a lower rate, and inflation is higher. Inflation matters because mortgage debt is nominal. So, if inflation increases all prices (and in particular wages), paying a nominal debt such as a mortgage becomes much easier. One might then consider that even new mortgages are also a good deal when there's inflation.

The previous low-rate mortgages were not set during a time of higher inflation, and those who set the rates must not have anticipated the higher inflation to come. But the new mortgage rates now include the anticipation of higher inflation, and thus this inflation advantage is factored into the mortgage rate.

- Accounting for the Effects of Fiscal Policy Shocks on Exchange Rates through Markup Dynamics
- Trade Risk and Food Security

Archives

- March 2024
- February 2024
- January 2024
- December 2023
- November 2023
- October 2023
- September 2023
- August 2023
- July 2023
- June 2023
- May 2023
- April 2023
- March 2023
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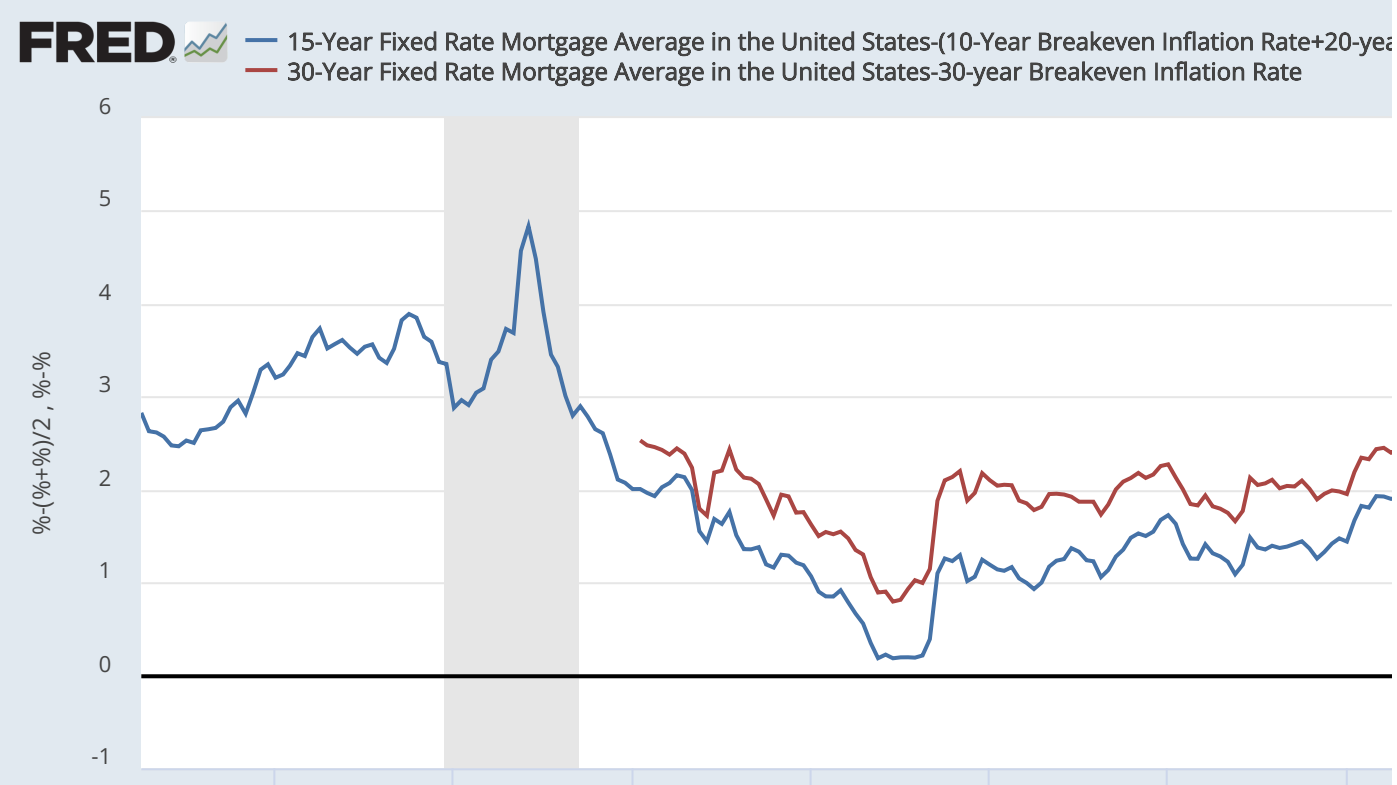
- September 2022
- August 2022
- July 2022
- June 2022
- May 2022
- April 2022
- March 2022
- February 2022
- January 2022
- December 2021
- November 2021
- October 2021
- September 2021

To look at the data behind this argument, we use the FRED graph below. Here, we deflate each mortgage rate by the corresponding "breakeven" rate, which takes into account the anticipated average inflation from the point of measure over the relevant number of years. (Unfortunately, there's no 15-year breakeven rate, so we average the 10- and 20-year rates using FRED's fancy tools.)



The result is actually not that different. The real mortgage rates are still significantly up. The reason is that inflation expectations over such long horizons (15 to 30 years) have not moved that much, likely reflecting a general expectation that inflation won't last. Our last FRED graph documents those expectations.

- August 2021
- July 2021
- June 2021
- May 2021
- April 2021
- March 2021
- February 2021
- January 2021
- December 2020
- November 2020
- October 2020
- September 2020
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- July 2020
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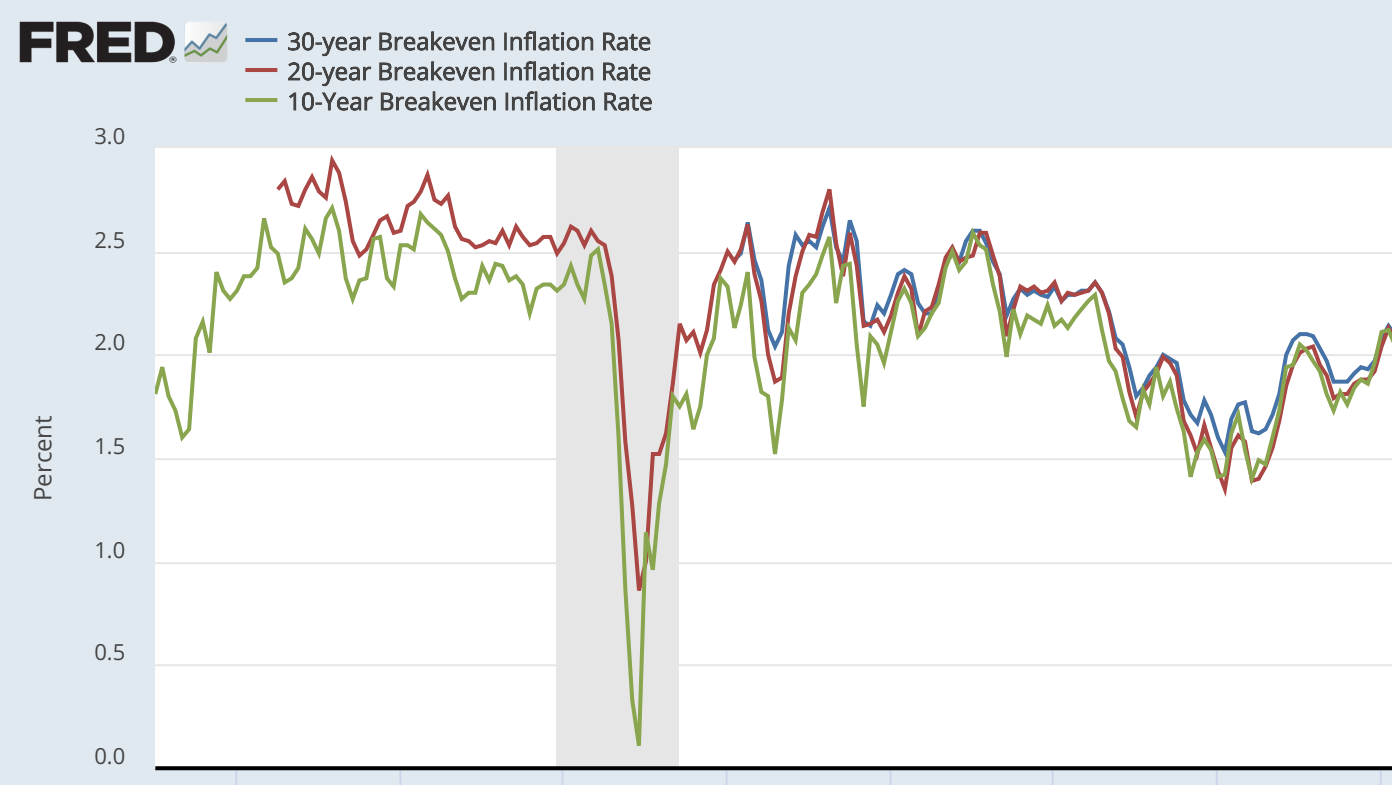
- June 2018



How these graphs were created: First graph: Search FRED and select the 15-year mortgage rate. Once you have the graph, use the "Edit Graph" panel's "Add Line" tab to search for and add the 30-year mortgage rate. Second graph: Start with the first, use the "Edit Line" tab for the 30-year mortgage series: Search for and add the "Breakeven 30-year" series and apply formula *a-b*. In a similar way, add two series to the 15-year mortgage line: "Breakeven 10-year" and "Breakeven 20-year," and apply formula *a-(b+c)/2*. Third graph: Use the interest rate spreads release to select the relevant breakeven rates and click "Add to graph."

Suggested by Christian Zimmermann.