BULL & BEAR BULLETIN

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Rising Rates

For the first time in years, the Federal Reserve (Fed) signaled its intent to withdraw stimulus from the economy and to begin a rate hike cycle. Estimates call for as much as four interest rate hikes by the Fed in 2022 followed by further hikes in 2023. What will be the impact to the average consumer?

For those looking to buy a house or to refinance an existing home, higher interest rates are in your future because rising rates are already here. 30-year mortgage rates dipped below 3% for the first time in August of 2020, allowing home buyers the luxury of saving on interest costs. Banks were inundated with refinance applications for these new all-time low rates. November 10, 2021, was the last day the national average 30-year mortgage was below 3%. Rates have been rising along with Fed rhetoric of pending rate hikes and inflation worries.

In January 2022, the national average for the 30-year loan was at 3.11% and has now risen to 3.75%. In effect, mortgage rates have risen a full percentage point in the last year. Refinance applications at banks are still running at a brisk pace, as consumers fear even higher rates.

Auto loans, which typically range from thirty-six to sixty months and are less rate sensitive due to their shorter duration, have not had higher rates materialized yet. The typical forty-eight month loan is averaging 4.58% currently and has not changed significantly in the past year. If the last rate hike cycle is any indicator, auto loan rates will rise in tandem with Fed rate hikes at least for the first few. If the Fed increases rates in March by 0.25% expect a similar increase for auto loans.

These hikes, which are designed to tame inflation will also have the effect of increasing borrowing costs for consumers that in turn will slow economic growth. For those in the market, try to lock in the low rates while you can.

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