

Steve Chizmadia

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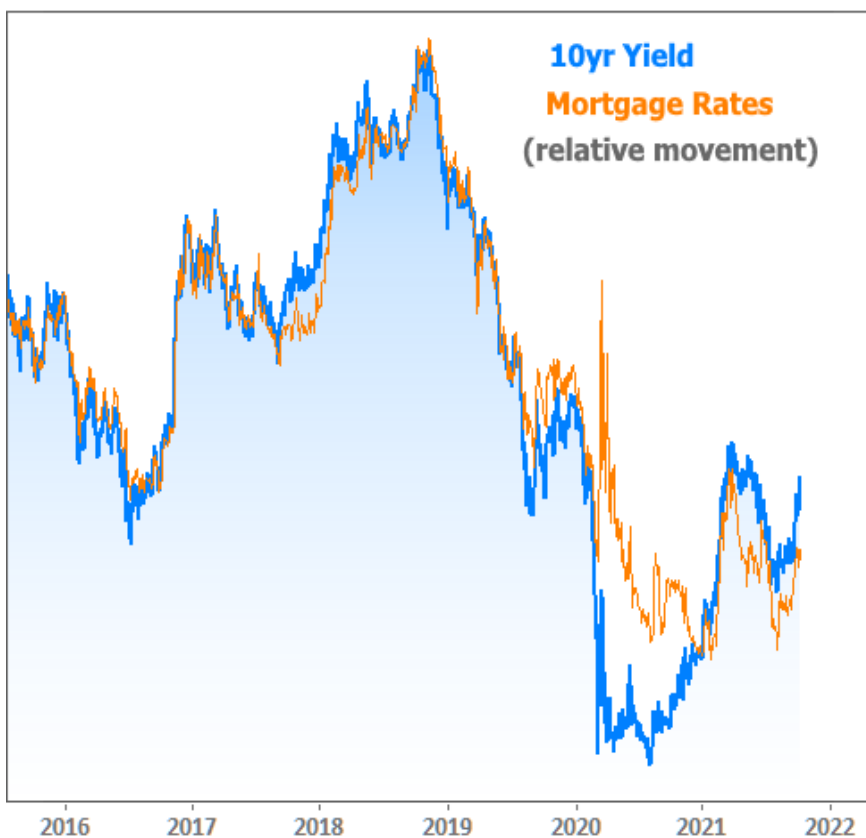
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Mortgage Rates Much Higher Despite Weaker Jobs Data

It goes by many names: The Employment Situation, Nonfarm Payrolls (NFP), or simply "the jobs report." No matter what you call it, the Labor Department's massive collection of employment statistics is one of the most important events for the bond market every month.

For a quick reminder as to why mortgage rates care about the bond market, here's a chart of relative movement in the average 30yr fixed mortgage rate and 10yr Treasury Yields (the quintessential bond market benchmark).



You may notice that rates have been moving higher recently, and that's where our journey intersects with Friday's jobs report. In short, the government's official job tally of 194k (new jobs created) fell **extremely** short of the median forecast calling for 500k.

At almost any other time in history, this would have sent rates **screaming** lower. This time around, however, rates responded by surging to the highest

National Average Mortgage Rates



| | Rate | Change | Points |
|--|------|--------|--------|
|--|------|--------|--------|

Mortgage News Daily

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.86% | -0.05 | 0.00 |
| 15 Yr. Fixed | 6.31% | -0.02 | 0.00 |
| 30 Yr. FHA | 6.32% | -0.06 | 0.00 |
| 30 Yr. Jumbo | 7.04% | -0.03 | 0.00 |
| 5/1 ARM | 6.53% | -0.02 | 0.00 |

Freddie Mac

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.78% | -0.08 | 0.00 |
| 15 Yr. Fixed | 6.07% | -0.09 | 0.00 |

Rates as of: 7/26

Market Data

| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 5.5 | 99.68 | +0.27 |
| MBS GNMA 5.5 | 99.98 | +0.13 |
| 10 YR Treasury | 4.1958 | -0.0474 |
| 30 YR Treasury | 4.4523 | -0.0305 |

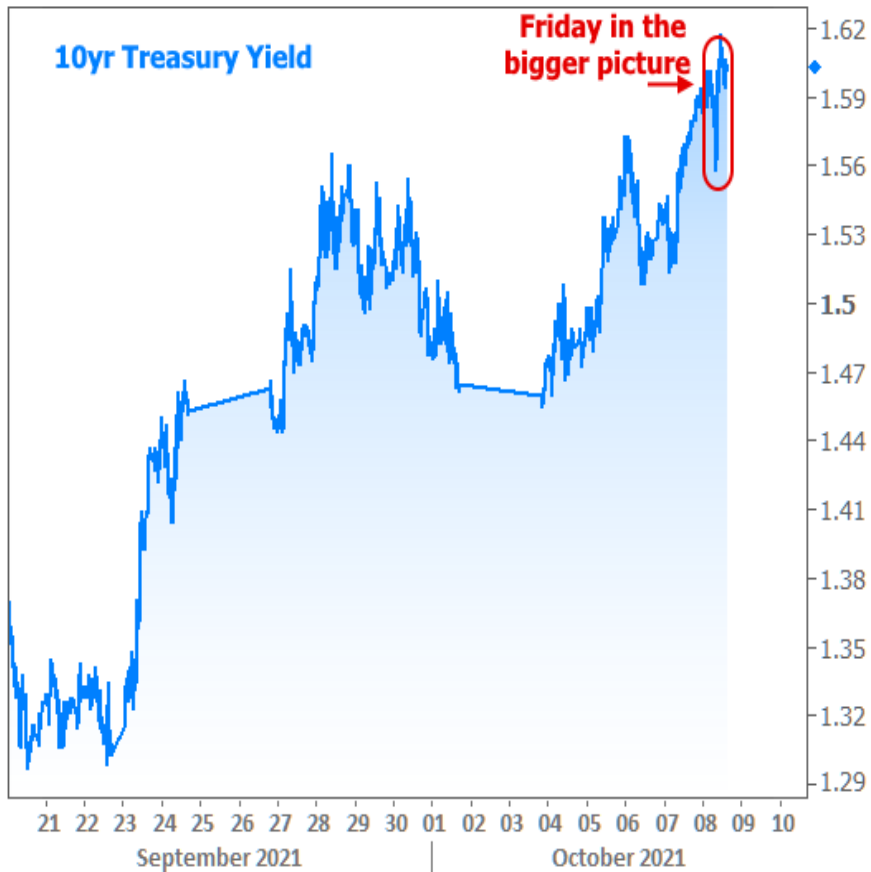
Pricing as of: 7/26 5:59PM EST

Recent Housing Data

| | | Value | Change |
|---------------------|--------|-------|---------|
| Mortgage Apps | Jul 10 | 206.1 | -0.19% |
| Building Permits | Mar | 1.46M | -3.95% |
| Housing Starts | Mar | 1.32M | -13.15% |
| New Home Sales | Mar | 693K | +4.68% |
| Pending Home Sales | Feb | 75.6 | +1.75% |
| Existing Home Sales | Feb | 3.97M | -0.75% |
| Builder Confidence | Mar | 51 | +6.25% |

levels in months. **What's up with that?!**

First off, **context matters**. A vast majority of the move to "the highest levels in months" was in the books **before** the jobs data hit. 10yr yields help us visualize minute-to-minute rate momentum over the past 3 weeks.



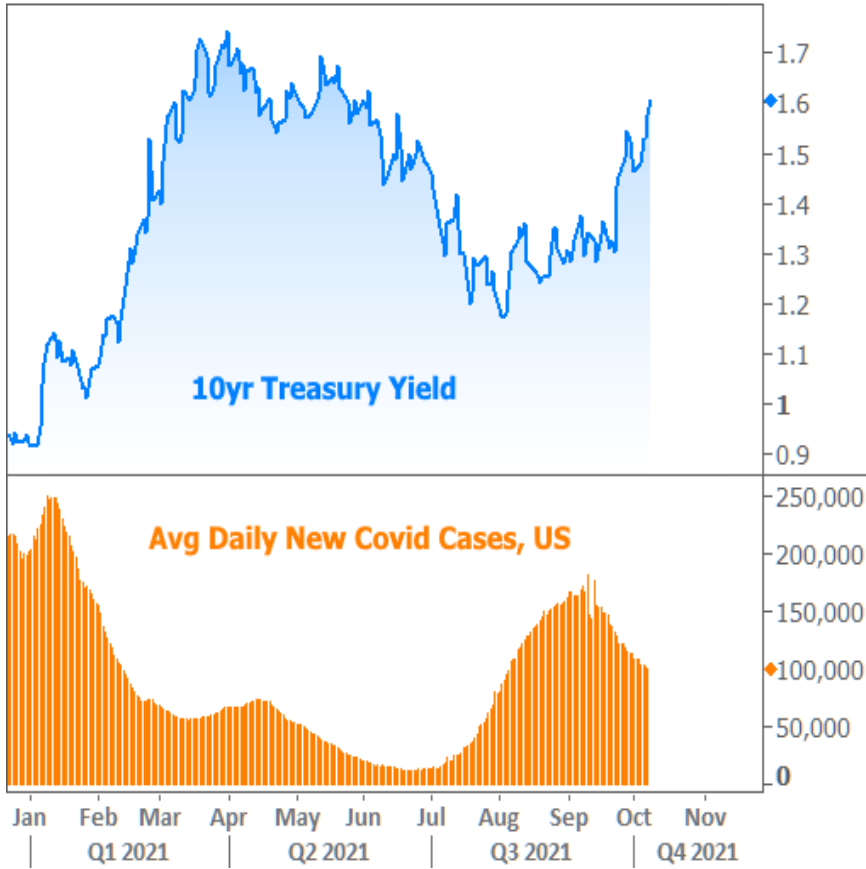
Once we come to terms with the chart above, there's really nothing terribly important left to discuss with respect to the jobs report paradox. For those who'd like to explore more of the rabbit hole, let's continue.

The report itself may have been much weaker than expected in terms of the "payrolls" component, **but** many other components of the report told a **different** story. The data collection is so massive that it would take a prohibitive amount of space to dissect it in detail (feel free to pore over the source material [here](#), and don't forget the 29 separate links to additional tables at the bottom!), so here are a few selected bullet point highlights:

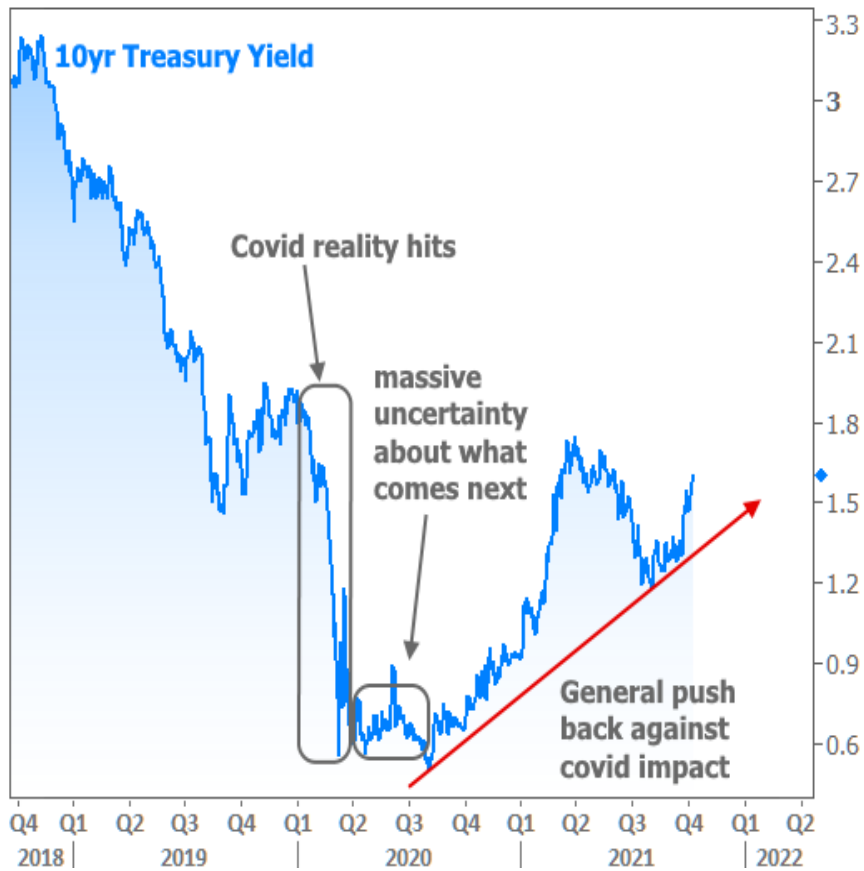
- The Unemployment Rate fell to 4.8% from 5.2% previously
- **Wages** increased 0.2% more than expected
- **Workweek hours** increased 0.1 more than expected (this is actually significant by the time we consider the 161.4 million people in the labor force)
- 5 million people reported the pandemic is preventing them from working as much as they'd like (or at all). This is down from 5.6 million last month.
- 1.1 million people reported they were temporarily laid off. That number was as high as 18.0 million in April 2020. Big drop? Yes! But it was 374k lower before the pandemic.

The more time one spends sifting through all the details, the more it becomes clear that **employers** are ravenously hungry for employees, but **employees** are historically aloof. The skills gap is only one reason for this, but the pandemic is the elephant in the room (see the 4th bullet point above).

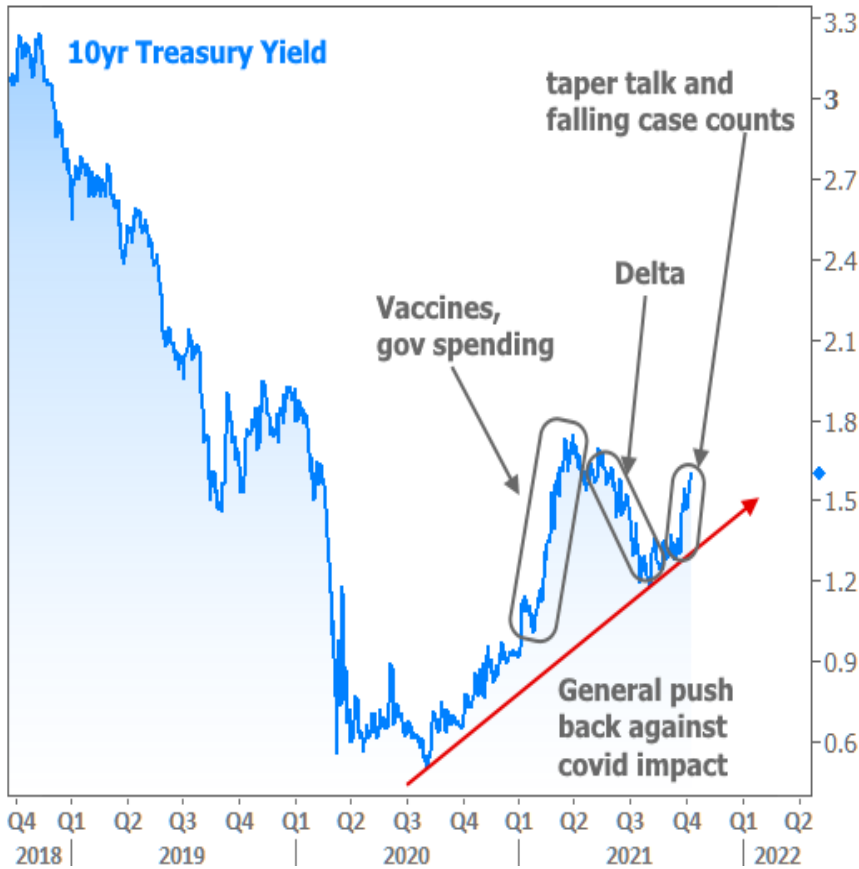
The pandemic also continues to explain why rates have jumped so willingly in the past few weeks. The marked decline in case counts lines up **perfectly** with the unfriendly rate breakout.



In fact, if we'd like to simply blame the pandemic for the **entirety** of the rate momentum landscape, all we have to do is zoom out.

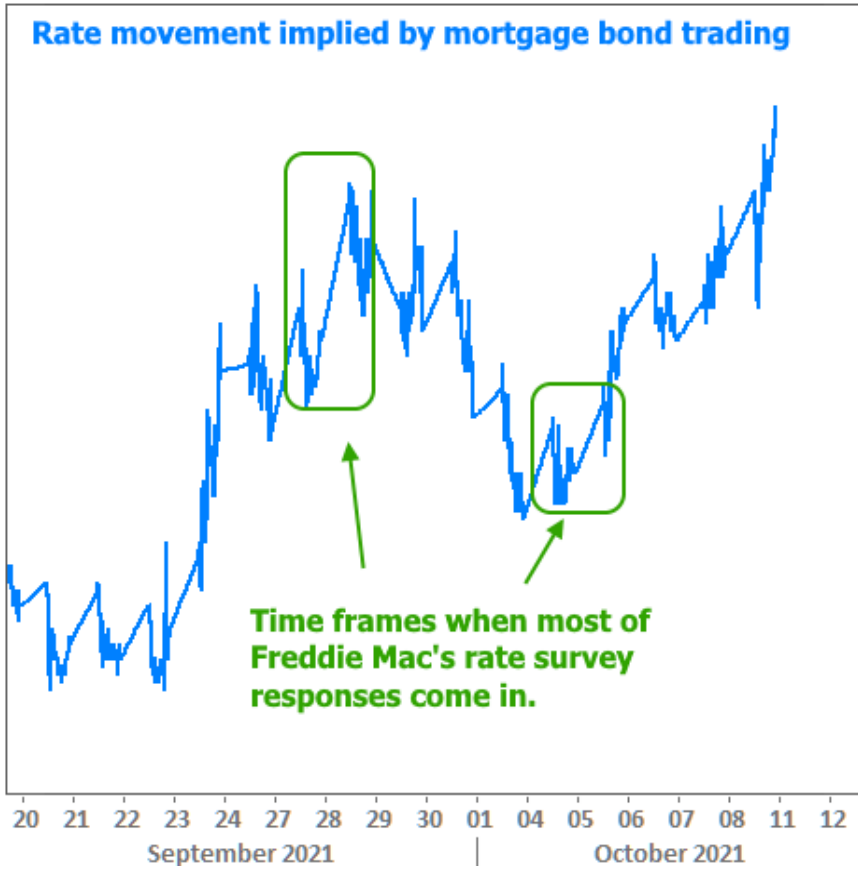


And if we need to account for the mid-2021 departure from the red line, here's how we'd do it:



All of the above adds up to the **highest** mortgage rates in months as of Friday afternoon--an assertion that runs counter to numerous news reports that came out on Thursday. As is often the case, Freddie Mac's weekly mortgage rate survey is the source of the confusion. That much was already clear on Thursday when it came out ([read more here](#)). Friday's bond losses only added to the drama.

To understand how Freddie's survey could possibly claim rates are lower this week, consider the following chart. It shows actual movement in the mortgage bond market (the most relevant ingredient for mortgage lenders as they determine their rate offerings). The highlighted areas show when Freddie receives most of their survey responses.



Bottom line: the timing of recent market movement resulted in Freddie's survey showing the maximum possible week-over-week drop in rates. Either way, the line speaks for itself. By Friday, it hit its highest level in more than 6 months.

Parting thoughts: for those who are surprised about this week's surge in rates, this newsletter from early September is required reading: [Rate Reckoning Draws Closer](#). It basically lays out everything that was at stake and even goes so far as to say an upside breakout was the more likely scenario. In other words, rates are doing exactly what we feared they would probably be doing!

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Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|--------------------------|---------------------------------|--------|----------|--------|
| Tuesday, Oct 05 | | | | |
| 10:00AM | Sep ISM N-Mfg Bus Act | 62.3 | 59.5 | 60.1 |
| 10:00AM | Sep ISM N-Mfg PMI | 61.9 | 60.0 | 61.7 |
| Wednesday, Oct 06 | | | | |
| 7:00AM | w/e MBA Purchase Index | 275.7 | | 280.4 |
| 7:00AM | w/e MBA Refi Index | 3037.6 | | 3359.5 |
| 8:15AM | Sep ADP National Employment (k) | 568 | 428 | 374 |
| 10:30AM | w/e Crude Oil Inventory (ml) | 2.346 | -0.418 | 4.578 |

Event Importance:

- No Stars = Insignificant
- ☆ Low
- ★ Moderate
- ★★ Important
- ★★★ Very Important

| Date | Event | Actual | Forecast | Prior |
|--------------------------|----------------------------------|--------|----------|--------|
| Thursday, Oct 07 | | | | |
| 8:30AM | w/e Jobless Claims (k) | 326 | 348 | 362 |
| Friday, Oct 08 | | | | |
| 8:30AM | Sep Non-farm payrolls (k) | +194 | 500 | 235 |
| 8:30AM | Sep Unemployment rate mm (%) | 4.8 | 5.1 | 5.2 |
| 10:00AM | Aug Wholesale inventories mm (%) | 1.2 | 1.2 | 1.2 |
| Monday, Oct 11 | | | | |
| 12:00AM | Columbus Day | | | |
| Tuesday, Oct 12 | | | | |
| 11:30AM | 3-Yr Note Auction (bl) | 58 | | |
| 1:00PM | 10-yr Note Auction (bl) | 38 | | |
| Wednesday, Oct 13 | | | | |
| 7:00AM | w/e MBA Purchase Index | 279.8 | | 275.7 |
| 7:00AM | w/e MBA Refi Index | 3023.0 | | 3037.6 |
| 8:30AM | Sep Core CPI (Annual) (%) | 4.0 | 4.0 | 4.0 |
| 1:00PM | 30-Yr Bond Auction (bl) | 24 | | |
| Thursday, Oct 14 | | | | |
| 8:30AM | Sep Core Producer Prices YY (%) | 6.8 | 7.1 | 6.7 |
| Friday, Oct 15 | | | | |
| 8:30AM | Sep Retail Sales (%) | 0.7 | -0.2 | 0.7 |
| 8:30AM | Oct NY Fed Manufacturing | 19.80 | 27.00 | 34.30 |
| 10:00AM | Oct Consumer Sentiment | 71.4 | 73.1 | 72.8 |
| 10:00AM | Aug Business Inventories (%) | 0.6 | 0.6 | 0.5 |

Service oriented, responsive, competitive rates and an in depth knowledge of todays mortgage market

After completing my degree in finance at the University of Connecticut, I started in the mortgage business right out of college in 2004. With 15+ years of experience and a primary objective of thoroughly explaining all available loan options to my clients with what is typically the largest investment in their lives, I strive to always make myself available. I constantly educate myself with respect to the mortgage industry and underwriting guidelines for FHA, VA, conventional and jumbo financing. I deliver on the expectations discussed up front and provide the service level my clients deserve from day one. I will remain in touch throughout the process and continue to follow up with you after closing. My goal is to wow you and turn you into clients for life. I want you to be so impressed that throughout and after the process you share my information with your friends, family, neighbors and co-workers who may value from my services.

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