Mortgage Rates Prepare for Busy Week of Econ Data

By: Victor Burek | Mon, Feb 1 2010, 1:33 PM

Despite a much better than expected advance read on fourth quarter GDP (consensus was 4.5%, actual 5.7%), the week ended on Friday with mortgage rates near the best levels of the month. Usually, better than expected economic data causes stocks to move higher and bond yields increase. But that is not what happened. The lack of a logical reaction in the interest rate market implies investors are anticipating a slower read on GDP in 1Q 2010, especially after Q4 2009 numbers were boosted by less contraction as opposed to more growth (READ MORE). On top of that, this was first read on Q4 2009 GDP, there are still two revisions to come that many believe will adjust Q4 GDP to a level worse than originally reported. Mortgage rates ended the week with the most aggressive lenders offering 4.75% at par on rate sheets. Consumers would be required to pay around 1 origination point for this rate. Again this was the best rate available, many loan originators were likely offering rates closer to the industry average near 5.00%.

See Rates from Lenders in Your Area

The week ahead is jam packed with high impacting economic reports.

The data parade started today with Personal Income and Outlays. This report gives us three readings on the consumer. The first is personal income which shows the monthly change in income that households receive from all sources. Next is consumer spending, which shows the monthly change in the amount of money consumers are spending on durable and non-durable goods and services. The final reading is the Personal Consumption Expenditure, the Fed's favorite gauge on inflation.

The U.S. Department of Commerce reported Personal Income rose 0.4% in December. Outlays, or personal spending, were 0.2% higher, both in line with expectations following last month's revised better 0.5% and 0.7% rise respectively. This was the third consecutive month consumer spending rose. On a year over year basis, in consumer spending fell 0.4%, the largest annual decline since 1938. Headline PCE rose a modest 0.1% following last month's 0.3% increase. The Core PCE index rose 0.1%. matching expectations, and is up 1.5% year over year, well within the Fed's target zone for acceptable price increases. The savings rate rose 4.6% in 2009, much more than the 2.9 rise in 2008 and the highest savings rate seen since 1998 when it was 5.3%. An increase in the savings rate generally implies less consumer spending, economists believe nervous consumers may further slow the pace of economic recovery

The next report to be released came from the Institute for Supply Management: the ISM Manufacturing Index. This is a survey of more than 300 manufacturing firms on the strength of business conditions. Readings above 50 indicate expanding or improving conditions while readings below 50 indicate contraction. The ISM Index has held above 50 for the last five releases, with last month's report coming in at 54.9. Economists surveyed prior to the release expected a small pull back to 55.0. When the data was released they surprised to see 58.4. This was much better than expected and it marked the sixth consecutive month over month improvement in the manufacturing sector of our economy.

Our final report for the day was Construction Spending. This data shows the monthly change in the amount of money spent on new construction for residential, non-residential and public projects. An increasing trend with construction spending is a positive economic indicator as it would lead to more construction jobs, increased spending on items to build and furnish new structures, plus builders would have to be optimistic about the economic outlook to invest money in new construction.

After falling 0.6% in November, economists had forecast another monthly decrease of 0.4% in December, partially due to bad weather. The actual report indicated construction spending fell 1.2% in December, much more than anticipated. November's initial reading was also revised worse to down 1.2%. READ MORE ON THE OUTLOOK FOR HOME BUILDING

Here are the highlights(bold most important) for the rest of the week:

Tuesday

- **Pending Home Sales**, many economists believe that until housing picks up our economic recovery will be slow which makes tracking home sales data of much more importance today than in prior years.

Wednesday

- Mortgage Bankers' Associations Application Index

- **ADP Employment Report,** not as important as the Employment Situation report but gaining momentum as a early predictor of non farm payrolls.
- ISM Non-Manufacturing Index
- Announcement from the Treasury Department of the size of next week's debt offering of 3 year notes, 10 year notes and 30 year bonds.

Thursday

- Weekly Jobless Claims
- Productivity and Costs
- Factory Orders

Friday

- The **Employment Situation Report**, this is the single most high impacting report we get on a monthly basis. Expectations are for 0 jobs lost or created, and the unemployment rate moving higher to 10.1%. We will also need to pay attention to revisions to prior month's numbers of -85,000 in December, following a gain of 4000 in November and a decline of 127,000 in October.

Reports from fellow mortgage professionals indicate the par 30 year conventional rate mortgage remains in the 4.75% to 5.00% range for well qualified consumers. To secure a par interest rate you must have a FICO credit score of 740 or higher, a loan to value at 80% or less and pay all closing costs including an estimated one point loan origination/discount/broker fee. You may elect to pay less in fees but you will have to accept a higher interest rate which is a good option for consumers not planning on keeping their home for more than 3 years.

With the Employment Situation report due out later this week and mortgage rates holding at the best levels of the year, I continue to advise locking. Without a fundamental shift in economic outlook (for the worse), I do not think we will see rates below the current levels. If the employment situation report is much worse than expected, that could trigger the fundamental shift and rates could possibly move lower. However, we have never seen mortgage rates for a 30 year fixed dropped below 4.5%(some lenders were offering 4.375% for clients with FICO's above 740 and loan to values below 60%). So by floating, the most you could possibly gain is a 0.25% lower rate but you risk rates moving higher....and **remember rates rise much faster than they fall**.

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