How Did The Employment Report Affect Mortgage Rates?

By: Victor Burek | Fri, Feb 5 2010, 2:21 PM

Mortgage rates improved a few basis points yesterday as panic set in on Wall Street. Headline news called attention to a developing crisis of confidence in the European Union where Greece, Spain, and Portugal all face ballooning budget deficits and rising government borrowing costs. Fear caused a global stock market sell off which led nervous investors to reallocate funds into what is considered to be the safest investment in the word, US Treasuries. This "flight to safety" into the bond market helped mortgage-backed securities prices move higher which allowed lenders to pass along slightly lower mortgage rates. While improvements were noted,many originators were expecting more aggressive loan pricing from lenders, but as has been the case over the past few weeks, 4.75% continues to be the best rate available. (This is the most aggressive quote in the market and will require borrowers to discount points.)

The Bureau of Labor Statistics released the monthly Employment Situation report this morning. This is the single most important piece of monthly economic data released to the market. Since consumer spending accounts for the vast majority of our economic growth, market participants track jobs as a way to gauge consumer demand and economic activity. If unemployment is moving higher, more Americans are without a job and therefore without stable income. This drains consumer demand and forces companies to keep costs low to stay in line with falling revenues. High unemployment is bad for stocks, whats bad for stocks is usually good for bonds and mortgage rates.

See Rates from Lenders in Your Area

This report gives us four different readings:

1. **Nonfarm Payrolls** - this totals the number of jobs lost or created in the prior month. **Consensus Forecast**: 5,000 jobs to be created
2. **Unemployment Rate** – which is the percentage of Americans out of work. **Consensus Forecast**: 10.1%
3. **Average Hourly Earnings** – shows the monthly change in the hourly wages. **Consensus Forecast**: +0.2%
4. **Average Work Week** – shows the average amount of hours worked weekly. **Consensus Forecast**: 33.2 hours

Here are the results:

1. **Nonfarm Payrolls**: 20,000 jobs were lost. This was worse than expected. December was revised worse from a first reported loss of 85,000 jobs to a loss of 150,000. November data was revised from a gain of 4,000 jobs to a gain of 64,000. October's first reported loss of 127,000 was revised worse to a loss of 224,000.
2. **Unemployment Rate:** 9.7%. Better than expected.
3. **Average Hourly Earnings:** 0.2%. As expected.
4. **Average Work Week** : 33.9 hours, better than forecast and the highest level since August 2008. This is important since the more hours worked leads to higher paychecks which gives workers more money to spend into the economy.

Stocks and bonds didn't have much of a reaction at first, but as the day has progressed it appears that investors have refocused on the developing crisis in Europe. Market participants are anticipating some sort of intervention from the IMF to help increase confidence and calm nervous sentiment. Stocks are now selling again which has led to another "flight to safety" rally in the bond market. This has resulted in higher MBS prices, but no reprices for the better from lenders....not yet at least.

Reports from fellow mortgage professionals indicate lender rate sheet are slightly better but mostly unchanged from yesterday afternoon. The par 30 year conventional rate mortgage remains in the 4.75% to 5.00% range for well qualified consumers. To secure a par 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 upfront fees, but you will have to accept a higher interest rate.

When considering the LOCK vs FLOAT decision, I think of it as so: **WE ARE PLAYING CHESS, NOT CHECKERS**

My lock bias is based on the big picture outlook. Mortgage rates are currently priced near very aggressive levels. Barring a major shift in sentiment that drives benchmark Treasury yields lower, mortgage rates should move higher in months to come. While floating day to day can result in small reductions in borrowing costs, the risk of rates rising is large. This is long term guidance.

If you floated overnight, you have picked up small improvements to your borrowing costs. MBS prices continue to rally today and some lenders may reprice for the better. If they do, I would be locking this afternoon, especially if you are within 30 days of closing. As I said earlier, lenders are not lowering rates under 4.75%. This has held true all month! While it is very tempting to continue floating over the weekend, especially with stocks looking very weak, I think my point regarding a "bottoming out" in mortgage rates will hold true, even if the bond market continues to rally.

We have been here before, we have seen stocks sell off only to rebound shortly thereafter. While there will be opportunities to float in the short run (overnight), until we see proof of a fundamental shift in economic outlooks, we favor locking.

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