

How Did The Employment Report Affect Mortgage Rates?

By: Victor Burek | Fri, Jul 2 2010, 6:06 PM

The Bureau of Labor Statistics published the official [Employment Situation](#) report this morning.

Released on the first Friday of every month, the official Employment Situation report provides an in-depth look at the health of the driving force behind consumer spending: **THE LABOR MARKET**

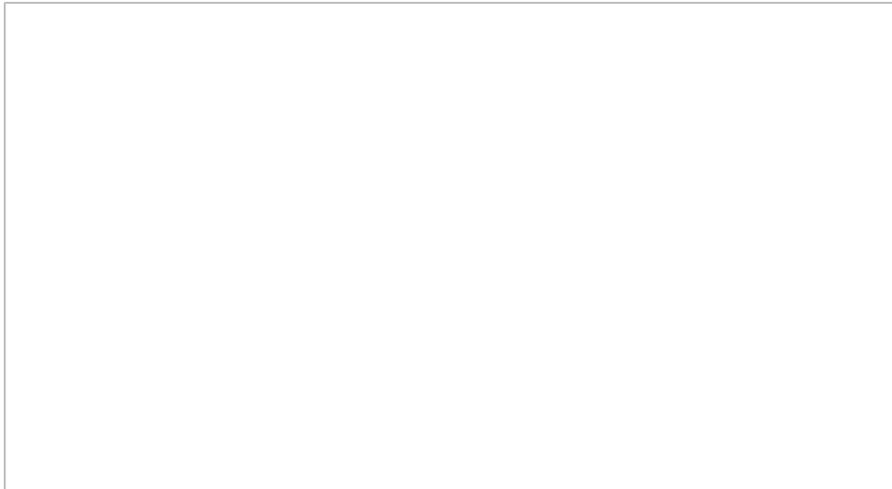
This report is one of the most influential monthly economic data releases. The market focuses on four specific metrics:

1. **Nonfarm Payrolls:** totals the number of jobs that were added to or cut from employer payrolls in the prior month. **Consensus Forecast:** -110,000 jobs vs. +431,000 in April
2. **Unemployment Rate:** the percentage of working-age, mentally able-Americans who are jobless. **Consensus Forecast:** 9.8% of the labor force vs. 9.7% last month
3. **Average Hourly Earnings:** the average amount of earnings per hour of labor performed. **Consensus Forecast:** +0.1% vs. 0.3% last month
4. **Average Work Week:** average amount of hours worked by an employee per week. **Consensus Forecast:** 34.2 hours vs. 34.2 last month

Here are the official [results](#):

[See Rates from Lenders in Your Area](#)

Total nonfarm payroll employment declined by 125,000 in June, and the unemployment rate edged down to 9.5 percent, the U.S. Bureau of Labor Statistics reported today. The decline in payroll employment reflected a decrease (-225,000) in the number of temporary employees working on Census 2010. Private-sector payroll employment edged up by 83,000.



Below is a recap.

1. **Nonfarm Payrolls** - Payrolls fell by 125,000. **Worse than Expected.** Revisions made to the May report added 2,000 jobs to the total payroll count.
2. **Unemployment Rate** - 9.5%, the lowest unemployment rate since July 2009. **Better than expected.** The unemployment rate improved largely because of a decline in the civilian labor force (the pool of willing and able workers) which fell by 652,000. People drop out of the labor force because they have been unable to find a job. These "discouraged workers" are not counted in the official unemployment rate. However, the lower rate of unemployment should help with consumer confidence.
3. **Average Hourly Earnings** - down 0.1%. **Worse than Expected.** This is bad news for consumers. Those who have jobs are making less per hour which gives them less disposable income to spend.
4. **Average Work Week** - 34.1 hours. **Worse than Expected.** This is also bad news for consumers with jobs. An employee who's working less hours at a lower pay rate will bring home a smaller paycheck.

One sign that the American economic recovery will take many years: **the duration of unemployment is moving higher and higher**. In March it was 20.0 weeks. In April it was 21.6 weeks. In May it was 23.2 weeks. And finally, last month, it was 25.5 weeks. This is a sign that many Americans are not being re-hired, likely because of a mismatch in their skill set. These folks must seek out a higher education or they will be left behind by technological advances.

The last observation we would like to call attention to is the unemployment rate that includes people who dropped out of the labor force. The headline unemployment rate, which does not include discouraged workers or people who are without a job and are not looking but are willing and ready to work (called "marginally attached"). **When you count these people, the unemployment rate was 16.5% in June**. This represents a 0.1% improvement from May.

While the payroll count contracted by 125,000 jobs, it was a positive to see the private industry create 83,000 jobs. However, regardless of whether or not they were temporary Census jobs or not, the 225,000 decline in government workers is a negative. It is also discouraging to see so many people exit the workforce and the duration of unemployment lengthen.

How Did The Release of the Employment Situation Report Affect Mortgage Rates?

It really didn't. Not today at least. It did yesterday though, and Monday, and Tuesday, and Wednesday. After a streak of worse than expected economic data releases, a pessimistic perspective took hold of financial markets. Stocks have been scoured and investor funds have poured into the bond market. The **"flight to safety"** has led benchmark interest rates to year over year lows and pushed mortgage-backed securities to record price levels. Rising MBS prices allowed lenders to move mortgage rates to lifetime lows this week. Those lifetime lows are generally still in tact after the release of the Employment Situation Report today, consumer borrowing costs (closing costs/discount points) are at most 0.125% (of your loan amount) more expensive.

All markets are closed on Monday in celebration of the 4th of July. I will be back to you on Tuesday to take look at what will move the markets during the holiday shortened work week. Have a safe holiday weekend!

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