Matt Stout
Loan Originator, Consumers Financial Mortgage
NMLS# 248427
2834 S Highland Dr Salt Lake City, UT 84106

Mobile: 801-599-5363
greenteam@icansavemoney.com
View My Website

Booming Economy's Unintended Victims

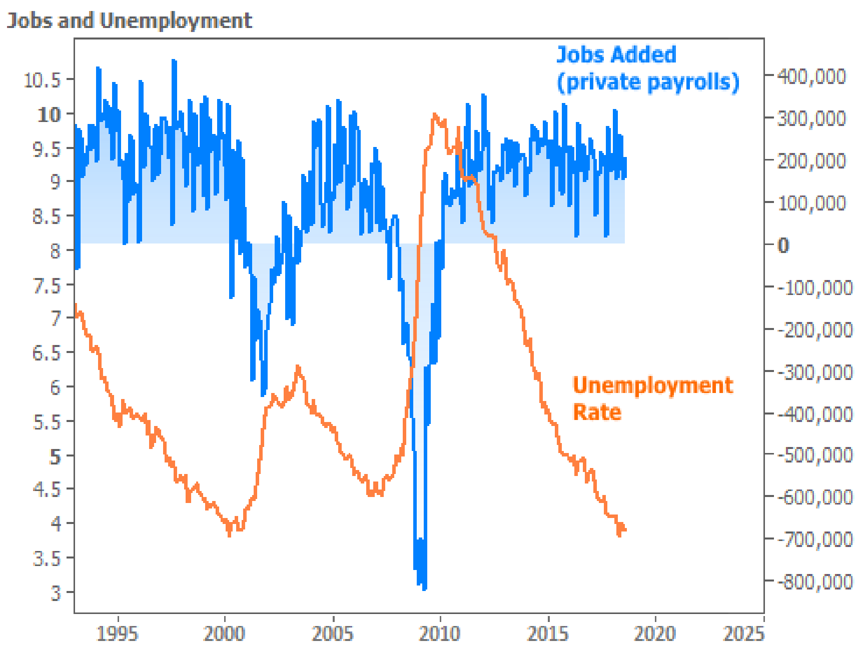
From a strictly economic standpoint, this week saw the release of several impressive reports. It just so happened the 3 best reports were also the 3 most important reports (based on their typical ability to cause a reaction in financial markets).

Chief among these was the big **jobs report** on Friday. This contains multifaceted data but the two traditional headlines are "nonfarm payrolls" (NFP... a tally of jobs created) and the ubiquitous unemployment rate. Both metrics did quite well this week and both continue playing key roles in an uncommonly long economic expansion.

Abundant employment is **always a good thing**, right?

In general, that's true, but there are some losers when the economy is chugging right along. Interest rates have a **long history** of rising in response to stronger job creation. In fact, the NFP number has been the single most important piece of economic data for rates over the years.

Lately, however, strong job creation has grown to be somewhat of a given. Due to the severity of the great recession, experts aren't too surprised to see the economic expansion lasting so long or doing so well. Simply put, we had **a lot of catching up to do**.



National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.28%	-0.09	0.00
15 Yr. Fixed	6.75%	-0.07	0.00
30 Yr. FHA	6.70%	-0.12	0.00
30 Yr. Jumbo	7.48%	-0.07	0.00
5/1 ARM	7.35%	-0.07	0.00
Freddie Mac			
30 Yr. Fixed	7.22%	-0.22	0.00
15 Yr. Fixed	6.47%	-0.29	0.00

Rates as of: 5/3

Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.09	+0.31
MBS GNMA 6.0	101.03	+0.29
10 YR Treasury	4.5138	-0.0657
30 YR Treasury	4.6711	-0.0579

Pricing as of: 5/3 5:04PM EST

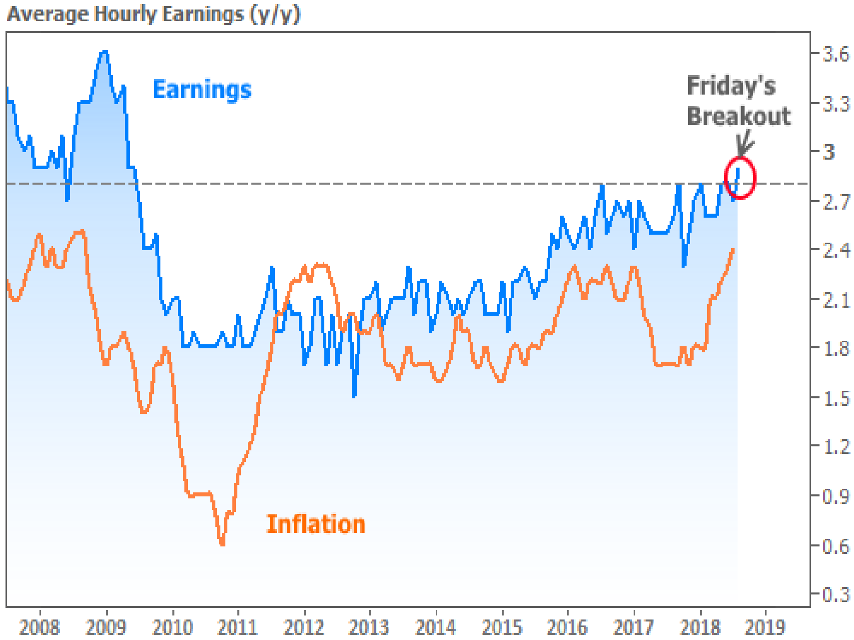
Recent Housing Data

		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
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%

In terms of prompting market movement, NFP has been a mere shadow of its former self over the past few years. Instead, rates have been **more interested in other data** thought to hold the key to the next big shift in the economic cycle.

To that end, inflation and wage growth have been hot topics. Even the Fed has taken note of what they consider to be "a puzzling lack of wage growth." To be clear, the Fed **isn't** saying wages **aren't** rising--simply that they're not rising as quickly as past precedent would suggest. The Fed typically doesn't spend too much time thinking about wage growth, but in the current case, they see it as a precursor to inflation--something they think about constantly.

As luck would have it, the big jobs report also includes average hourly earnings--an important measure of wage growth. Earnings have struggled to move above 2.8% year-over-year. They were only expected to hit 2.7% this week, but ended up rising to 2.9%. This isn't the first time they've tried to break the 2.8% ceiling recently, but the previous attempts were revised lower while this one has a chance to stick. The tacit implication would be more upward pressure on inflation.



If wage growth does indeed "stick" and if inflation rises as a result, it would be bad news for rates. Inflation is sort of an arch-nemesis for interest rates for the following reasons:

1. Rates are based on bonds
2. Bond investors are paid back a predetermined amount of dollars.
3. If inflation is high, those dollars won't buy as much in the future as they would today.

In short, inflation subtracts some of the rate of return from bonds. If investors see inflation rising faster than expected, they would simply demand higher rates to offset the inflation risk.

This week provided a clear example of investors **quickly** demanding higher rates of return in response to data that impacted inflation expectations. As soon as the strong wage data came out, rates rose at the fastest pace of the week. To put things in perspective, an important manufacturing index hit a 14 year high on Tuesday and the resulting rate spike was nowhere near as big.

Bottom line: jobs are good. Manufacturing gains are good. A strong economy is good. Unfortunately for stakeholders in the mortgage/housing markets, a strong economy logically coincides with rising rates. The past decade has seen more exception to that rule than at any other time in modern economic history due to the rate-friendly influence of the Fed's bond buying programs and other accommodative policies. Now that the Fed is successfully hiking rates and reducing its bond holdings, longer-term rates (like mortgages) are increasingly feeling the pressure.

That's nothing new. Between the outlook for Fed policy and government spending (gov. spending = Treasury supply = lower Treasury prices and higher Treasury yields, aka "rates"), bond investors have been pushing longer-term rates higher for several years. They're arguably **ahead of the game** or close to it, at least when it comes to these 2 big factors.

But when it comes to other factors like inflation and wage growth, bond investors can't plan ahead nearly as well. They're more **beholden to evolving data**. If that data is breaking above key ceilings as seen in the wage/inflation chart, rates must increasingly consider breakouts of their own.

Subscribe to my newsletter online at: http://mortgageratesupdate.com/mattstoutmortgagenavigator

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Sep 04				
10:00AM	Aug ISM Manufacturing PMI	61.3	57.7	58.1
10:00AM	Aug ISM Mfg Prices Paid	72.1	71.1	73.2
10:00AM	Jul Construction spending (%)	0.1	0.5	-1.1
Wednesday, Sep 05				
7:00AM	w/e Mortgage Refinance Index	940.0		952.9
7:00AM	w/e MBA Purchase Index	231.4		230.1
8:30AM	Jul International trade mm $ (bl)	-50.1	-50.3	-46.3
9:45AM	Aug ISM-New York index	810.7		797.5
Thursday, Sep 06				
8:15AM	Aug ADP National Employment (k)	163	190	219
8:30AM	Q2 Productivity Revised (%)	2.9	3.0	2.9
8:30AM	Q2 Labor Costs Revised (%)	-1.0	-0.9	-0.9
8:30AM	w/e Jobless Claims (k)	203	210	213
10:00AM	Aug ISM N-Mfg PMI	58.5	56.8	55.7
10:00AM	Aug ISM N-Mfg Bus Act	60.7	56.9	56.5
10:00AM	Jul Factory orders mm (%)	-0.8	-0.6	0.7
Friday, Sep 07				
8:30AM	Aug Average earnings mm (%)	0.4	0.2	0.3

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	Aug Non-farm payrolls (k)	201	191	157
8:30AM	Aug Unemployment rate mm (%)	3.9	3.8	3.9
Tuesday, Sep 11				
10:00AM	Jul Wholesale inventories mm (%)	0.6	0.7	0.7
1:00PM	3-Yr Note Auction (bl)	35		
Wednesday, Sep 12				
7:00AM	w/e MBA Purchase Index	233.5		231.4
7:00AM	w/e Mortgage Refinance Index	884.3		940.0
8:30AM	Aug Producer Prices (%)	-0.1	0.2	0.0
8:30AM	Aug Core Producer Prices YY (%)	+2.3	2.7	2.7
Thursday, Sep 13				
8:30AM	Aug CPI mm, sa (%)	+0.2	0.3	0.2
8:30AM	Aug Core CPI Year/Year (%)	+2.2	2.4	2.4
8:30AM	w/e Jobless Claims (k)	204	210	203
Friday, Sep 14				
8:30AM	Aug Export prices mm (%)	-0.1	0.0	-0.5
8:30AM	Aug Import prices mm (%)	-0.6	-0.2	0.0
8:30AM	Aug Retail Sales (%)	0.1	0.4	0.5
9:15AM	Aug Capacity Utilization (%)	78.1	78.2	78.1
9:15AM	Aug Industrial Production (%)	0.4	0.3	0.1
10:00AM	Sep Consumer Sentiment	100.8	96.6	96.2
10:00AM	Sep 1yr Inflation Outlook (%)	2.8		3.0
10:00AM	Sep 5yr Inflation Outlook (%)	2.4		2.6
10:00AM	Jul Business Inventories (%)	0.6	0.6	0.1
Wednesday, Oct 10				
1:00PM	10-yr Note Auction (bl)	23		
Thursday, Oct 11				
1:00PM	30-Yr Bond Auction (bl)	15		

Getting a mortgage doesn't have to be painful!

I call myself a Mortgage Navigator because I feel it is my duty to give you the best information possible, not matter what! I love making homebuyers homeowners! I've been a mortgage broker for 29 years and compare options from multiple lenders, delivering 5 ⍰ rates & service. Combined with my goal based mortgage planning, my desire is to help people make the best mortgage decisions while making the process less annoying and more fun. Not sure where to start?.. give me a call at 800-340-5465 or visit www.IcanSaveMortgage to find your best options today. Be sure to check out my YouTube channel link below for more helpful mortgage information.

Matt Stout