

MORTGAGE RATE WATCH

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Economic Data Keeping Pressure on Mortgage Rates

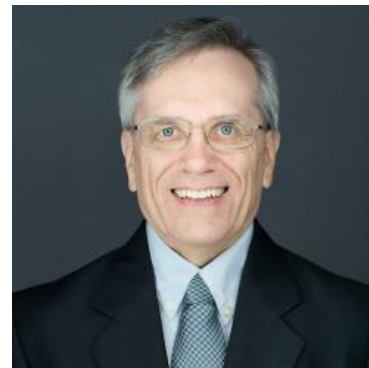
The jobs report that came out at the beginning of October was a big wake up call for interest rates. Up until then, the prevailing belief was that the labor market was progressively softening and perhaps at risk of softening too quickly. The Federal Reserve had singled out the jobs market as an indicator that would dictate the pace of the rate cut cycle that had begun just 2 weeks earlier.

Much of the Fed's decision to opt for a 0.50% cut as opposed to a 0.25% cut had to do with the previous 2 jobs reports (the one that came out in early August and September). Both were markedly weaker. Taken together, they tipped the scales for the Fed.

The early October jobs report not only came in much stronger than expected, but it also revised the previous 2 reports quite a bit higher. That single moment of economic data completely changed the tone for interest rates, arguably contributing to just as much of the pain we've seen in October as any other factor. The only thing that comes close would be pre-election trading.

The next jobs report comes out this Friday morning, but this week has other economic reports that often serve as anecdotes. Today's ADP employment report came out much stronger than expected this morning, suggesting forecasters may be undershooting expectations for Friday's job count.

The underlying bond market (bonds dictate rates) maintained as much composure as we could have hoped for in light of the data. There was some weakness in response, but not enough to make for a big change in rates versus yesterday. Consider this a calm before two storms with the first being Friday's jobs report reaction and the second being next week's election-related market volatility. Either event has the potential to be very good or very bad for rates.



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