US Housing Market Weekly

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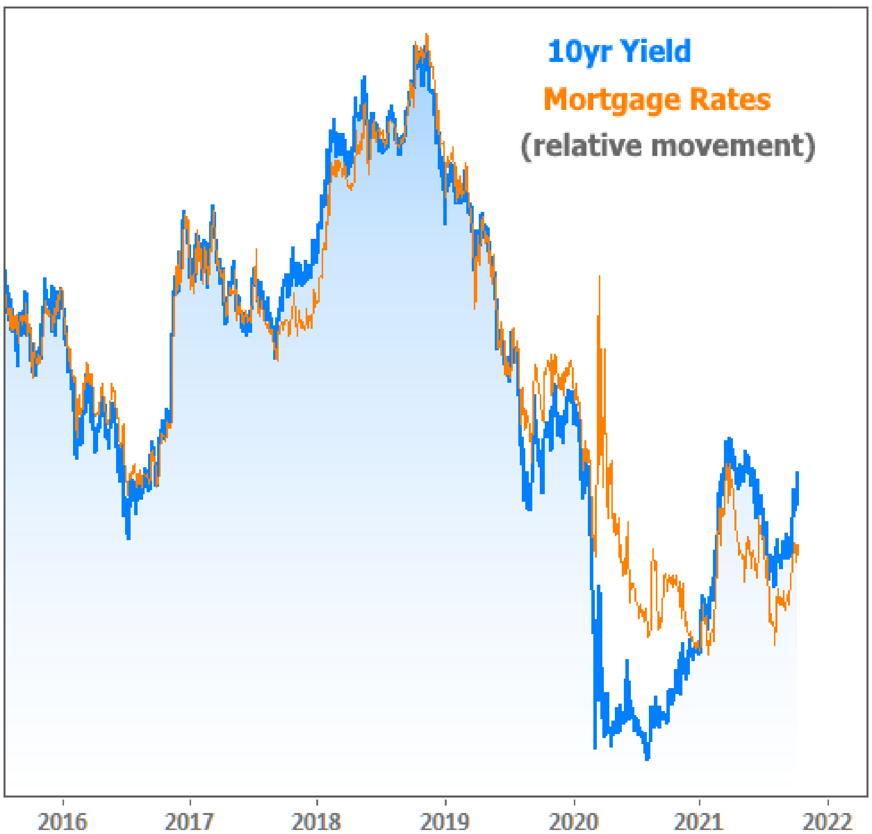
Mortgage Rates Much Higher Despite Weaker Jobs Data

It goes by many names: The Employment Situation, Nonfarm Payrolls (NFP), or simply **"the jobs report."** No matter what you call it, the Labor Department's massive collection of employment statistics is one of the most important events for the bond market every month.

For a quick reminder as to **why mortgage rates care** about the bond market, here's a chart of relative movement in the average 30yr fixed mortgage rate and 10yr Treasury Yields (the quintessential bond market benchmark).



You may notice that rates have been moving higher recently, and that's where our journey intersects with Friday's jobs report. In short, the government's official job tally of 194k (new jobs created) fell **extremely** short of the median forecast calling for 500k.

At almost any other time in history, this would have sent rates **screaming** lower. This time around, however, rates responded by surging to the highest

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Rates as of: 7/22

Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2525	+0.0146
30 YR Treasury	4.4725	+0.0257

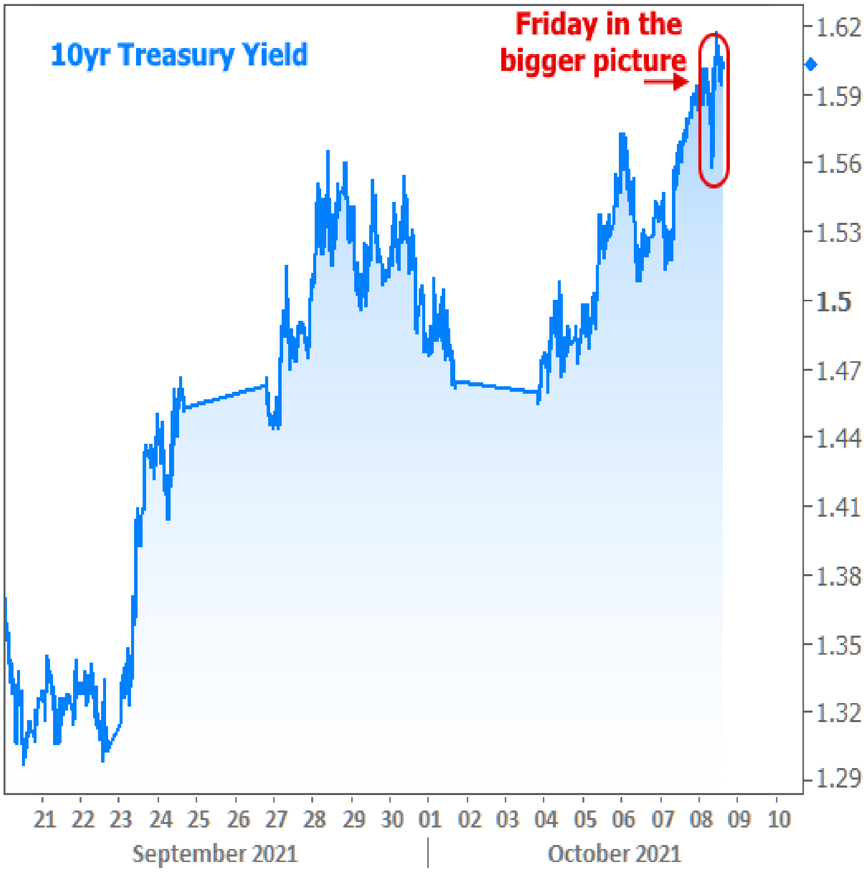
Pricing as of: 7/22 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
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%

levels in months. **What's up with that?!**

First off, **context matters**. A vast majority of the move to "the highest levels in months" was in the books **before** the jobs data hit. 10yr yields help us visualize minute-to-minute rate momentum over the past 3 weeks.



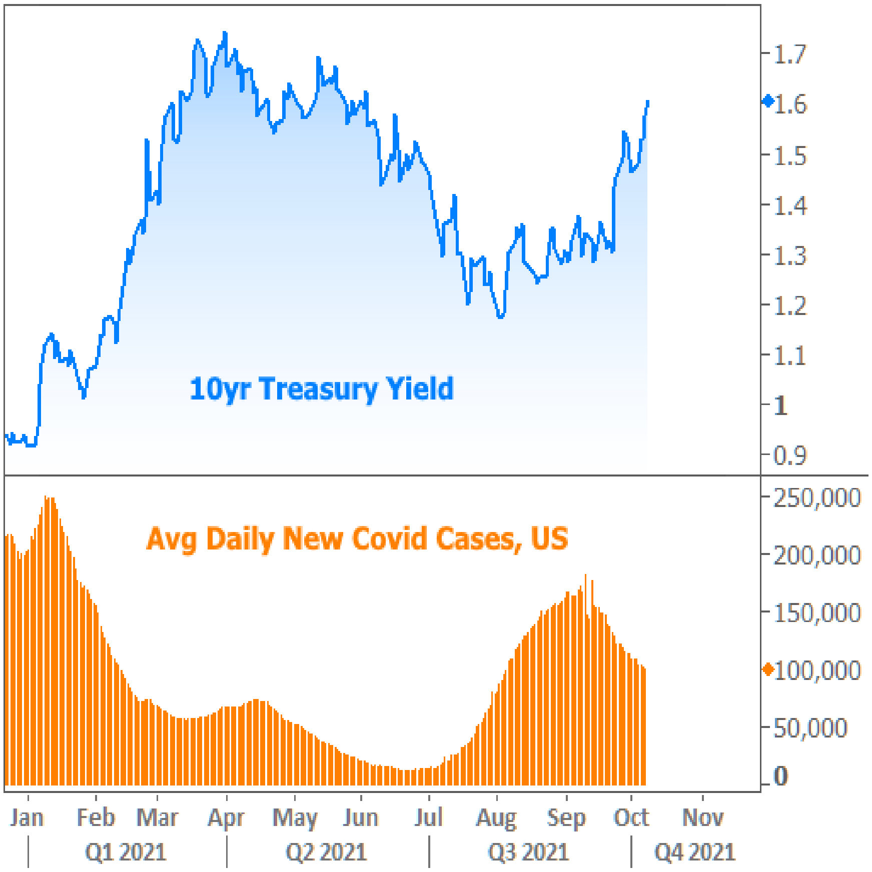
Once we come to terms with the chart above, there's really nothing terribly important left to discuss with respect to the jobs report paradox. For those who'd like to explore more of the rabbit hole, let's continue.

The report itself may have been much weaker than expected in terms of the "payrolls" component, **but** many other components of the report told a **different** story. The data collection is so massive that it would take a prohibitive amount of space to dissect it in detail (feel free to pore over the source material here, and don't forget the 29 separate links to additional tables at the bottom!), so here are a few selected bullet point highlights:

- The Unemployment Rate fell to 4.8% from 5.2% previously
- **Wages** increased 0.2% more than expected
- **Workweek hours** increased 0.1 more than expected (this is actually significant by the time we consider the 161.4 million people in the labor force)
- 5 million people reported the pandemic is preventing them from working as much as they'd like (or at all). This is down from 5.6 million last month.
- 1.1 million people reported they were temporarily laid off. That number was as high as 18.0 million in April 2020. Big drop? Yes! But it was 374k lower before the pandemic.

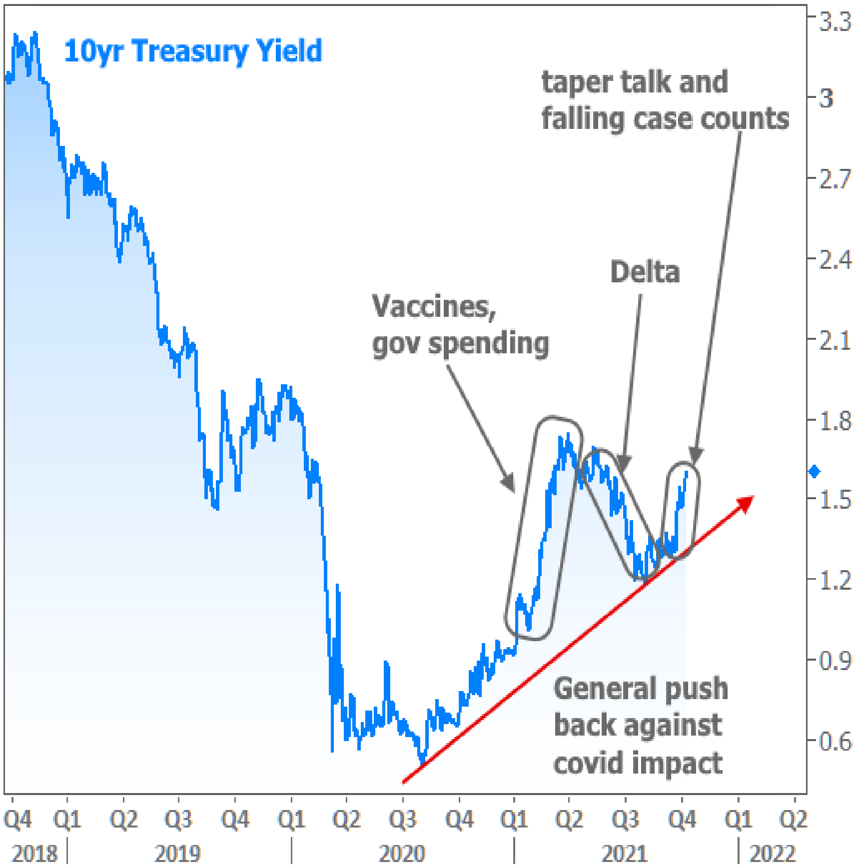
The more time one spends sifting through all the details, the more it becomes clear that **employers** are ravenously hungry for employees, but **employees** are historically aloof. The skills gap is only one reason for this, but the pandemic is the elephant in the room (see the 4th bullet point above).

The pandemic also continues to explain why rates have jumped so willingly in the past few weeks. The marked decline in case counts lines up **perfectly** with the unfriendly rate breakout.



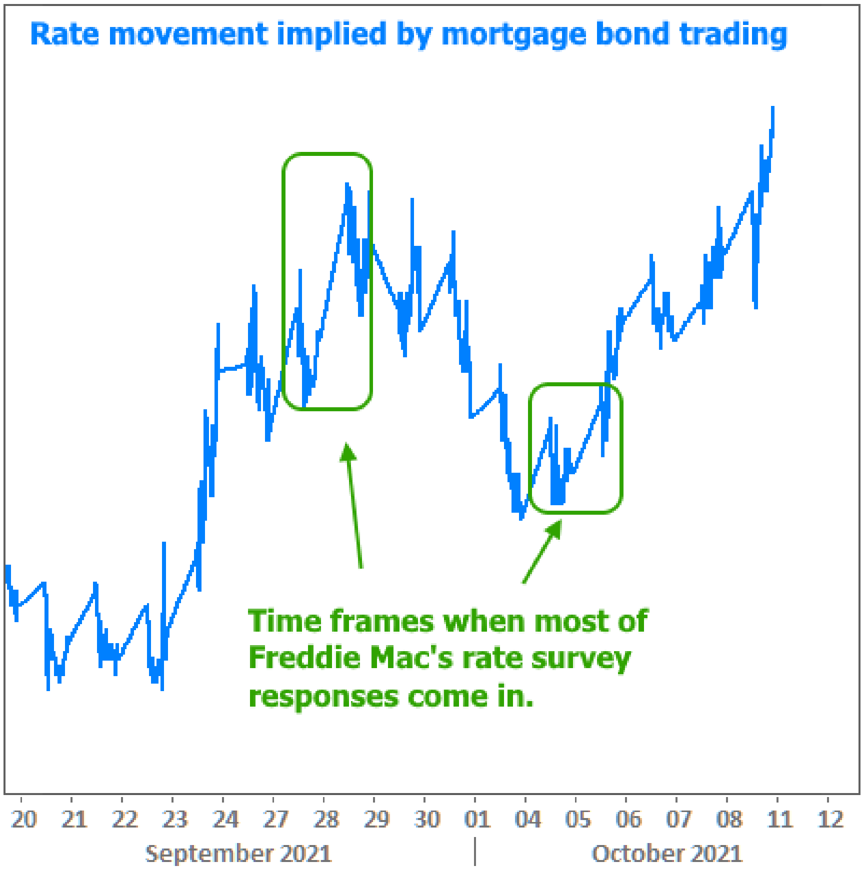
In fact, if we'd like to simply blame the pandemic for the **entirety** of the rate momentum landscape, all we have to do is zoom out.

And if we need to account for the mid-2021 departure from the red line, here's how we'd do it:



All of the above adds up to the **highest** mortgage rates in months as of Friday afternoon--an assertion that runs counter to numerous news reports that came out on Thursday. As is often the case, Freddie Mac's weekly mortgage rate survey is the source of the confusion. That much was already clear on Thursday when it came out (**read more here**). Friday's bond losses only added to the drama.

To understand how Freddie's survey could possibly claim rates are lower this week, consider the following chart. It shows actual movement in the mortgage bond market (the most relevant ingredient for mortgage lenders as they determine their rate offerings). The highlighted areas show when Freddie receives most of their survey responses.



Bottom line: the timing of recent market movement resulted in Freddie's survey showing the maximum possible week-over-week drop in rates. Either way, the line speaks for itself. By Friday, it hit its highest level in more than 6 months.

Parting thoughts: for those who are surprised about this week's surge in rates, this newsletter from early September is required reading: **Rate Reckoning Draws Closer**. It basically lays out everything that was at stake and even goes so far as to say an upside breakout was the more likely scenario. In other words, rates are doing exactly what we feared they would probably be doing!

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Oct 05				
10:00AM	Sep ISM N-Mfg Bus Act	62.3	59.5	60.1
10:00AM	Sep ISM N-Mfg PMI	61.9	60.0	61.7
Wednesday, Oct 06				
7:00AM	w/e MBA Purchase Index	275.7		280.4
7:00AM	w/e MBA Refi Index	3037.6		3359.5
8:15AM	Sep ADP National Employment (k)	568	428	374
10:30AM	w/e Crude Oil Inventory (ml)	2.346	-0.418	4.578

Event Importance:

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

Date	Event	Actual	Forecast	Prior
Thursday, Oct 07				
8:30AM	w/e Jobless Claims (k)	326	348	362
Friday, Oct 08				
8:30AM	Sep Non-farm payrolls (k)	+194	500	235
8:30AM	Sep Unemployment rate mm (%)	4.8	5.1	5.2
10:00AM	Aug Wholesale inventories mm (%)	1.2	1.2	1.2
Monday, Oct 11				
12:00AM	Columbus Day			
Tuesday, Oct 12				
11:30AM	3-Yr Note Auction (bl)	58		
1:00PM	10-yr Note Auction (bl)	38		
Wednesday, Oct 13				
7:00AM	w/e MBA Purchase Index	279.8		275.7
7:00AM	w/e MBA Refi Index	3023.0		3037.6
8:30AM	Sep Core CPI (Annual) (%)	4.0	4.0	4.0
1:00PM	30-Yr Bond Auction (bl)	24		
Thursday, Oct 14				
8:30AM	Sep Core Producer Prices YY (%)	6.8	7.1	6.7
Friday, Oct 15				
8:30AM	Sep Retail Sales (%)	0.7	-0.2	0.7
8:30AM	Oct NY Fed Manufacturing	19.80	27.00	34.30
10:00AM	Oct Consumer Sentiment	71.4	73.1	72.8
10:00AM	Aug Business Inventories (%)	0.6	0.6	0.5

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its “Proposed Criteria for Evaluating Home Buyer Contract Forms” on Tuesday. The 15 criteria focus on the contracts’ form — whether the documents are readable and understandable — and content — whether they are fair to homebuyers.

-the document’s expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
-the right to terminate the contract
-the disclosure that compensation is negotiable
-the broker’s compensation clearly stated and that the buyer broker can’t receive additional compensation for facilitating a sale
-that any additional fees, such as for showing a home, will be deducted from the broker’s commission if there is a successful sale
-that the commission is due only if there is a successful closing
-that buyers have an obligation — for no longer than 60 days, CFA recommends — to pay a broker who earlier showed them a home they purchased after the contract ended
-seller concessions paid directly to buyers
-dual agency not pre-approved by the contract
-an explanation of how a broker treats different buyer clients interested in the same property
-that buyers should not be required to first go through mediation or arbitration if they have a complaint

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