Mortgage Market in Review

Week of June 5, 2023 RATE LINK *Volume 30, Issue 23*

Market Comment

Mortgage bond prices finished the week sharply higher which put downward pressure on rates. Rates improved most of the week amid debt ceiling negotiations and the ultimate passage of a bill that addressed the issue. Treasury Secretary Yellen had warned the country would run out of funds by June 5th. The data was mixed. The strong payrolls component of the employment report reversed the positive streak Friday morning, but we still held most of the gains from earlier in the week. ISM index was 46.9 vs 47. ADP employment rose 278K vs 170K. However, unit labor costs (read wage-inflation) rose 4.2% vs 6%. Weekly jobless claims were 232K vs 235K. Mortgage interest rates finished the week better by approximately 3/4 of a discount point.

Looking Ahead

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Factory Orders	Monday, June 5, 10:00 am, et	Up 0.5%	Important. A measure of manufacturing sector strength. Weakness may lead to lower rates.
Trade Data	Wednesday, June 7, 8:30 am, et	$75B deficit	Important. Affects the value of the dollar. A falling deficit may strengthen the dollar and lead to lower rates.
Consumer Credit	Wednesday, June 7, 3:00 pm, et	$20B	Low importance. A significantly large increase may lead to lower mortgage interest rates.
Weekly Jobless Claims	Thursday, June 8, 8:30 am, et	242K	Important. An indication of employment. Higher claims may result in lower rates.

Employment

The Fed is clear they will not pivot from keeping rates higher until the data shows signs the rate hikes are working. The US Bureau of Labor Statistics Employment Situation Summary is the most important economic release each month. The latest release was mixed.

The release "presents statistics from two monthly surveys. The household survey measures labor force status, including unemployment, by demographic characteristics. The establishment survey measures nonfarm employment, hours, and earnings by industry."

The household survey indicated, "The unemployment rate increased by 0.3 percentage point to 3.7 percent in May, and the number of unemployed persons rose by 440,000 to 6.1 million. The unemployment rate has ranged from 3.4 percent to 3.7 percent since March 2022."

The establishment survey reported, "Total nonfarm payroll employment increased by 339,000 in May, in line with the average monthly gain of 341,000 over the prior 12 months. In May, job gains occurred in professional and business services, government, health care, construction, transportation and warehousing, and social assistance.

In May, average hourly earnings for all employees on private nonfarm payrolls rose by 11 cents, or 0.3 percent, to $33.44. Over the past 12 months, average hourly earnings have increased by 4.3 percent. In May, average hourly earnings of private-sector production and nonsupervisory employees rose by 13 cents, or 0.5 percent, to $28.75."

The strong payrolls component caused some concern and mortgage rates shot higher in response. The tame wage component tempered some of the selling pressure. The risk in the short-term for mortgage rates is still toward the upside so caution is key. We will need signs that the rate hikes are working to see any sustained downward pressure on rates.

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Market Information for Mortgage Professionals

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