



# Mortgage Time

Mortgage Market News for the week ending October 8, 2010



Compliments of  
**Chris Christie**  
Continental Home Loans  
Inc.  
Certified Mortgage  
Planning Specialist®

PHONE:  
(845) 549-2795

FAX:  
(845) 215-0200

[chriscmps@gmail.com](mailto:chriscmps@gmail.com)

175 Pinelawn Road

Melville, NY 11747

Cell: (516) 993-4998

## Weak Jobs Data Helps Mortgage Rates

Weak Employment data and increased expectations for Fed monetary easing were favorable for mortgage rates this week. Investors have priced in a high likelihood of additional Treasury security purchases by the Fed, which would increase demand for mortgage-backed securities (MBS). As a result, mortgage rates declined to a new record low.

While the private sector performed relatively well, Friday's Employment data revealed net job losses and stagnant wage growth in September. Against a consensus forecast for a loss of 5K jobs, the economy lost 95K jobs. The weakness was seen mostly in the government sector, as state and local governments continued to shed jobs. The private sector actually added 64K, which was close to expectations. The Unemployment Rate remained at 9.6%. A broader measure, which also includes the underemployed, rose from 16.7% in August to 17.1%, matching the high reached in April. Average Hourly Earnings, a proxy for wage growth, was unchanged from August.

The Fed's recent announcement that it may purchase additional Treasury securities (quantitative easing) to stimulate the economy has magnified the importance of economic news and increased daily volatility. Investors now evaluate each fresh piece of data in terms of its expected impact on Fed policy, and mortgage rates receive an extra benefit from weaker than expected data. In general, weaker economic growth leads to lower future inflation, which is favorable for mortgage rates. In addition, investors now expect higher levels of bond purchases by the Fed after weak data, and the increased demand also would be positive for mortgage rates. Of course, stronger than expected economic news will have the opposite effect and will push rates higher more quickly than usual.

### Also Notable:

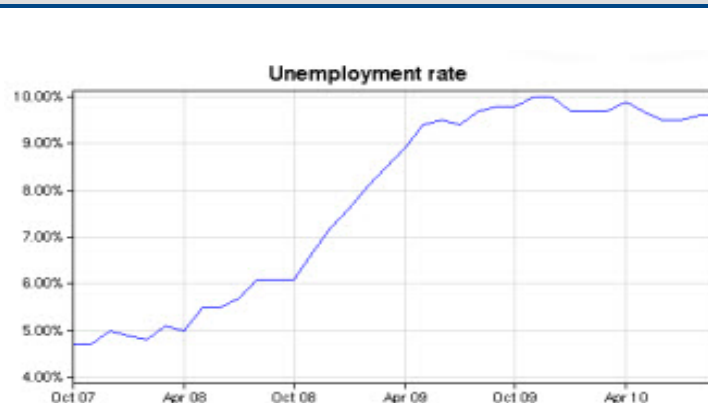
- August Pending Home Sales, a leading indicator, rose 4% from July
- The Bank of Japan (BOJ) unexpectedly cut interest rates nearly to zero
- The Treasury will auction \$66 billion in 3-yr, 10-yr, and 30-yr securities next week
- Oil prices climbed above \$83 per barrel, to the highest level since May

### Events This Week:

Employment Fell  
Pending Sales Up  
ISM Services Rose  
Manufacturing Mixed

### Events Next Week:

Tues 10/12  
Fed Minutes  
  
Wed 10/13  
Import Prices  
  
Thur 10/14  
PPI  
  
Fri 10/15  
CPI  
Retail Sales  
Sentiment



Average 30 yr fixed rate:  
Last week: -0.01%  
This week: -0.15%

Stocks (weekly):  
Dow: 10,950 +150  
NASDAQ: 2,375 +25

## Week Ahead

The most significant economic data next week will be the monthly inflation reports. The Producer Price Index (PPI) focuses on the increase in prices of "intermediate" goods used by companies to produce finished products and will come out on Thursday. The Consumer Price Index (CPI), the most closely watched monthly inflation report, will come out on Friday. CPI looks at the price change for those finished goods which are sold to consumers. In addition, the detailed FOMC Minutes from the September 21 Fed meeting will be released on Tuesday. Retail Sales, an important indicator of economic growth, will be released on Friday. Retail Sales account for about 70% of economic activity. Empire State, the Trade Balance, Import Prices, and Consumer Sentiment will round out the week. There will be Treasury auctions on Tuesday, Wednesday, and Thursday. Mortgage markets will be closed on Monday for Columbus Day.

To learn more about news impacting interest rates and mortgage markets, go to

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