

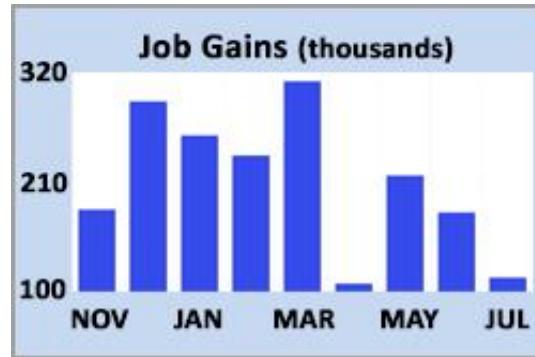
What Happened Last week to Affect Mortgage Rates?

Surprisingly Weak Data

The economic news was very favorable for mortgage markets last week. On Wednesday, the Fed meeting left the door open for looser monetary policy if the economy performs as forecasted. The major economic data released on Thursday and Friday then fell far short of expectations, convincing investors that rate cuts will be seen in the near future. As a result, mortgage rates ended the week at the lowest levels of the year.

As expected, there was no reduction in the federal funds rate on Wednesday. The changes to the statement released after the Fed meeting, while relatively minor overall, were slightly dovish (favoring looser monetary policy). For example, officials expressed more concern about a weakening labor market rather than focusing almost exclusively on the battle to bring down inflation. During his press conference, Fed Chair Powell refused to be pinned down on the precise timing of a federal funds rate cut, but he was receptive to the first one taking place soon. Investors anticipate that rates will be lowered at the next meeting in September, with some predicting that it will be by a larger 50 basis points rather than the more common 25.

The latest Employment report revealed that the economy added just 114,000 jobs in July, far below the consensus forecast, and the results from last month were revised lower. The largest gains were seen in the healthcare, construction, and leisure sectors. Unexpectedly, the unemployment rate rose from 4.1% to 4.3%, the highest level since October 2021. Average hourly earnings were 3.6% higher than a year ago, also well below the consensus forecast and the lowest annual rate since May 2021.



Another significant economic report released last week from the Institute of Supply Management also indicated unexpected weakness. The ISM national manufacturing index plunged to 46.8, far below the consensus forecast and the lowest level since July 2023. Since readings above 50 indicate an expansion in the sector and below 50 a contraction, the report suggests that this important segment of the economy is slowing.

Investors will continue to look for Fed officials to elaborate on their plans for future monetary policy in light of the significantly weaker data released since the meeting. It will be a light week for economic reports. The ISM national services sector index will come out on Monday and the Trade Deficit on Tuesday. Investors also will be watching for signs of escalation in the conflict in the Middle East.

Calendar

Mon 8/5	ISM Services
Tue 8/6	Trade Deficit
Thu 8/8	Jobless Claims

Weekly Change

10yr Treasury	fell	0.40
Dow	fell	1,000
NASDAQ	fell	700

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