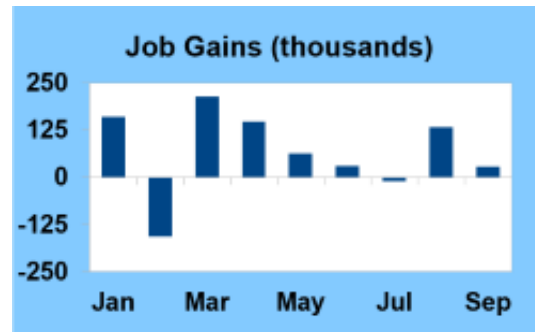


What Happened Last week to Affect Mortgage Rates?

Job Gains Fall Short

Headlines surrounding the conflict in the Middle East continued to create some ups and downs in mortgage markets last week. A surprisingly weak jobs report also grabbed attention, although it had less of an impact on mortgage rates than you might expect. By the end of the week, mortgage rates were slightly higher.

In September, the U.S. economy gained just 29,000 jobs, the fewest since July, surprising economists who had expected employers to add 85,000 jobs. On top of that, payroll numbers for the previous two months were revised lower by a combined 60,000 jobs. The largest gains were seen in health care and construction, while temporary help services and information services lost jobs.



In addition to the weak headline number, some of the other key components of the report also were softer than expected. Average hourly earnings rose just 0.1% for the month, bringing annual wage growth to 3.0%. That's down slightly from 3.1% the month before and marks the slowest annual increase since May 2021. Wage growth is barely keeping up with the inflation rate. The unemployment rate climbed to 4.2%, above the consensus forecast for a flat reading of 4.1%. One encouraging sign in the report was that the participation rate (the percentage of working-age people in the labor force) improved. After hitting its lowest level since March 2021 two months ago, participation has picked up as significantly more people have entered the workforce.

While the labor market is showing signs of cooling, inflation continues to be something the Federal Reserve is watching closely, and the PCE price index is their favored indicator. In August, core PCE, which excludes the volatile food and energy components, was 3.0% higher than a year ago, the same annual rate as July. Progress toward the 2.0% target of the Fed has been challenging, and this level has not been seen since February 2021. Following the latest labor market and inflation data, most investors now anticipate that the Fed will hold steady at the October meeting and then hike rates at the December meeting.

Bottom Line: For now, investors are balancing several competing forces: slowing economic growth, persistent inflation, and continued global uncertainty. Inflation has come down significantly from its peak, but it's still well above the Federal Reserve's target. That means the Fed is likely to remain cautious about its next moves. For mortgage rates, that could mean more volatility in the weeks ahead. Daily movements will continue to depend on incoming economic data, comments from the Federal Reserve, and developments around the world.

Looking ahead, attention will remain fixed on the conflict in the Middle East and oil prices. Investors also will monitor comments from Fed officials about future monetary policy. The detailed minutes from the September 16 Fed meeting will come out on Wednesday. It will be a light week for economic reports. The ISM national services sector index will come out on Monday. The Trade Deficit will be released on Tuesday.

Calendar			Weekly Change		
Mon	10/5	ISM Services	10yr Treasury	rose	0.05
Tue	10/6	Trade Deficit	Dow	fell	500
Wed	10/7	Fed Minutes	NASDAQ	rose	200

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