Market Recap – Can We Trust The Numbers?

We'd like to think we can, but we have to ask, even if we ask tongue-in-cheek: Are these numbers real and do they reflect the state of the economy? We're referring to the employment numbers released last Friday, which we found to be highly unusual and very surprising. According to the Bureau of Labor Statistics , the unemployment rate dropped to 6.7%, the lowest it has been since the Bush Administration. That's the good news, and news we can understand, given strong economic growth in the waning months of 2013. The bad news – and the news that left us scratching our heads – is that payrolls increased by a mere 74,000 in December, which fell far short of the consensus estimate for 193,000. Even more disconcerting, many of the new jobs – 55,000 – were in retail, which tends to be a lower-compensated segment of the economy. We were, quite frankly, expecting job growth to hover near 200,000, especially when considering payrolls increased 241,000 (revised up from 203,000) in November and 200,000 in October. We thought elevated monthly job growth would coincide with gross domestic product , which had risen through most of 2013. But at least the unemployment rate is falling, you might reason. This is a point of contention among economists, because it's falling on falling labor participation . Those working or seeking work has dropped to 62.6% of the population, the lowest since 1978. As recently as 2008, the labor participation rate was at 66%. Many market commentators fret over the low labor participation rate. But there appears to be a mitigating factor: There is evidence the lower participation rate is related to a higher retirement rate. If that's the case, today's flaccid labor participation rate is less dire than first appearances might lead us to believe. Employment and economic growth is a recurring theme in these pages because of their importance to the housing and mortgage markets. We've said repeatedly that we'd love to see more jobs and more economic growth, even if they lead to higher lending rates. The upside to disappointing job growth is falling mortgage lending rates, which is what happened this past week. Bankrate.com reports the average rate on the 30-year fixed-rate mortgage dropped nine basis points to 4.57%. Freddie Mac's survey shows the average rate on the 30-year loan fell 10 basis points to 4.41%. The sizable drop in mortgage rates over the past couple weeks has ignited application activity, which we're glad to see. The Mortgage Bankers Association's latest survey shows that refinance activity jumped 11% last week. More important, purchase applications increased 12%. The surge in purchase applications leads us to believe that job growth for December was an aberration. After all, a loan is frequently contingent on the borrower being employed. So if the December job numbers prove to be an aberration, then today's lower lending rates are likely an aberration, and also a window of opportunity. If the January job numbers move up to the 200,000 range, you can be assured mortgage lending rates will move up with them. Recent positive economic reports, along with our instincts, lead us to believe January's payroll numbers will be closer to 200,000 than 100,000.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Mortgage Applications	Wed., Jan. 22, 7:00 am, ET	None	Important. A sustained increase in purchase application activity would improve the housing-market outlook.
FHFA Home Price Index (November)	Thurs., Jan. 23, 9:00 am, ET	0.4% (Increase)	Important. Recent pricing data point to a slowdown in monthly and yearly home-price appreciation.
Existing Home Sales (December)	Thurs., Jan. 23, 10:00 am, ET	4.95 Million (Annualized)	Important. Tight inventory continues to limit overall sales growth.
Leading Indicators (December)	Thurs., Jan. 23, 10:00 am, ET	0.5% (Increase)	Moderately Important. The trend in recent months is encouraging, pointing to sustained economic growth.

A Mixed Blessing Do lenders prefer higher or lower interest rates? The answer isn't straightforward. Higher lending rates translate to higher income as long as the rate at which a lender borrows (generally a short-term rate) to fund a loan remains unchanged. On the flip side, higher rates lead to lower lending activity. We still think higher lending rates are in our best interest long term. We've noted many times that higher rates are reflective of the two important market variables we mention above – economic growth and job growth. Both can easily compensate for higher rates. If job growth is accompanied with rising wages, home affordability remains relatively unchanged. Higher rates also lead to more accommodating lending standards. We'll all agree that stand ards are tight today, possibly overly so. But Federal Reserve data lend credence to our assertion: When rates were rising last year, lending standards showed a measure of easing. This makes sense; higher rates lead to more profitable lending opportunities. What's more, the risk of lending to lower credit-quality borrowers is mitigated by price-appreciating collateral. So rising rates are a mixed blessing, but a blessing that in the grand scheme of things will prove beneficial.