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Jobs report sends mortgage rates higher

Where are rates headed next?

October 4, 2024, 3:37 pm *By Logan Mohtashami*

Labor over Inflation has been the theme for mortgage rates to go lower in 2024, with the understanding that as soon as the labor market softens, the 10-year yield should head lower, which it has. However, it works both ways. Recently, I've written that mortgage rates may have bottomed for 2024 because they got toward the low-end range of my 2024 forecast, and unless the labor market gets much weaker, this is it.

Since the **Federal Reserve** cut rates by 0.50% on Sept. 18 the 10-year yield has increased over 35 basis points after a series of better economic

data. Retail sales, housing starts, industrial production, jobless claims and now the Jobs Friday report came in as a beat of estimates. You put all of those results together and it's not shocking that the 10-year yield is up over 35 basis points from the recent low.

Let's look at the report to see where we are today.

From **BLS**: *Total nonfarm payroll employment increased by 254,000 in September, and the unemployment rate changed little at 4.1 percent, the U.S. Bureau of Labor Statistics reported today. Employment continued to trend up in food services and drinking places, health care, government, social assistance, and construction.*

The headline number beat estimates, and the other positive data line was that we saw positive revisions of 72,000, — which is noticeable. Wage growth even picked up in this report, and the unemployment rate for those without a high school education fell from 7.1% to 6.8%. With the positive revisions in this report and the headline number, the labor market is now slightly beating my forecast for job growth in 2024.

I have been looking for the monthly job gain data to cool down toward 140,000–165,000 per month as we head toward 159 million total nonfarm payroll employed. Today, we stand at 159,105,000; if this didn't happen I would have needed to revise all my labor models. However, now that we are here, the labor data looks more accurate than I saw earlier in the year.

I expect this number to be revised lower in time, but even with negative revisions, the labor market is getting softer, not breaking. Breaking would mean jobless claims are rising and heading toward 323,000 on the four-week moving average, and that's not happening. However, for now, the labor data aligns with what I have been looking for.

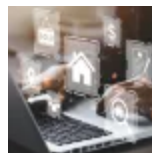
This is also one reason I have been discussing how mortgage rates have bottomed for 2024. This is the updated three and six-month average job

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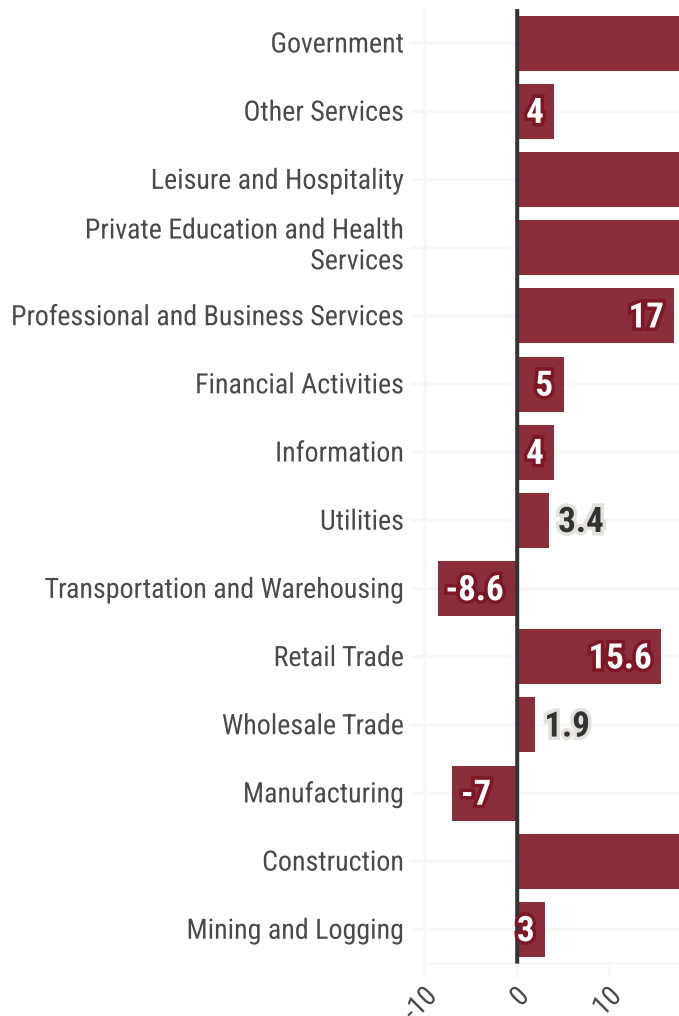
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creation data; both are slightly above my target level for job creation numbers.

- 3-month average: 185K
- 6-month average: 166K

Here is the breakdown of the monthly labor prints:

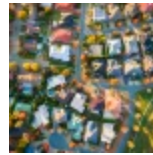
Monthly Change in Employment by Industry - September (thousands of jobs)



Data: [US Bureau of Labor Statistics](#)

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As we can see, construction labor grew again. Lower mortgage rates since mid-June have made life easier for the homebuilders. Their confidence has been increasing so much that single-family permits are rising again, which is critical to keeping residential labor employed. We



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have already seen the benefit of lower mortgage rates. The question going out is can this continue? Now that rates have increased, smaller builders who can't pay down rates will feel the pinch again. We will track this religiously as it's such a key variable in the economic cycle and for the Fed.



Conclusion

Will we see revisions to this report? Most likely. Is the labor market getting softer? Yes, but it's not breaking, at least not yet.

One of the benefits of lower mortgage rates has been that single-family permits are picking up again as demand grows. As we can see, the builders will pull back on permits when rates get too high. We have enough data to show that mortgage rates in the high 6% range or over 7% are simply too high of a rate to grow home sales in 2024. This for both new and existing home sales, so I am encouraged to see that we can show benefits to the economy with lower mortgage rates, and we don't have to be so scared of mortgage rates heading toward 6% or going lower in the future.

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