

MARKET BRIEF

February 6, 2012

Jobs Growth Raises Questions About GDP Forecasts, Fed

Timely Topics

January's surprisingly strong jobs report, showing gains across a range of industries, is an encouraging sign that the employment picture may finally be picking up, and that first quarter growth forecasts may, in fact, be too low.

It also raises questions about the timing of the Federal Reserve's pledge to keep interest rates low, and whether another round of quantitative easing is even necessary.

There were 234,000 nonfarm payrolls added in January, nearly 100,000 more than expected, and the unemployment rate continued to creep down to 8.3 percent from 8.5 percent. That follows the creation of a revised 203,000 payrolls in December and 157,000 in November.

"It feels like we're now closer to growth of 200,000 a month. This would suggest that unemployment through the end of the year should continue to decline," said Mark Zandi, chief economist at Moody's Economy.com. "It's not as strong as the numbers say, but I think it's real in terms of business engagement."

The strong report Friday fueled a stock market rally, a move up in the dollar, and a jump in Treasury yields, pushing the 10-year yield back toward 2 percent. The Dow, up more than 100 points, was at a 3-1/2 year high.

The jobs report, coupled with other data, also spurred speculation that first quarter GDP growth estimates of 2 percent may prove too low.

"It's jobs growth across the board. Then when you see things like today's ISM, it's confirmation of what we saw this month," said Credit Suisse economist Jonathan Basile. "When you put the two ISM reports together, you say GDP forecasts are probably too low."

Traders also questioned whether the Fed will wait until late 2014 to raise its target rate, as it has forecast. They also wonder whether the central bank will pursue another round of quantitative easing, which would be aimed at the mortgage market.

Important Markets

DOW Jones Industrial	
Start of week	12660.46
End of week	12862.23
Change	201.77
NASDAQ	
Start of week	2816.55
End of week	2905.66
Change	89.11
30-Year Bond	
Last week	3.06
This week	3.13
1 Yr T-Bill	0.120%
Prime Rate	3.250%
11 th Dist COF	1.221%
12 Mo. LIBOR	1.084%

Economic Update

Last Week: U.S. stocks rose, giving the Standard & Poor's 500 Index a fifth straight weekly advance, after reports showed employment in the world's largest economy topped forecasts and global manufacturing is strengthening.

What's Ahead: This week is fairly light in terms of mortgage relevant economic reports and related events. There are a couple of economic releases and two fairly important Treasury auctions, but none of them are scheduled until the last part of the week. Look for stock prices and overseas news to drive trading and mortgage rates the first couple days of the week.



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