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Upside Surprise in Jobs Data

Investors have been concerned for quite a while about the coming supply of new debt needed to pay for all the government stimulus programs. On top of that, the economic outlook has been improving sooner than expected. The combination of these two potentially inflationary developments pushed mortgage rates higher during the week.

The economic surprise this week came from the Employment report. Although the economy lost -345K jobs in May, it was far fewer than the consensus estimate for a loss of -525K jobs. The Unemployment Rate jumped to 9.4% from 8.9% in April. A surge in people entering the labor force was responsible for the unexpected increase in the Unemployment Rate. The labor market is typically one of the last areas to show improvement during an economic rebound, so signs of a turnaround are particularly significant.

Fed Chief Bernanke supported the notion that the recession would end this year. In testimony before Congress this week, Bernanke stated that he still expects the economy to move higher later this year, although it may take a while for growth to return to average levels. He looked ahead to measures needed once the economic crisis has passed, such as containing the budget deficit and reducing government control of markets. At this point, most investors believe that the Fed is not inclined to expand the mortgage-backed security (MBS) purchase program beyond its current level of \$1.25 trillion, unless economic growth falls short of the Fed's outlook.

More evidence that the economy may be rebounding came from this week's housing data. April Pending Home Sales rose for the third consecutive month, increasing 7% from March. Pending Home Sales are a leading indicator, meaning that future New and Existing Home Sales reports may show increases.

Events This Week:

- Employment Fell
- Inflation Steady
- Pending Sales Up
- Manufacturing Mixed

Events Next Week:

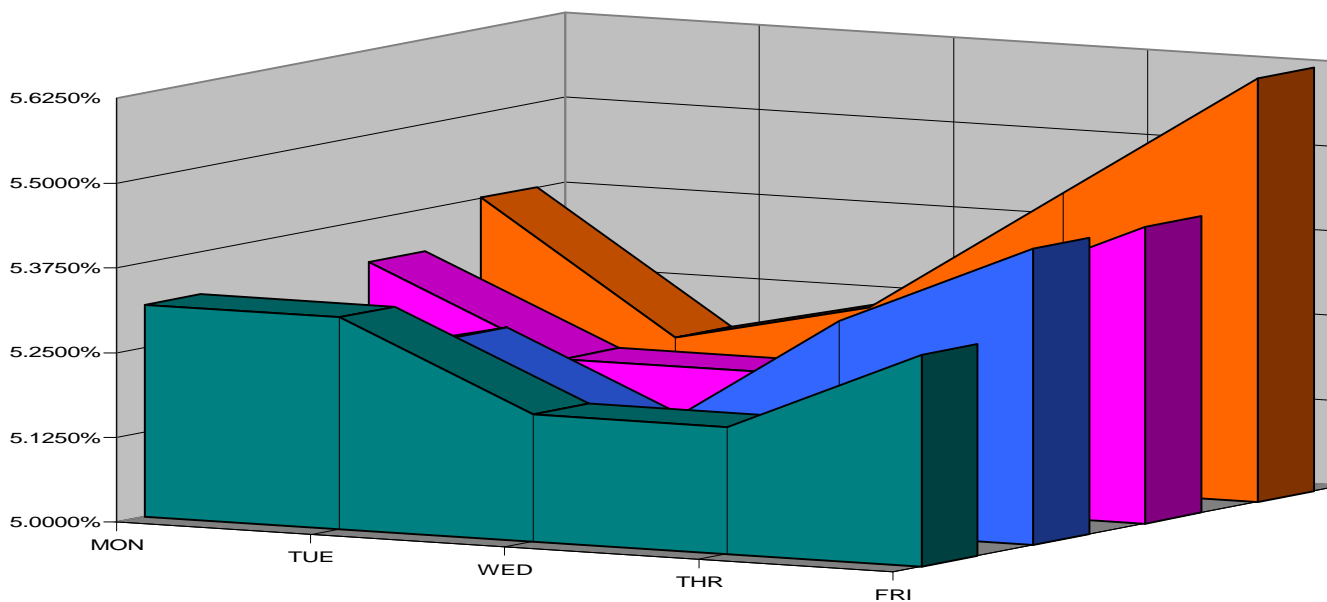
- Wed 6/10
Trade Balance
10-yr Auction
- Thur 6/11
Retail Sales
30-yr Auction
- Fri 6/12
Import Prices
Sentiment

Also Notable:

- The Unemployment Rate rose to the highest level since 1983
- The European Central Bank (ECB) held rates steady
- Oil prices reached \$70 per barrel, the highest level of the year
- The Fed purchased \$26 billion in agency MBS during the week ending 6/3

DAILY RATES FROM HAWAII'S TOP LENDERS:

Fannie Mae Base Rate (30-YR-FXD)



Average 30 yr fixed rate:	
Last week:	+0.35%
This week:	+0.15%

Stocks (weekly):	
Dow:	8,80 +40
:	0 0
NASDAQ:	1,85 +10
:	0 0

Above rates are the Monday-Friday daily base rates. Add-ons for low credit scores, high LTV, cash-out, or investment properties are then added to that rate. Borrowers can also "buy down" these rates by paying additional points.

Each color on the graph represents a different lender.

Week Ahead

Next week, the most significant economic data will be the Retail Sales report on Thursday. Retail Sales account for about 70% of economic activity. In addition, the Trade Balance and the Fed's Beige Book will be released on Wednesday. Import Prices and Consumer Sentiment will come out on Friday. There will be large Treasury auctions on Tuesday, Wednesday, and Thursday as well.

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