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**Economic Data Falls Short**

After several weeks of economic announcements generally exceeding forecasts, weaker than expected labor and manufacturing data, along with comforting comments from Fed officials about inflation, helped mortgage markets this week. Reacting to the data, investors shifted funds out of the stock market and into bond markets, and mortgage rates ended the week at the lowest levels since May.

The Employment report, the biggest economic report of the month, was a little weaker than expected. Against a consensus forecast of -175K, the economy lost -263K jobs in September, and the revisions to prior months were negative as well. The Unemployment Rate was 9.8%, the highest level since June 1983. Average Hourly Earnings, a proxy for wage growth, increased at a modest 2.5% annual rate. The length of the average work week declined.

In addition to the release of important economic data, several Fed officials delivered speeches during the week. What emerged was a good amount of disagreement over how soon they expect to need to tighten monetary policy. Some officials expressed concern that the time to begin to remove stimulus is close, while others see it as much farther down the road. There was a general consensus, though, that the Fed will be required to raise the fed funds rate while unemployment remains high. When the Fed eventually does indicate that rate hikes are imminent, the immediate reaction for mortgage rates is likely to be a move higher.

Events This Week:

- Employment Fell
- Inflation Lower
- Pending Sales Rose
- Manufacturing Mixed

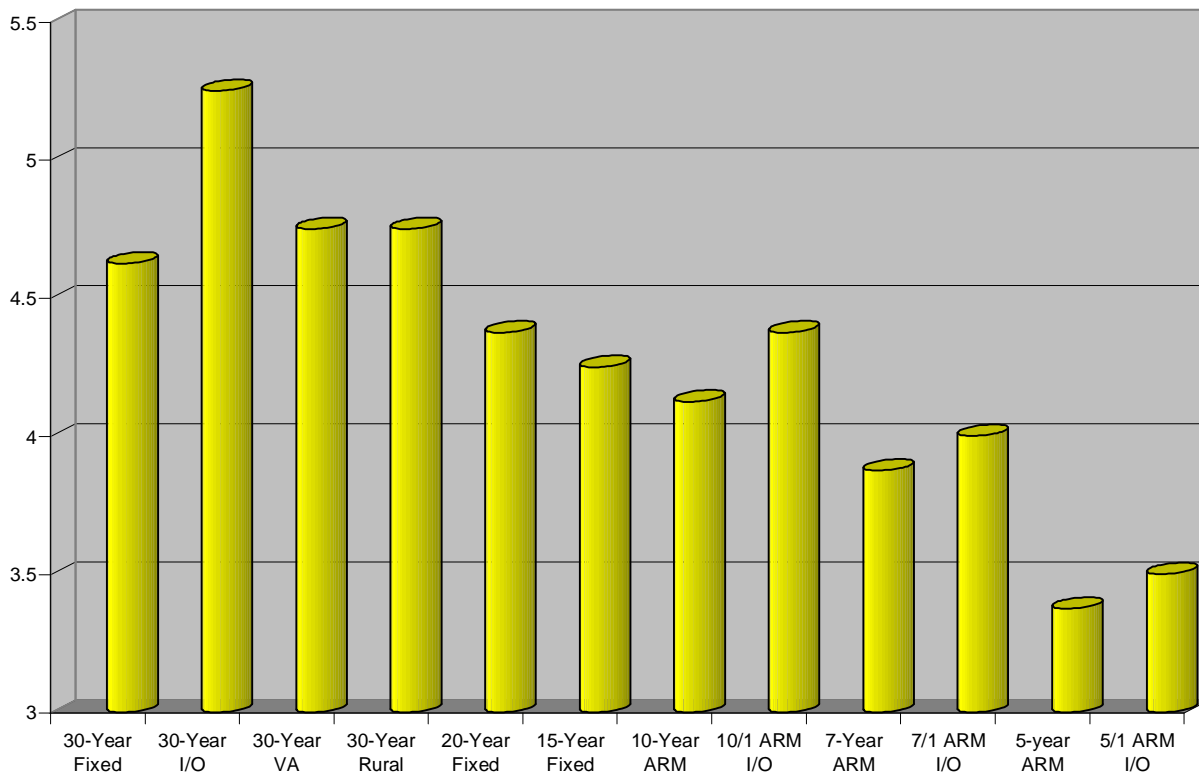
**Also Notable:**

- August Pending Home Sales rose 6% to the highest level since March 2007
- Core PCE inflation increased at a low 1.3% annual rate in August
- The Treasury will auction \$71B in 3-yr, 10-yr, and 30-yr securities next week
- The Fed purchased \$20 billion in agency MBS during the week ending 9/30

Events Next Week:

- Mon 10/5  
ISM Services
- Tues 10/6  
3-yr Auction
- Wed 10/7  
10-yr Auction
- Thur 10/8  
30-yr Auction
- Fri 10/9  
Trade Balance

**Conforming Rates as of 10/2/09**



Average 30 yr fixed rate:	
Last week:	-0.05%
This week:	-0.20%

Stocks (weekly):	
Dow:	9,500 -200
NASDAQ:	2,050 -50

**Week Ahead**

Next week will be a very light week for economic data, and Treasury auctions may have a greater influence on mortgage rates. The ISM Services index will be released on Monday, and the Trade Balance will come out on Friday. Tuesday, Wednesday, and Thursday will offer \$71B in auctions of 3-yr, 10-yr, and 30-yr Treasury securities.

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