Job Growth Signals Cooling Economy, Lending Standards Expected To Get Tougher, Mortgage Rates Rise

By Lou Hirsh

Job Growth Shows Economy Cooling

July's government numbers showing the U.S. added a healthy but fewer-than-expected 187,000 jobs should help encourage the Federal Reserve to pause its rate hikes that have already worked to slow the economy and tame inflation, according to analysts at Oxford Economics.

Oxford researchers said in a statement Friday that the jobs report is just one data point being considered ahead of the Fed's next rate-setting meeting scheduled for Sept. 19-20, "but we think it offers enough evidence of cooling labor market conditions to weigh in favor of no additional rate hikes."

Researchers cautioned, however, that an "upside surprise" in upcoming labor and inflation data would put another rate hike back on the table, after the Fed raised its key borrowing rate in July, marking the 11th hike since March 2022.

The government over the next few days is expected to release more numbers including July's annual inflation rate, after reporting a 3% rate for June. The Fed is looking for inflation to reach 2% before stopping rate hikes.

The Labor Department said July's unemployment rate was 3.5%, down from 3.6% in June and remaining near a 50-year low. Strong employment in the face of rising interest rates has prompted several analysts to pull back on predictions of an imminent recession in 2023. Bank of America economists last week predicted the U.S. could avoid a recession entirely.

July's biggest job gainers for the month included healthcare, which added 63,000, along with social assistance, financial activities, construction, hospitality and wholesale trade, the government reported. Hourly wages nationwide grew by an average annual rate of 4.4%, a lower pace than a year ago but still higher than pre-pandemic growth.

Lending Standards Seen Toughening

Already toughened lending standards amid other economic uncertainties are expected to slow commercial and multifamily lending for the remainder of 2023, according to prominent trade groups.

"Banks expect their lending standards across all loan categories to tighten further over the second half of 2023," said National Association of Home Builders analyst David Logan, citing Federal Reserve lender survey data from the second quarter.

Logan said in a statement those expectations were fueled by increased economic uncertainty and an expected deterioration of collateral values and credit quality of existing loans. Other analysts have reported that lending standards have already been raised by banks in struggling sectors such as office properties.

The Mortgage Bankers Association trade group predicted that U.S. commercial and multifamily mortgage borrowing and lending will total $504 billion for 2023, down 38% from 2022. The trade group projected that borrowing and lending will rebound in 2024 to about $856 billion, with about half of that total in multifamily lending.

“Higher and volatile interest rates, uncertainty about property values, and questions about some property fundamentals have led to an impasse in property sales and mortgage originations activity this year,” Jamie Woodwell, the MBA’s head of commercial real estate research, said in a statement.

The banker group expects interest rate moderation over the next 18 months to help break the current logjam in transactions.

Mortgage Rates Rise as Applications Decline

Mortgage rates rising well above year-earlier levels in the waning days of July spurred a continued decline in mortgage applications. The Mortgage Bankers Association said the volume of applications dropped 3% from the prior week in the week ending July 28.

The trade group said purchase applications declined 3% from the prior week and fell 26% from the corresponding week of 2022, with refinance applications dropping 3% for the week and declining 32% for the year.

Freddie Mac reported that 30-year fixed-rate mortgages averaged 6.9% in the government-backed lending agency’s survey for the week ended Aug. 3, up from 6.81% in the prior week and well above 4.99% a year earlier. The average for 15-year, fixed-rate loans was 6.25%, up from 6.11% a week earlier and higher than the year-earlier average of 4.26%.

“The combination of upbeat economic data and the U.S. government credit rating downgrade caused mortgage rates to rise this week,” Freddie Mac Chief Economist Sam Khater said in a statement Aug. 3. “Despite higher rates and lower purchase demand, home prices have increased due to very low unsold inventory.”