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Why Labor Data Matters for Mortgage Rates and the Fed

The Fed analyzes the jobs report to determine its next interest rate move, which impacts the mortgage market. 5-7-2025

OUR EXPERTS

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Inflation and employment data provide insights into the general health of the economy, influencing whether the Federal Reserve, whose key tasks are containing inflation and maximizing employment, adjusts interest rates up or down.

In the real world, low unemployment is a good thing: More people have jobs, and the economy is stable. However, a "robust" job market makes it less likely that the Fed will cut interest rates throughout 2025.

Since the Fed began hiking interest rates in early 2022 to tame inflation, mortgage rates have more than doubled. Although the central bank doesn't directly set the rates on home loans, its monetary policy influences the cost of borrowing across the economy.

Many hoped mortgage rates would ease down to 6% after the Fed began slashing interest rates this fall. However, following the central bank's 0.5% rate cut on Sept. 18, a stronger-than-expected jobs report helped send rates on home loans back up to nearly 7%.

Investors are anticipating another 0.25% rate reduction at the Fed's Dec. 17 to 18 policy meeting. Yet the bigger question is how future economic data will affect the pace and degree of rate cuts next year.

"If the economy holds up, or even picks up steam, the Fed will be far less likely to want to continue cutting rates," said Ali Wolf, chief economist at Zonda.

For prospective homebuyers, that means mortgage rates won't drop below 6% for a while.

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The relationship between economic data and mortgage rates

If you follow mortgage rate trends, you probably know that when the economy is doing great, mortgage rates are usually more expensive.

Although one single data point is never decisive, when inflation is high, the Fed generally raises interest rates to discourage borrowing, quell consumer spending and reduce the money supply. A tight labor market can also lead to a greater risk of inflation, putting more pressure on the Fed to hike rates.

The trick is not to slow demand so drastically as to cause a major surge in joblessness or a recession. Then, when unemployment is high, like during an economic downturn, the Fed often lowers interest rates to stimulate activity.

Essentially, key indicators -- the inflation rate and labor market growth -- signal how the economy is performing. Those signals affect investor expectations and appetites, setting off a chain reaction in the bond market. The first impact is in the value of government Treasury bonds, which influences other bond markets, like mortgage bonds. Also called mortgage-backed securities, mortgage bonds typically move in tandem with the 10-year Treasury.

When bond yields are high, the bond has less value on the market where investors purchase and sell securities, causing mortgage rates to go up. When yields are lower, the value of the bond increases and mortgage rates decrease.

Weaker jobs data (i.e., greater unemployment) tends to result in lower bond yields, whereas a stronger labor reading pushes them up.

TL;DR: Each monthly jobs report is one piece of economic data that influences bond investors, and the bond market and the housing market are closely interconnected.

How jobs data could affect mortgage rates in 2025

While it's challenging to predict what's next in the housing market, one thing is for sure: A strong economy and a steady labor market make it tricky for the Fed to cut interest rates, so mortgage rates might not come down as quickly as prospective homebuyers are hoping.

At its upcoming policy meeting in two weeks, the central bank will release its updated Summary of Economic Projections , which outlines where Fed officials expect interest rates to go in the future. The current version, last updated in September, estimates four rate cuts in 2025. But given that President-elect Donald Trump's economic policies are expected to reheat inflation, many experts predict the next iteration will have fewer cuts penciled in.

Even though unemployment has increased since last year (from 3.7% to 4.2%), the job market is cooling gradually, and experts don't see the economy tipping into a job-loss recession at the moment.

As for 2025, the labor market under the second Trump administration is a wild card, and shifts in the labor force will likely vary by industry.

The limitations of official labor data

Monthly jobs reports by the Bureau of Labor Statistics include unemployment numbers, wage growth, job openings, productivity and more. While headline figures may paint a broad picture of the economy, some experts say that nationally aggregated data doesn't accurately reflect which areas, populations and industries are more negatively affected.

For instance, the official unemployment rate is 4.2%, but that figure doesn't include those who have given up looking for work or those who are no longer able to work. However, the figure counts "underemployed" workers (those in part-time, contract or temporary positions) as employed.

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Advice for homebuyers

The direction of mortgage rates isn't permanent. Next month's data could paint a different story about the labor market and inflation risks. If inflation continues to go down and the labor market slows, it could provide some room for mortgage rates to fall.

While the economic factors affecting mortgage rates and home prices aren't within your control, you can do things like building your credit score, paying off debt and saving for a bigger down payment to help you secure the best mortgage interest rate for your situation.