

Daily Commentary

December 31, 2008, 3:27 PM

Review:

The *mortgage applications index* held steady at a 5-year high in the final week of December as a modest rise in applications for mortgages to finance a purchase offset a small drop in the refinancing index jumped 62.6%. The MBA also reported that its national average on 30-year fixed rate mortgages fell one basis point to 5.03%, now just 5 basis points above the series low set (4.99%) in June 2003. Further declines in lending rates could push applications higher still and begin to provide some traction for the housing market. In an encouraging sign that the drop in rates may also be stabilizing prices, the average loan sought in December by applicants buying a house rose slightly after a very small increase in November, the first back-to-back gains since last December.

Initial claims for unemployment insurance unexpectedly tumbled 92,000 (-16%) in the final week of 2008. Such a dramatic drop in the holiday shortened Christmas week immediately raises suspicions of faulty seasonal adjustments. Indeed, some TV pundits immediately noted the seemingly contradictory rise in the number and proportion of workers with on-going claims as evidence of an aberration. But the continuing claims data cover the PREVIOUS week when initial claims were at a 26-year high. However, a comparison of the changes in unadjusted claims in comparable Christmas weeks from the past offer do lend some support for the suspicion of seasonal bias. For instance, in three previous years (1980, 1986, and 1997) in which Christmas fell on a Thursday, unadjusted jobless claims rose an average of 0.50% while adjusted claims fell an average of about 2.3%. This week's claims report showed actual claims rose slightly more than the average of those years (+0.54% to a very high 719,000). Using seasonal adjustments comparable to those calendar-identical years would seemingly have produced a much smaller drop in adjusted claims. Nonetheless, the big drop last week raises -- however fleetingly -- the hope that the very high volume of claims in recent weeks may have reflected a rush to downsize that under different circumstances might have been delayed until after Christmas. Stay tuned!

Preview:

[Thursday, January 8: New Year's Day.](#)

[Friday, January 9:](#)

ISM Manufacturing Index: November. NSI: 34.5 Consensus: 35.4, range: 34.0 to 40.0.

The ISM's manufacturing index in November dipped to a new 26-year low. Relatively steady readings for the New York (down slightly) and Philadelphia (up slightly) Fed indices as well as the Chicago purchasers' index support the expectation that this index will remain quite weak but relatively steady.

Not Available

Contacts:

David Resler
(212) 667-2415
dresler@us.nomura.com

Nomura Securities International, Inc.
Two World Financial Center
New York, NY 10281-1198

www.nomura.com/research/s16

Bloomberg: NSI<GO>

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