MORTGAGE MARKET IN REVIEW

HOMETOWN AMERICA INCORPORATED

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Market Comment

Mortgage bond prices finished the week near unchanged despite some volatile trading days. Rates were higher the first half of the week. Most of the data showed economic strength and even the core inflation reading surprised to the upside. Consumer prices rose 0.3% as expected but the core, which excludes volatile food and energy prices, rose 0.3% versus an expected 0.2% increase. Weekly jobless claims were 220K while analysts expected 215K. Retail sales were higher than expected. The Philadelphia Fed business conditions index was 16.8 versus an expected 10 reading. Q2 Productivity rose 2.3% versus 1.3%. Q2 Unit Labor Costs rose 2.4% versus a 1.6% forecasted increase. Rates fell late Thursday afternoon to counter the earlier increases. Mortgage interest rates finished the week near unchanged despite the solid data.

LOOKING AHEAD

Economic Indicator	Release Date & Time	Consensus Estimate	Analysis
Existing Home Sales	Wednesday, Aug. 21, 10:00 am, et	5.3M	Low importance. An indication of mortgage credit demand. Significant weakness may lead to lower rates.
Fed Minutes	Wednesday, Aug. 21, 2:00 pm, et	None	Important. Details of the last Fed meeting will be thoroughly analyzed.
Weekly Jobless Claims	Thursday, Aug. 22, 8:30 am, et	218K	Important. An indication of employment. Higher claims may result in lower rates.
Leading Economic Indicators	Thursday, Aug. 22, 10:00 am, et	Up 0.2%	Important. An indication of future economic activity. A smaller increase may lead to lower rates.
10-year Treasury TIPS Auction	Thursday, Aug. 22, 1:15 pm, et	None	Important. TIPS will be auctioned. Strong demand may lead to lower mortgage rates.
New Home Sales	Friday, Aug. 23, 10:00 am, et	650K	Important. An indication of economic strength and credit demand. Weakness may lead to lower rates.

Leading Economic Indicators

The index of leading economic indicators (LEI) is a weighted average of eleven economic variables that "lead" the business cycle. It is constructed for forecasting future aggregate economic activity. The eleven variables that make up the LEI measure workers' hours, initial unemployment claims, new factory orders, vendor performance, contracts and orders for plant and equipment, new housing permits, changes in unfilled orders, prices of raw materials, stock prices, money supply and consumer expectations.

Each of the variables that comprise the index has a tendency to predict (or lead) economic activity. For example, new orders for manufactured goods, new orders for plant and equipment, and new building permits are all direct measures of the amount of future production being planned for the economy.

Analysts monitor the LEI in an effort to predict future economic growth. When the LEI report is up, mortgage market participants expect credit demand to increase and inflationary pressures to build. Thus, when the LEI report is rising, interest rates tend to rise as well. The LEI report is a valuable forecasting device that often correctly predicts economic turning points. The percentage change in the LEI is reported monthly and is an indication of the activity that will occur within the next three to six months. The LEI tends to turn down before peaks in the business cycle. Continuous declines are generally accepted as evidence that a recession continues.

Nine of the eleven components that make up this index are known before the release of the report, so the index is easier for economists to predict than other data releases.

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