MORTGAGE MARKET IN REVIEW

HOMETOWN AMERICA INCORPORATED

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Market Comment

Mortgage bond prices finished the week a little lower which put some upward pressure on rates. We started the week on solidly positive note Monday amid no data. This quickly reversed Tuesday as traders positioned ahead of the Fed Congressional Testimony. Fed Chair Powell hinted at a rate hike sooner rather than later. A “hot” reading on the consumer price index resulted in sharp selling pressure Thursday morning. Both consumer and producer prices rose 0.1% versus an expected unchanged reading. The core, which excludes volatile food and energy rose 0.3% versus an expected 0.2% increase. Mortgage interest rates finished the week worse by approximately 1/8 of a discount point.

LOOKING AHEAD

Economic Indicator	Release Date & Time	Consensus Estimate	Analysis
Retail Sales	Tuesday, July 16, 8:30 am, et	Up 0.8%	Important. A measure of consumer demand. A smaller than expected increase may lead to lower mortgage rates.
Industrial Production	Tuesday, July 16, 9:15 am, et	Up 0.4%	Important. A measure of manufacturing sector strength. A lower than expected increase may lead to lower rates.
Capacity Utilization	Tuesday, July 16, 9:15 am, et	78%	Important. A figure above 85% is viewed as inflationary. Weaker figure may lead to lower rates.
Housing Starts	Wednesday, July 17, 8:30 am, et	1270K	Important. A measure of housing sector strength. Weakness may lead to lower rates.
Fed “Beige Book”	Wednesday, July 17, 2:00 pm, et	None	Important. This Fed report details current economic conditions across the US. Signs of weakness may lead to lower rates.
Weekly Jobless Claims	Thursday, July 18, 8:30 am, et	206K	Important. An indication of employment. Higher claims may result in lower rates.
Philadelphia Fed Survey	Thursday, July 18, 10:00 am, et	1.9	Moderately important. A survey of business conditions in the Northeast. Weakness may lead to lower rates.

Leading Economic Indicators	Thursday, July 18, 10:00 am, et	Up 0.2%	Important. An indication of future economic activity. A smaller increase may lead to lower rates.
U of Michigan Consumer Sentiment	Friday, July 19, 10:00 am, et	98.5	Important. An indication of consumers' willingness to spend. Weakness may lead to lower mortgage rates.

Econ 101

The Federal Reserve has two mandates, full employment and price stability. Price stability is an inflation rate of 2% annually. An economy that is expanding (GDP of 3%+) can cause inflation to rise as employers must pay higher wages to attract help. Inflation is like a wildfire. Once it gets started, it can be difficult to stop. When inflation rises above the "price stability" threshold, one tool the Fed has is to raise rates. Higher rates dampen economic expansion. The opposite is also true if the economy slumps the Fed cuts rates to encourage business and households to borrow. The higher reading on CPI last week threw a monkey wrench in Fed Head Powell's dovish comments before congress. The market would love to see a 50-basis point cut at the end of the month.