

MORTGAGE MARKET IN REVIEW



HOMETOWN
A M E R I C A
 INCORPORATED

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Market Comment

Mortgage bond prices finished the week higher, which put downward pressure on rates. Rates remained very volatile with full discount point swings between Tuesday and Wednesday. Higher than expected inflation readings put upward pressure on rates while stock volatility resulted in some flight to safety buying of US debt instruments on Wednesday afternoon and Thursday morning. Weekly ADP employment was 24.75K vs 23.75K the prior week. CPI rose 0.6% as expected, the Core was up 0.3% vs 0.2%. Year over year CPI rose 3.7% vs 3.6%. YOY Core was up 2.6% vs 2.5%. The producer price index rose 1.3% vs 0.5%. The core was up 0.7% vs 0.3%. Retail sales rose 0.8% vs 0.3% and weekly jobless claims were 199K vs 200K. Industrial production rose 0.7% vs 0.4%. Capacity use was 76.9% vs 76.5%. Mortgage interest rates finished the week better by approximately 1/2 of a discount point.

LOOKING AHEAD

Economic Indicator	Release Date & Time	Consensus Estimate	Analysis
NAHB Housing Index	Monday, Oct. 19, 10:00 am, et	31	Moderately Important. A measure of single-family housing. Weakness may lead to lower mortgage rates. s
Weekly ADP Employment	Tuesday, Oct. 20, 8:30 am, et	24K	Important. An indication of employment. Weakness may bring lower rates.
Housing Starts	Tuesday, Oct. 20, 8:30 am, et	1.3M	Important. A measure of housing sector strength. Weakness may lead to lower rates.
Weekly Jobless Claims	Thursday, Oct. 22, 8:30 am, et	200K	Important. An indication of employment. Higher claims may result in lower rates.

Leading Economic Indicators	Thursday, Oct. 22, 10:00 am, et	Down 0.2%	Important. An indication of future economic activity. Weakness may lead to lower rates.
U of Michigan Consumer Sentiment	Friday, Oct. 23, 10:00 am, et	46.3	Important. An indication of consumers' willingness to spend. Weakness may lead to lower mortgage rates.

Leading Economic Indictors

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. 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. Thus, although this is important predictive data for market participants, major surprises are not common with the release of this data.

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