MORTGAGE MARKET IN REVIEW

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HOMETOWN AMERICA INCORPORATED

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Market Comment

Mortgage bond prices finished the week sharply lower, which put significant upward pressure on rates. Rates started the week flat and worsened considerably Thursday and Friday. The E.U. raised rates and market sentiment pivoted toward the U.S. Fed doing the same at the upcoming September 15/16 meeting. The data was mixed with some signs of inflationary pressures. Weekly ADP employment was 12K vs 11.75K. Weekly jobless claims were 206K vs 205K. PPI rose 0.4% as expected. The core rose 0.2% vs 0.3%. Existing home sales were 3.98M as expected. Consumer sentiment was 47.8 vs 51. CPI rose 0.4% as expected. The core rose 0.3% vs 0.2%. Mortgage interest rates finished the week worse by approximately a full discount point.

LOOKING AHEAD

Economic Indicator	Release Date & Time	Consensus Estimate	Analysis
Weekly ADP Employment	Tuesday, Sept. 15, 8:30 am, et	12K	Important. An indication of employment. Weakness may bring lower rates.
Retail Sales	Wednesday, Sept. 16, 8:30 am, et	Up 1.4%	Important. A measure of consumer demand. A smaller than expected increase may lead to lower mortgage rates.
NAHB Housing Index	Wednesday, Sept. 16, 10:00 am, et	83	Moderately Important. A measure of single-family housing. Weakness may lead to lower mortgage rates.
Fed Meeting Adjourns	Wednesday, Sept. 16, 2:15 pm, et	25 basis point rate increase	Important. Most expect the Fed to raise rates. Volatility may surround the adjournment

			of this meeting.
Housing Starts	Thursday, Sept. 17, 8:30 am, et	1.32M	Important. A measure of housing sector strength. Weakness may lead to lower rates.
Philadelphia Fed Survey	Thursday, Sept. 17, 10:00 am, et	30	Moderately important. A survey of business conditions in the Northeast. Weakness may lead to lower rates.
Industrial Production	Friday, Sept. 18, 9:15 am, et	Up 0.3%	Important. A measure of manufacturing sector strength. Weakness may lead to lower rates.
Capacity Utilization	Friday, Sept. 18, 9:15 am, et	76.4%	Important. A figure above 85% is viewed as inflationary. Weakness may lead to lower rates.

Hot Inflation

August’s Core Consumer Price Index came in hotter than economists had anticipated. That single data point was enough to swing rate-futures pricing from a close call to a near-consensus hike. Underlying prices excluding food and energy rose 0.3% last month instead of the 0.2% that had been expected, even as the year-over-year core rate eased to 2.4%. Combined with a rebound in gasoline that lifted the headline index 0.4%, the report left little room for officials who had hoped inflation would keep cooling on its own. Traders who had assigned roughly a 70% chance of a quarter-point increase at the September 15/16 meeting quickly marked that probability up to the mid-to high-80s, and in some snapshots close to 90%.

Inflation, real or perceived, erodes the value of fixed income investments such as mortgage-backed securities. This causes prices to fall and rates to rise in the short term. A cautious approach to float/lock decisions is prudent amid heightened economic uncertainty.

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