

## Market Comment

Mortgage bond prices rose last week pushing mortgage interest rates lower. Trading was volatile the entire week. The Fed stepped in absorbing some of the oversupply of mortgage bonds. Inflationary pressures were eased with the consumer price index lower than expected. The financial markets were rattled a bit as the Fed and JPMorgan Chase helped Bear Stearns with funding.

For the week, interest rates on government and conventional loans fell by about a full discount point.

The Fed meeting Tuesday will be the most important event this week. The potential for market volatility is very high surrounding the Fed meeting. Industrial production, capacity use, housing starts, producer price index, and leading economic indicators data will also be important.

## Looking Ahead

<b>Economic Indicator</b>	<b>Release Date and Time</b>	<b>Consensus Estimate</b>	<b>Analysis</b>
Industrial Production	Monday, March 17, 9:15 am, et	Down 0.1%	Important. A measure of manufacturing sector strength. Weakness may lead to lower rates.
Capacity Utilization	Monday, March 17, 9:15 am, et	81.3%	Important. A figure above 85% is viewed as inflationary. A decrease may lead to lower mortgage interest rates.
Housing Starts	Tuesday, March 18, 8:30 am, et	Down 1.7%	Important. A measure of housing sector strength. Larger than expected decreases may lead to lower rates.
Producer Price Index	Tuesday, March 18, 8:30 am, et	Up 0.3%, Core up 0.2%	Important. An indication of inflationary pressures at the producer level. Lower figures may lead to lower rates.
Fed Meeting Adjourns	Tuesday, March 18, 2:15 pm, et	75 basis point cut	Important. Fed expected to cut rates. Volatility may surround the adjournment of this meeting.
Leading Economic Indicators	Thursday, March 20, 10:00 am, et	Down 0.3%	Important. An indication of future economic activity. Weakness may lead to lower rates.
Philadelphia Fed Survey	Thursday, March 20, 10:00 am, et	None	Moderately important. A survey of business conditions in the Northeast. Weakness may lead to lower rates.

## Fed Meeting

The United States central bank, the Federal Reserve, coordinates the borrowing and lending activities of federally chartered banks. The principal reason the Federal Reserve was created was to reduce severe financial crises. One way of accomplishing this goal is to control the amount of money that flows through the economy. By manipulating the US money supply, the Fed influences inflation, unemployment, and the level of US economic activity. The Fed has a variety of tools that it uses to control the money supply, but its chief policy tool is the manipulation of short-term interest rates.

All eyes will be focused on the Fed meeting Tuesday. Most analysts predict a 75 basis point rate cut following the consumer price index data showing tame inflation. Others are less certain that inflation is in check and view the 0.5% decrease in the energy price component of the consumer price index with some skepticism. Oil prices remain high and the dollar weaker. which

do little to help inflation expectations and "limit(s) flexibility" as Fed Chairman Bernanke indicated earlier this year.

Keep in mind that a Fed rate cut does not automatically mean mortgage interest rates will improve, as has been evident from recent history. The Federal Reserve has direct control over the level of short-term interest rates. The Fed's influence over longer-term interest rates is less certain. A cautious approach to float/lock decisions is prudent heading into the Fed meeting this week. Market volatility is likely.



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