

## **Housing and Industrial Data Point to Steady Growth:**

Ground breaking for U.S. homes rebounded in April and factory activity gained momentum, suggesting a moderate pickup in economic growth early in the second quarter.

The reports on Wednesday were the latest in a series to dampen fears that the recovery in the world's largest economy was stagnating after tepid job growth last month.

The Commerce Department said housing starts increased 2.6 percent to a seasonally adjusted annual rate of 717,000 units.

In a separate report, the Federal Reserve said production at the nation's mines, factories and utilities rose 1.1 percent - the largest gain since December 2010.

"The economy is grinding its way forward, but it's not firing on all cylinders. There are plenty of reasons to be nervous; Europe is top on that list," said Ryan Sweet, a senior economist at Moody's Analytics in West Chester, Pennsylvania.

The reports came on the heels of data on Tuesday showing a strong rebound in factory activity in New York state and confidence among home builders hit a five-year high this month. Retail sales in April also showed underlying strength.

Analysts expect the economy to grow at around a 2.5 percent annual pace in the second quarter, although the government's 2.2 percent initial estimate for first-quarter growth is expected to be lowered to below 2 percent later this month.

Minutes of the Federal Reserve's April 24-25 meeting said several policymakers felt additional monetary easing by the U.S. central bank could be necessary if the recovery lost momentum or downside risks increased.

The jump in industrial production last month was driven by a 4.5 percent increase in utility output, a 1.6 percent gain in mining and a 0.6 percent rise in factory production.

Manufacturing has been one of the main pillars of the recovery from the 2007-09 recession and continues to show resilience even with Europe, a top destination for U.S. exports, teetering on the edge of recession.

The signs of life in the U.S. housing market were bolstered by upward revisions to housing starts and permits for March.

### **What Happened to Rates Last Week?**

Mortgage backed securities (MBS) gained +47 basis points from last Friday to the prior Friday.

This is very important as MBS reached their highest prices in history. This was great for mortgage rates because they move in the opposite direction. The highest rates of the week were on Tuesday and the lowest rates of the week were on Thursday.

MBS rallied (causing lower rates) on Thursday amid heightened concerns over the EU splitting as Spain's 10 year Treasury auction forced them to pay 6.5% to borrow money which is the highest price that they have ever had to pay. This coupled with the fact that Greece could not come up with a new government and has to hold new elections caused international money to flood U.S. backed bonds such as mortgage backed securities. This added demand pushed down your rates.

### **What to Watch Out For This Week:**

The following are the major economic reports that will hit the market this week. They each have the ability to affect the pricing of Mortgage Backed Securities and therefore, interest rates for Government and Conventional mortgages.

Date	Time (ET)	Economic Release	Actual	Estimate	Prior
22-May	10:00 AM	Existing Home Sales	-	4.65M	4.48M
23-May	7:00 AM	MBA Mortgage Index	-	NA	9.20%
23-May	10:00 AM	New Home Sales	-	340K	328K
23-May	10:00 AM	FHFA Housing Price Index	-	NA	0.30%
23-May	10:30 AM	Crude Inventories	-	NA	2.128M
24-May	8:30 AM	Initial Claims	-	365K	370K
24-May	8:30 AM	Continuing Claims	-	3250K	3265K
24-May	8:30 AM	Durable Orders	-	0.30%	-3.90%
24-May	8:30 AM	Durable Orders -ex Transportation	-	1.00%	-1.30%
25-May	9:55 AM	Michigan Sentiment - Final	-	77.5	77.8

I will be watching these reports closely for you and let you know if there are any big surprises:

It is virtually impossible for you to keep track of what is going on with the economy and other events that can impact the housing and mortgage markets. Just leave it to me, I monitor the live trading of Mortgage Backed Securities which are the only thing government and conventional mortgage rates are based upon.

Quote of the week:

The economy is grinding its way forward, but it's not firing on all cylinders. There are plenty of reasons to be nervous; Europe is top on that list,  
- Ryan Sweet, a senior economist at Moody's Analytics in West Chester, Pennsylvania