

MARKET BRIEF

July 26, 2010

Geithner says economy gradually getting better

Timely Topics

Treasury Secretary Tim Geithner says the economy is "gradually getting better" and "that's very encouraging."

This comes after Federal Reserve Chairman Ben Bernanke told Congress earlier this week that the outlook for the country is "unusually uncertain."

Geithner says he's seeing "private investment expand again, job growth starting to come back. And that's very encouraging."

The Treasury secretary also said private forecasters say the economy will strengthen "moderately" over the next 18 months. He says the general view from businesses around the country is that they're seeing "an economy that's gradually getting better."

The comments came in an interview that aired Sunday on NBC News' "Meet the Press."

Economic Update

Last Week: A strong week for U.S. equity markets followed better-than-expected second quarter earnings reports. The major averages ended on a strong note, rallying Friday following the release of the highly-anticipated European banks stress tests results.

What's Ahead: There are several reports scheduled for release this week that may affect mortgage pricing in addition to two relevant Treasury auctions. The first is Monday's release of June's New Home Sales. It is expected to show a small increase in sales of newly constructed homes, indicating that the housing sector gained some strength. That would be considered negative news for bonds, but since this data tracks only 15% of all home sales it usually has little impact on the bond market and mortgage rates unless it varies greatly from forecasts.

The Conference Board will post their Consumer Confidence Index (CCI) for July late Tuesday morning. If consumers are confident in their own financial situations, they are more apt to make large purchases in the near future. If the CCI reading is weaker than expected, meaning that consumers were less confident than thought, we may see bond prices rise and mortgage rates drop Tuesday.

Wednesday brings us news from the Commerce Department when they post June's Durable Goods Orders. Current forecasts are currently calling for an increase in new orders of 1.0% from May to June. A stronger than expected number may lead to higher mortgage rates Wednesday morning.

Friday brings the preliminary reading of the 2nd Quarter Gross Domestic Product (GDP), which is considered to be the best indicator of economic activity. It is the sum of all goods and services produced in the U.S. and usually has a great deal of influence on the financial markets. This reading is arguably the single most important we get regularly. Current forecasts are estimating that the economy grew at a 2.5% annual rate during the second quarter. A faster pace will probably hurt bond prices, leading to higher mortgage rates Friday. But a smaller than expected reading would likely fuel a bond market rally and lead to lower mortgage pricing.

The second report of the day Friday is the 2nd Quarter Employment Cost Index (ECI) that measures employers' costs for wages and benefits. It is considered to be an important measurement of wage inflation and can impact the bond market and mortgage rates if it varies much from forecasts. If it shows a rapid increase, raising inflation concerns, the bond market may drop and mortgage rates rise. It is expected to reveal an increase of 0.5%, but the GDP reading likely will have more of an influence on the markets and mortgage rates.

Important Markets

DOW Jones Industrial	
Start of week	10097.90
End of week	10424.62
Change	326.72
NASDAQ	
Start of week	2179.05
End of week	2269.47
Change	90.42
30-Year Bond	
Last week	3.94
This week	4.02
1 Yr T-Bill	0.240%
Prime Rate	3.250%
11 th Dist COF	1.791%
6 Mo. LIBOR	0.697%



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