

Compliments of
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Retail Sales Decline

After several weeks of improving economic forecasts, weaker than expected economic data this week tempered some of the optimism for a near-term recovery, which was favorable for mortgage markets. Tame inflation data and sustained Fed purchases of mortgage-backed securities (MBS) also helped. As a result, mortgage rates fell moderately during the week.

With a full economic calendar, the biggest surprise this week was the unexpectedly weak Retail Sales report. Retail Sales account for about 70% of economic activity, and many investors were hopeful that the report would lend support to the idea that the economy is poised to turn higher. Instead, a moderate decline in the monthly data caused investors to question how quickly the economy will rebound. For mortgage markets, weaker economic activity is good news, since it generally means lower inflation. The monthly inflation reports released this week showed that inflation is not a concern in the short-term. The April Consumer Price Index (CPI) was unchanged from March, and Core CPI inflation rose at a moderate 1.9% annual rate.

HUD To Allow \$8,000 Tax Credit As Down Payment

The Secretary of the Department of Housing and Urban Development (HUD) announced this week that home buyers will be allowed to use the \$8,000 first-time homebuyer tax credit for down payments on purchases financed by FHA loans. FHA will allow approved lenders, nonprofits, and government agencies to advance the funds in the form of bridge loans that buyers would use for down payments. Buyers would repay the loans after they receive their tax refunds. The FHA will release more details on the program soon.

Events This Week:

Inflation Moderate

Retail Sales Lower

Industrial Prod. Fell

Sentiment Higher

Events Next Week:

Tues 5/19
 Housing Starts

Wed 5/20
 FOMC Minutes

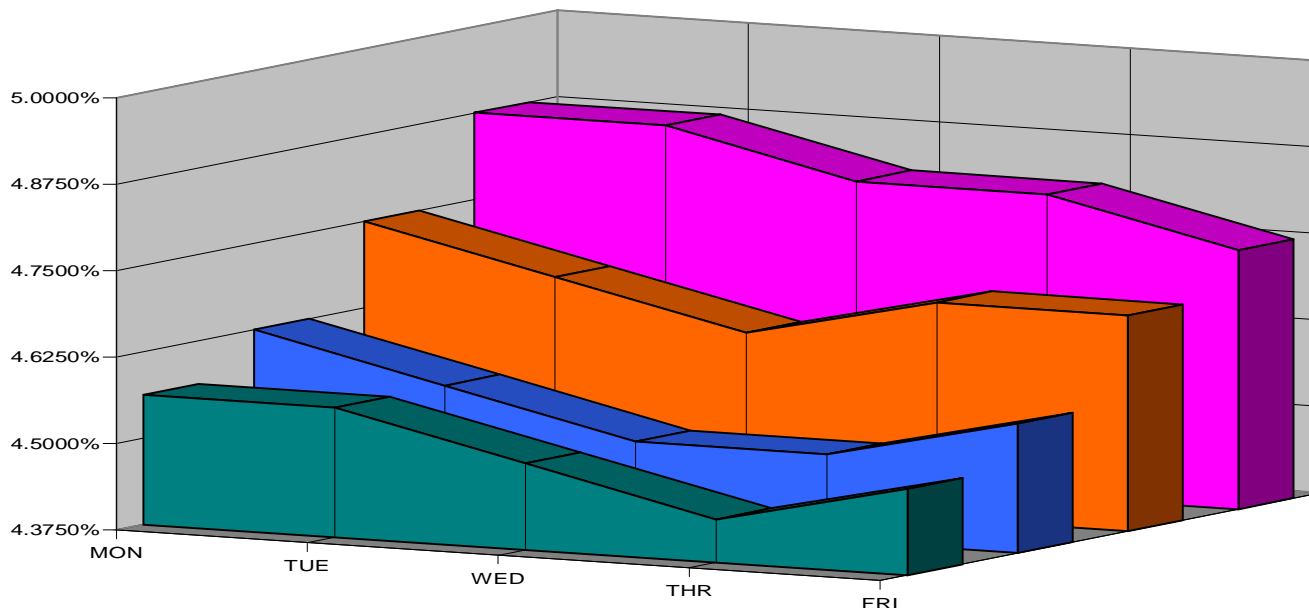
Thur 5/21
 Philly Fed
 Leading Indicators

Also Notable:

- CPI inflation declined at the fastest annual rate since 1955
- Consumer Sentiment jumped to the highest reading since September
- Oil prices rose to \$60 per barrel during the week, the highest level this year
- The Fed purchased \$27 billion in agency MBS during the week ending 5/13

DAILY RATES FROM HAWAII'S TOP LENDERS:

Fannie Mae Base Rate (30-YR-FXD)



Average 30 yr fixed rate:	
Last week:	+0.05%
This week:	-0.15%

Stocks (weekly):		
Dow:	8,300	-20
NASDAQ:	1,680	-40

Above rates are the Monday-Friday daily base rates. Add-ons for low credit scores, high LTV, cash-out, or investment properties are then added to that rate. Borrowers can also “buy down” these rates by paying additional points.

Each color on the graph represents a different lender.

Week Ahead

It will be a light week for economic data. The FOMC minutes from the April 29 Fed meeting will be released on Wednesday. These detailed notes on the discussion at the meeting often reveal additional insight into the Fed's actions. Housing Starts will come out on Tuesday. The only other reports will be Leading Indicators and the Philly Fed index on Thursday. Mortgage markets will close early on Friday for Memorial Day weekend.

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