

MONDAY, March 12th

- A better than expected showing in the number of new February payrolls took rate cut expectations off the table until at least summer, maybe even later. Fed funds futures traders do not expect any rate adjustment when the Fed meets March 20/21 and are pricing in just a 15% chance of a rate cut at the June meeting.
- ▼ Treasuries rose in a flight to quality today when subprime lender, New Century Mortgage, warned that it would not be able to meet its financial obligations when its bank lenders cut off funding. In late trading the 10-year note was up 10/32 to 100-18/32 to yield 4.55%.

TUESDAY, March 13th

- ▼ Retail sales rose 0.1% in February as sales declined at furniture, building supply & garden and clothing & accessory stores. Motor vehicle and gasoline sales increased. Excluding autos, retail sales fell 0.1% last month. Severe winter weather clearly hurt sales in February but slower consumer spending may be a result of the downturn in the housing market reducing the wealth effect.
- ▼ The brutal selloff on Wall Street returned today as the subprime mortgage market spun out of control, retail sales disappointed and global equity markets declined. Investors turned bearish amid reports of increased delinquency rates, criminal investigations and bankruptcies in the subprime sector. The Dow dropped 242.66 to 12075.96. The NASDAQ was down 51.72 to 2350.57.

WEDNESDAY, March 14th

- ▼ The MBA report on delinquencies was one of the issues that triggered the sell off in the stock market Tuesday. Mortgage delinquencies rose to 4.95% in Q4, the highest they have been since Q203. The MBA also reported that 13.33% of subprime borrowers were behind on payments. With at least \$300 billion in resets for subprime ARMs this year, the worst may be yet to come.
- Import prices rose 0.2% in February much less than an expected gain of 0.8%. The gain was led by a 2.0% increase in petroleum prices. Excluding petroleum, import prices actually fell 0.1% last month. Over the past year petroleum prices gained 2.1% while overall import prices rose 1.3%, indicating tame price pressures from overseas outside of oil.
- The MBA mortgage applications index rose 2.8% to 690.5% for the week that ended March 9. The purchase index rose 2.2% on the week while the refinancing index increased 3.5%. Refinancing activity, up 46% from its year ago level continues to drive application growth. The refinance share of mortgage applications this week was 46% of the number and 49% of the dollar volume.

THURSDAY, March 15th

- ▼ Producer prices jumped 1.3% in February, more than double the expected gain of 0.5%. Rising food and energy costs continue to drive the headline figure higher. Energy gained 3.5% while food increased 1.9% last month. Excluding food and energy, core producer prices gained 0.4%. Over the past year the PPI was up 2.6% while the core rate increased 1.8%. It would take several months of upward price pressures for the Fed to consider tightening monetary policy.

FRIDAY, March 16th

- ▲ The consumer price index increased 0.4% in February compared to an expected 0.3% gain. Higher energy prices once again led the gain in the

overall index. Excluding food and energy costs from the index, core consumer prices rose 0.2% on the month, and 2.7% on the year. The yearly gain in the core rate is cause for concern because it is running above the Fed's comfort zone of 1% to 2%.

- ▲ Industrial production jumped 1.0% in February as utilities output soared 6.7% due to severe winter weather. Manufacturing of high tech equipment and motor vehicles also increased. The amount of capacity used for production increased to 82% from 81.4% in the previous month. After slumping late last year, production is set to rebound modestly this year.

Stock Market Close for the Week

Index	Latest	A Week Ago	Change
Dow Jones	12110.41	12276.32	-165.91 or -1.35%
NASDAQ	2372.66	2387.55	-14.89 or 0.62%

WEEK IN ADVANCE

The FOMC monetary policy meeting and statement highlight on the economic calendar this week. Also, housing market indicators including a homebuilder sentiment survey, housing starts and existing home sales will provide the latest data from that sector which is so crucial to the overall economic and interest rate outlook.

Key Interest Rates	Latest	6 Mos Ago	1 Yr Ago
Prime Rate:	8.25%	8.25%	7.50%
Fed Discount:	6.25%	6.25%	5.50%
Fed Funds:	5.25%	5.23%	4.51%
11th District COF:	4.392%	4.177%	3.347%
10-Yr Treasury:	4.54%	4.90%	4.71%
30-Yr T-Bond:	4.69%	4.92%	4.73%
30-Yr Fixed	6.14%	6.43%	6.34%
15-Yr Fixed	5.88%	6.11%	5.98%
Adj. Rate (FHLMC):	5.42%	5.60%	5.37%
6-Mo LIBOR	5.3723%	5.4501%	4.9907%

Sources: Federal Reserve, Freddie Mac, Fannie Mae, and Federal Home Loan Bank of San Francisco

- ▲ Upward pressure on interest rates
- ▼ Downward pressure on interest rates
- No pressure to change interest rates
- News worthy



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