



Newsletter Vol. 11 Issue 9

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mortgagestraightTalk.com

Tel 760 726 4600

Cel 760 717 8584

Fax 760 639 0785

Rod@mortgagestraightTalk.com



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MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

GDP and Labor Market Data (Week ending August 1, 2014)

In a packed week, the two big economic reports were the main drivers of mortgage rates. The out-performance of the GDP data relative to expectations outweighed the small miss in the Employment report, causing mortgage rates to end the week a little higher. This week's Fed meeting contained no surprises and had little impact.

Investors expected that the economy had bounced back during the second quarter from weather related weakness in the first quarter,

but they were still caught by surprise by the strength of Wednesday's GDP report. The first reading for second quarter GDP, the broadest measure of economic growth, showed an increase of 4.0%, far above the consensus of 3.0%. In addition, revisions to the first quarter results caused improvement from -2.9% to -2.1%. Second quarter recovery was seen in nearly every area, including the key components of Consumer Spending and Business Investment. The GDP report was great news for the economy, but faster growth raises future inflationary pressures, which is negative for mortgage rates.



Friday's Employment report also showed continued improvement, but it fell slightly short of investor expectations. Against a consensus forecast of 230K, the economy added 209K jobs in July. The Unemployment Rate increased from 6.1% to 6.2%. Average Hourly Earnings, a proxy for wage growth, came in below the consensus. Bottom line, the sixth straight month of job gains above 200K was also great news for the economy, but because investors had anticipated even stronger results, mortgage rates declined following the news.

Ukraine Concerns Affect Rates (Week ending August 8, 2014)

With a light slate of economic reports this week, the conflict in Ukraine had the greatest effect on mortgage rates. Shifting sentiment about the likelihood of escalation caused some market volatility during an otherwise quiet week. Mortgage rates ended the week a little lower.



On Tuesday, a Polish official suggested that Russia is massing troops on the border with Ukraine to prepare for an invasion. While there has been a lot of debate about the accuracy of this statement, just the suggestion was enough to worry investors. The concern centers around how the US and European nations would respond. Another round of sanctions would be expected. The level of uncertainty about the outcome of this conflict is very high.

Europe is still struggling to avoid another recession, and trade restrictions with Russia make this even more difficult. GDP growth in the euro zone has been just slightly positive for four quarters after several years of negative readings. Since slower global economic growth reduces future inflationary pressures, this has been favorable for mortgage rates.

Ukraine and Global Growth Concerns (Week ending August 15, 2014)

An escalation in the conflict in Ukraine was favorable for mortgage rates this week. Concern about the pace of global economic growth also was positive for mortgage rates, which ended the week near the lowest levels of the year.

Investors remain very sensitive to geopolitical events. This was evident on Friday when news services reported that Ukrainians destroyed part of an armed Russian convoy which had crossed the border into Ukraine. A shift to safer assets quickly took place, causing stocks to decline and increasing the demand for bonds, including mortgage-backed securities (MBS). This added demand for MBS pushed mortgage rates lower.



One concern about the conflict in Ukraine is that it will reduce the level of economic activity in Europe. Euro zone second quarter GDP data released this week revealed very weak growth. Sanctions imposed on Russia are adding to the burden, and any additional sanctions would create an even larger obstacle for the economies in the region to overcome.

In the US, the economic news showed that some parts of the economy are slowing as well. The biggest report was Retail Sales, which account for roughly 70% of US economic activity. During the end of the first quarter, Retail Sales showed a nice bounce back from depressed levels due to unusually severe winter weather. The momentum did not continue, though. For the last several months, the gains in Retail Sales have been diminishing, and the July data showed no increase from June. Slower economic growth reduces future inflationary pressures, which is positive for mortgage rates.

Ukraine, Housing Data, and the Fed (Week ending August 22, 2014)

Reduced concerns about the conflict in Ukraine caused investors to shift back to riskier assets early this week, reversing much of the improvement in rates from the prior week. Also, stronger than expected housing data and slightly more hawkish comments from Fed officials impacted mortgage rates negatively. As a result, mortgage rates ended the week a little higher.

The housing data released this week reflected nice improvement. July's Existing Home Sales increased 2% from June to the highest level since September 2013. The inventory of existing homes for sale rose to a 5.5-month supply and is 6% higher than one year ago. The Chief Economist of the NAR suggested that stronger job gains and "improving inventory conditions" have been boosting sales activity. July Housing Starts and Building Permits also exceeded expectations. The August NAHB Housing Index showed that home builder confidence increased to the highest level since January.



The Minutes from the July 30 Fed meeting released this week contained no major surprises, but they were a bit more hawkish than expected. The big debate among Fed officials concerned the amount of slack in the labor markets. The Minutes noted that the labor market has improved more quickly than expected over the past year and that labor market conditions have moved significantly closer to "normal in the longer run". Still, most Fed officials believed that it was too soon to move forward the expected timeline for fed funds rate hikes.

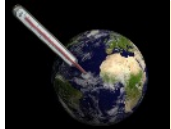
Ukraine, New Home Sales, S & P (Week ending August 29, 2014)

The situation in Ukraine continued to influence mortgage rates this week. European markets also played a nagging role in the background, helping rates to finish the week slightly lower than they otherwise might be.

Sales of NEW homes fell for the second straight month, slipping to a seasonally adjusted 2.4% for July. Pending home sales, contracts signed to buy previously owned homes, rose 3% in July, a new sign that steady job growth is supporting a rebound in demand for housing.

Orders for durable goods indicate that the economy is on a solid growth path given relatively strong job growth and manufacturing activity. The Standard & Poor's 500 index delivered its fourth record high in five days Friday, ending with the biggest monthly gain since February.

THE STATE OF MORE THAN THE UNION



This is the seventh of my multi-part series on the macroeconomics of political and social issues that weigh heavily on our “State of the Union”. But this month’s topic diverges from previous ones in two crucial respects: It is neither political nor social, but environmental and it is not national, but global in scope—IT IS THE CHALLENGE OF OUR TIME—it is Climate Change. Because of the breadth of the topic I have broken this up in to two installments: This month’s issue will focus on The Problem and next month’s on Costs, Collateral Damage, Impediments, and Prescriptions.

THE PROBLEM



Back in the 1970s, Chiffon margarine broadcast a series of television commercials in which Dena Dietrich portrayed the character of Mother Nature, situated in an Edenic, pastoral setting, dressed in a flowing white, gown with a wreath of daisies encircling her head. The theme of the ad campaign was that Chiffon margarine tasted so much like her “sweet creamy butter” that it could fool Mother Nature. But, when Mother Nature discovered that she had been fooled, she transformed the idyllic surroundings into a wintry alpine environment. The tag line of the commercial was “It’s not nice to fool Mother Nature”. Similarly, we are currently experiencing the disastrous, real-life consequences of what happens when you “fool around” with Mother Nature’s ecosystem.

Record droughts, torrential rains, massive flooding, more powerful hurricanes, increasing numbers of tornados, and rising sea levels as a result of melting ice caps are becoming increasingly common place around the world as carbon dioxide heats the atmosphere. What were once-in-a-hundred-year events are becoming as frequent as every two or three years. The droughts are more severe and lasting longer; the fire seasons in many western states are no longer seasonal, but year-round; the rains—when they come—are more intense, which in turn, results in ever more devastating floods. Tornados which used to number in the hundreds for a year now, sometimes, total in the hundreds for a day and the intensity of hurricane winds have ratcheted up to “super storm” status. The equilibrium of the earth’s ecosystem has been tuned over millennia and when that balance is disturbed, the consequences become extreme and cataclysmic.

CLIMATE CHANGE? WHAT CLIMATE CHANGE?

As compared to other nationalities, when asked to name the most important problem facing the country, the majority of Americans, seem to be oblivious to environmental concerns. Over the last several years, the economy, jobs, the budget deficit and health care garnered the most mentions, with the environment barely registering. In a recent Pew poll, fewer Americans cited climate change as a top threat than cited financial instability, Islamic extremism, Iran’s nuclear program or North Korea’s nuclear program. Americans are more skeptical that climate change is a dire issue than the people of the other rich, developed nations of the world. In Pew Research Center surveys conducted in 2013,





fewer than 40 percent of Americans said that global climate change was a major threat to their country, while more than 50 percent of Canadians, Australians, French and Germans gave that answer. More than 60 percent of Italians and Spaniards acknowledged the threat as did more than 70 percent of Japanese. Echoing those priorities, a Gallup survey conducted in early March found that only a third of Americans said they personally worry about global warming or climate change a great deal. The Middle East was the only other region that did not have a majority seeing the issue as a major threat. Fewer than 20 percent of respondents in Egypt or Pakistan viewed it as a big threat, and 30 percent in Israel did.

In many other middle-income or poor countries, concern over climate change was higher than in rich countries or as high. Scientists predict that climate change will cause larger problems for poor countries than rich ones, partly because many poorer countries are already naturally hot or prone to extreme weather. But all countries will be affected, scientists say.

Climate change is not an event in your children's future. It is bearing down upon us now and there is nothing anyone can do to prevent the hit. This is our future, even if today, every person on the planet abruptly stopped burning coal, gas, oil, wood, or anything carboniferous and the world economy was magically transformed overnight into using the wind and solar power of tomorrow. The change is baked in, caused by the accumulation of CO₂, spewed into the air over the past century.

WEATHER VS. CLIMATE AND NATURAL VS. MAN MADE CAUSES

Before we go further, it's important to distinguish between weather and climate. The difference between the two is a measure of time. **Weather is the condition of the atmosphere at a particular place over a short period of time, say a day or a week. Climate refers to the weather pattern of a place over a long period, maybe 30 years or more, long enough to yield meaningful averages.**

Earth's temperature depends on the balance between energy entering and leaving the planet's system. When incoming energy is absorbed by the Earth's system, Earth warms. When the sun's rays (radiative energy) are reflected back into space, Earth avoids warming. When radiative energy is released back into space, Earth cools.



There are two sources of atmospheric changes that affect Earth's energy balance: natural and man-made. Volcanic eruptions, variations in the sun's energy reaching Earth, and, the El Nino Southern Oscillation are examples of the former. They've looked at the natural cycles and events that are known to influence climate. And, while these natural causes are still in play today, their influence is too small or they occur too slowly to explain the rapid warming seen in recent decades. Data show that natural factors like the sun and volcanoes cannot have caused the warming observed over the past 50 years.

Greenhouse gases (GHG), like carbon dioxide, methane and nitrous oxide, absorb energy, slowing or preventing the loss of heat to space. In this way, GHGs act like a blanket making Earth warmer than it otherwise would be. The process is known as the "greenhouse effect". As we shall see, the rapid run-up in concentrations is what is overwhelmingly responsible for trapping this heat in the earth's atmosphere.

GLOBAL WARMING

The global average temperature increased by more than 1.4°F over the last century. While it may seem like an inconsequential statistic, this is huge, environmentally speaking, because our planet's equilibrium has been arrived at over the millennia. An average increase of a degree in a hundred years seriously affects the planet's tipping point. Globally, it was another warm year. As of the end of November, global temperatures were 0.49C above average, ranking 2013 as the 6th hottest year on record. Thirteen of the 14 hottest years on record have occurred since 2001.



Rising global temperatures have also been accompanied by other changes in weather and climate. Many places have experienced changes in rainfall resulting in more intense rain, as well as more frequent and severe heat waves. The planet's oceans and glaciers have also experienced changes: oceans are warming and becoming more acidic, ice caps are melting, and sea levels are rising. All of these changes are evidence that our world is getting warmer.

Because oceans tend to warm and cool more slowly than land areas, continents have warmed the most. In the Northern Hemisphere, where most of Earth's land mass is located, the three decades from 1983 to 2012 were likely the warmest 30-year period of the last 1400 years, according to the International Panel on Climate Change (IPCC).

East Africa is currently experiencing the worst drought to hit the region in 60 years. In 2010, Russia reeled from the worst drought in nearly 40 years, only to experience another one in 2012. In 2013, Australia experienced its hottest year since 1910 as the monsoon rains in Australia's north failed last summer. Climate change is likely to almost triple the frequency of bushfires, floods and drought in Australia from one event every 17 years to one every 6 years, according to a paper published in *Nature*.



Slash-and-burn deforestation in the Amazon and Indonesia, contributes a large portion of the world's carbon emissions. This is because forests play a huge role in the carbon cycle on our planet. When forests are cut down, not only does carbon absorption cease, but also the carbon stored in the trees is released into the atmosphere as CO₂ if the wood is burned or even if it is left to rot after the deforestation process.



Two scientific papers released in mid-May, one from the scientific journal *Geophysical Research* and another from the team led by Dr. Eric Rignot, a glaciologist at the University of California, Irvine, came to similar conclusions by different means. Both groups of scientists found that West Antarctic glaciers had retreated far enough to set off an inherent instability in the ice sheet, one that experts have feared for decades. The West Antarctic ice sheet is doomed. The sheet's slide into the ocean, and the resulting sharp rise in sea levels, will probably happen slowly. But it's reversible.

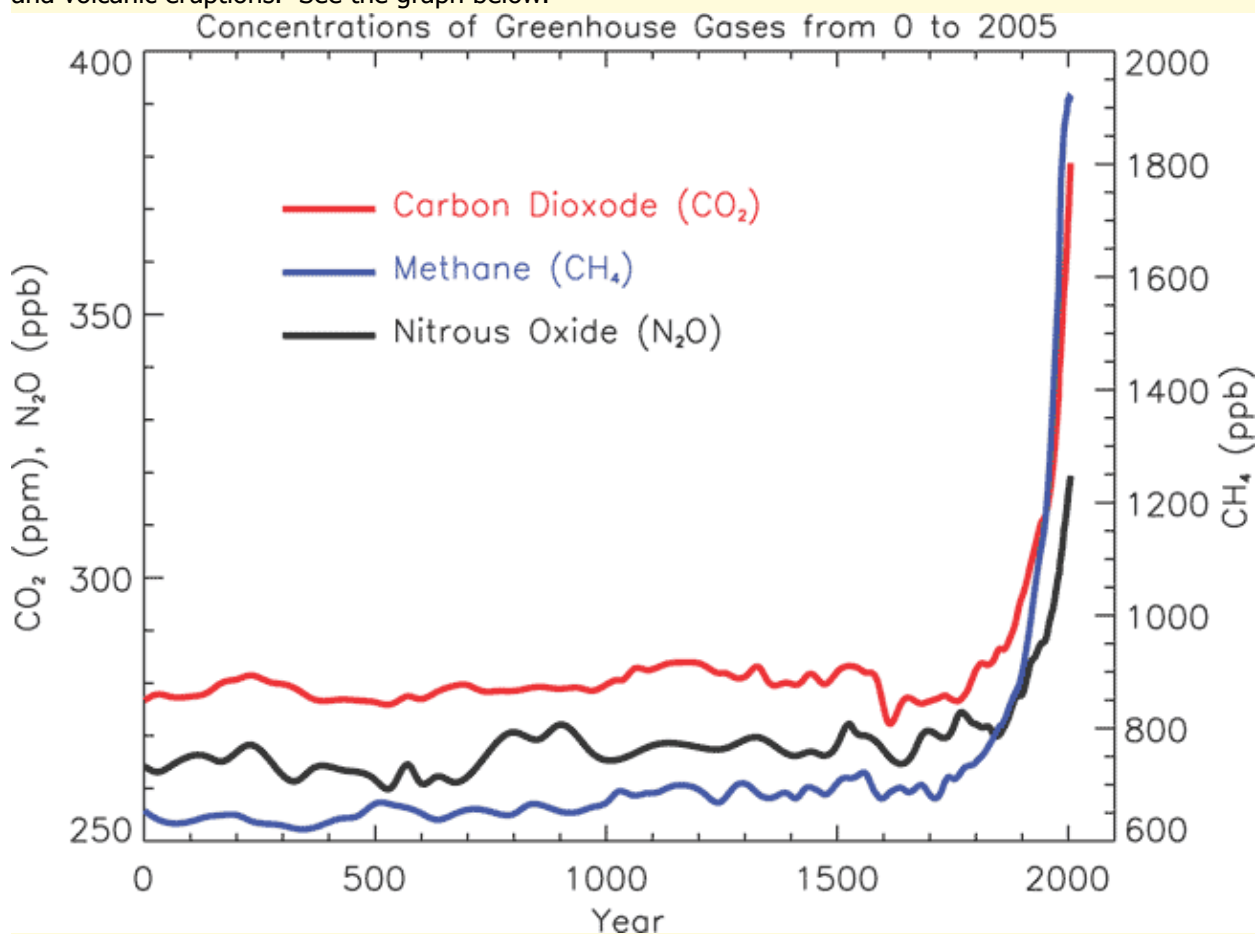


But the melting from both Greenland and Antarctica is expected to be far more important in the future. A United Nations scientific committee, the Intergovernmental Panel on Climate Change, warned in April that the global sea level could rise as much as three feet by the end of this century if stronger efforts are not made to control greenhouse gases. The new findings suggest the situation is likely to get far worse in subsequent centuries. Greenland's ice is melting five times faster than only 20 years ago. The global sea level has been rising since the 19th century, but Antarctica so far has been only a small factor.

Scientists said the ice sheet was not melting because of warmer air temperatures, but rather because relatively warm water that occurs naturally in the depths of the ocean was being pulled to the surface by an intensification, over the past several decades, of the powerful winds that encircle Antarctica. And while the cause of the stronger winds is somewhat unclear, many researchers consider human-induced global warming to be a significant factor. The winds help to isolate Antarctica and keep it cold at the surface, but as global warming proceeds, that means a sharper temperature difference between the Antarctic and the rest of the globe. That temperature difference provides further energy for the winds, which in turn stir up the ocean waters.

Adding to this is the fact that as seawater warms, it expands. Rising seas are expected to severely impact the rest of the world in the coming decades, particularly in low-lying, flood-prone areas. In Bangladesh, where rising seas are expected to submerge 17% of the country a projected 150 million people will be forced to leave their homes to escape sea level rise and the lengthening of the monsoon season, both caused by global warming.

The Intergovernmental Panel on Climate Change, which pools the efforts of scientists around the globe, released its latest assessment in mid-April. In no uncertain terms it states that without major policy changes we are on the road to catastrophe. Since the start of the industrial era (about 1750), the overall effect of human activities on climate has been a warming influence. The human impact on climate during this era greatly exceeds that due to known changes in natural processes, such as solar changes and volcanic eruptions. See the graph below.



Atmospheric concentrations of important long-lived greenhouse gases over the last 2,000 years. Increases since about 1750 are attributed to human activities in the industrial era. Concentration units are parts per million (ppm) or parts per billion (ppb), indicating the number of molecules of the greenhouse gas per million or billion air molecules, respectively, in an atmospheric sample.

CLIMATE CHANGE IN THE U.S.

This past May, a study known as the National Climate Assessment, was prepared by a large scientific panel overseen by the government. The report was supervised and approved by a large committee representing a cross section of American society, including representatives of two oil companies. It is the third national report in 14 years, and by far the most urgent in tone, leaving little doubt that the scientists consider climate change an incipient crisis.

It found that the effects of human-induced climate change are being felt in every corner of the United States. The report is the latest in a series of dire warnings about how the effects of global warming that had been long foreseen by climate scientists are already affecting the planet. Its region-by-region documentation of changes occurring in the United States, and of future risks, makes clear that few places will be unscathed—and some, like northerly areas, are feeling the effects at a swifter pace than had been expected. In short, our weather is becoming more extreme and by extension, our climates.



Alaska is particularly hard hit. Glaciers and frozen ground in that state are melting, storms are eating away at fragile coastlines no longer protected by winter sea ice, and entire communities are having to flee inland—a precursor of the large-scale changes the report foresees for the rest of the United States. Alaska is becoming unrecognizable. Nowhere is global warming more stark than in our only Arctic state. Temperatures there have increased much more than the national average: 3 degrees Fahrenheit since 1949, or "double the rest of the country." The state has the United States'

biggest and most dramatic glaciers—and it is losing them rapidly. Meanwhile, storms batter coasts that used to be insulated by now-vanished sea ice.

And the ground is literally giving way in many places, as permafrost thaws, destabilizing roads, infrastructure, and the places where people live. Eighty percent of the entire state has permafrost beneath its surface. The state currently spends \$10 million per year to repair the damage from thawing permafrost and is projected to spend \$5.6-\$7.6 billion repairing infrastructure by 2080.

The East is wetter. The report found that the eastern half of the country is receiving more precipitation in general. And over the past half-century, the proportion of precipitation that is falling in very heavy rain events has jumped by 71 percent in the Northeast, by 37 percent in the Midwest and by 27 percent in the South, the report found. In recent years, sudden intense rains have caused extensive damage. For instance, large parts of Nashville were devastated by floods in 2010 after nearly 20 inches of rain fell in two days. Last year, parts of Colorado flooded after getting as much rain in a week as normally falls in a year. People in the Florida Panhandle recently had to dodge flash floods after two feet of rain fell in 26 hours. Torrential rains caused a Washington State hillside to collapse and bury a community earlier this year. Tumultuous rainstorms and floods overwhelmed Colorado last year, and sudden floods swept through Nashville in 2010, and Atlanta in 2009. As I write this (mid June) every night this week the evening news had recounted the heaviest rain falls Minnesotans have ever experienced with rivers cresting 10 feet above their banks.



So why is this happening? It's really quite simple: As we pour carbon dioxide into the air, the lower atmosphere has to warm. As it does, it is able to hold more moisture, and as the surface of the ocean also warms, more moisture tends to evaporate from it. In the United States, the increase in water vapor has been on the order of 3 percent or 4 percent since the 1970s (most of the human-caused global warming has occurred since then). That may not sound like a big jump, but the effect is enormous.

Two leading scientists, Kevin E. Trenberth at the National Center for Atmospheric Research and David R. Easterling at the National Oceanic and Atmospheric Administration, ran some calculations and agreed that the warming has, on average, put more than a trillion gallons of extra water into the air over the contiguous 48 states, probably closer to two trillion. One of the report's most striking findings concerned the rising frequency of torrential rains. But even the leading experts have been surprised by the scope of

the change. Scientists have expected this effect for decades because more water is evaporating from a warming ocean surface, and the warmer atmosphere is able to hold the excess vapor, which then falls as rain or snow.

But from the elementary physics, it was long unclear whether this would mean more rainy days over all, or more intense rains, or both. It was the computer models of the climate that suggested, starting in the late 1980s, that the answer would be the latter, and so it has turned out. One way to think of it is that even with a lot of moisture in the air, conditions are not always right for rain, but when they are right, the skies have a lot more water to dump.



"It rains harder than it used to," said Dr. Trenberth, who could not resist adding: "When it rains, it pours." They expect it to get much, much warmer as this century progresses, and that can only mean that the rains will fall harder still. Many people are still catching up with the science, but it is hard to miss the ubiquity of these heavy rainstorms in recent years. So if you are still a little amazed at what these heavy downpours have been doing to communities around the country, the message from science is pretty blunt: Get used to it.

The West is drier. According to the assessment, the Western drought of recent years "represents the driest conditions in 800 years." Some of the worst consequences were in Texas and Oklahoma in 2011 and 2012, where the total cost to agriculture amounted to \$10 billion. The rate of loss of water in these states was "double the long-term average," reports the assessment. And of course, future trends augur more of the same, or worse, with the Southwest to be particularly hard hit.

America is much hotter than it was before. According to the assessment, the 2000s were the hottest decade on record for the United States, and 2012 was quite simply the hottest year ever (for the contiguous US). That translates into extreme heat where you live. Of course, nobody feels temperature as a national average: We feel it in a particular place. And indeed, we've *felt* it. The National Climate Assessment makes clear that extreme heat waves are striking more than before, and climate change is involved. Take Texas' extreme heat in the summer of 2011, the "hottest and driest summer on record" for the state, with temperatures that exceeded 100 degrees for 40 straight days! "The human contribution to climate change approximately doubled the probability that the heat was record-breaking," notes the assessment. By 2100, a "once-in-20-year extreme heat day" will occur "every two or three years over most of the nation."

It's also ablaze. More drought, and more heat, means more wildfires. And sure enough, the United States has been setting numerous records on this front. In 2011, Arizona and New Mexico had "the largest wildfires in their recorded history, affecting more than 694,000 acres." The same went for scorching Texas that year; it also saw unprecedented wildfires and 3.8 million acres consumed in the state. That's an area about the size of Connecticut. In Alaska, "a single large fire in 2007 released as much carbon to the atmosphere as had been absorbed by the entire circumpolar Arctic tundra during the previous quarter century



As this is being written we're just midway through June and have already witnessed major fires in California, Arizona, New Mexico and Alaska. Many of these wildfires have grown in heat, intensity and size in recent years, consuming millions of acres with disastrous consequences and costs.

There were 22,000 wildfires in all of 2013; there have been 26,000 if the first half of 2014. There is no longer a fire season in California; it is now a year round phenomenon.



Mega-fires have exploded in number over the last decade for several reasons. First, shorter and warmer winters followed by hotter and drier summers have significantly extended the fire season. They have become commonplace, threatening not only human life and property but our water supplies, electric grid, wildlife habitat and recreation lands. In recent years, close to 10 million acres annually have been lost to wilderness fires (in contrast to less than half that acreage before 2000), and the intensity of these fires is sterilizing the soil and leading to extensive post-fire flooding because there is no vegetation left to check rainwater runoff.

Second, the longer summers make the forests more susceptible to epidemics like bark beetle infestation. The report cited warmer winters and longer summers have allowed more of the beetles survive and reproduce at an exponential rate, leaving behind 40 million acres of dead trees across the American West and the Canadian province of British Columbia.

Dense underbrush and dead trees are fuel for extreme wildfires. With a prolonged drought continuing in parts of the West, this year is shaping up to be particularly bad. The Forest Service has warned of “a catastrophic fire season in the Southwest” and has estimated that firefighting costs for the service and the Interior Department could reach \$1.8 billion this year, \$470 million more than what is available.

East coast sea levels are rising. The new report went beyond warnings issued in September by the United Nations Intergovernmental Panel on Climate Change, which said that by the end of the century, sea levels could rise by as much as three feet globally if emissions continue at a rapid pace. The American scientists said the rise could be anywhere from one to four feet, and added that six feet could not be ruled out. Along much of the East Coast, the situation will be worse than the global average because the land there is sinking, the scientists said.



The effects will depend in part on how much money future governments spend to protect shorelines from a rising sea. Research published in 2012 found that a rise of less than four feet would inundate land on which some 3.7 million Americans live today. Miami, New Orleans, New York and Boston are all highly vulnerable.

The Risky Business Project, a coalition political and business luminaries representing widely different political views—including the former Treasury secretaries George P. Schultz, Robert E. Rubin and Henry Paulson Jr.—is intended to raise awareness about the impending perils of a changing climate. Its analysis showed that by 2100, up to \$507 billion worth of coastal property will be underwater if we continue emitting carbon dioxide at the same pace as we have over recent decades. Crop yields in the Southwest, Midwest and the lower Great Plains could fall by up to 70 percent as extreme heat spreads throughout the middle of the country.

Such sweeping changes have been caused by an average warming of less than 2 degrees Fahrenheit over most land areas of the country in the past century, the scientists found. If greenhouse gases like carbon dioxide and methane continue to escalate at a rapid pace, they said, the warming could conceivably exceed 10 degrees by the end of this century.

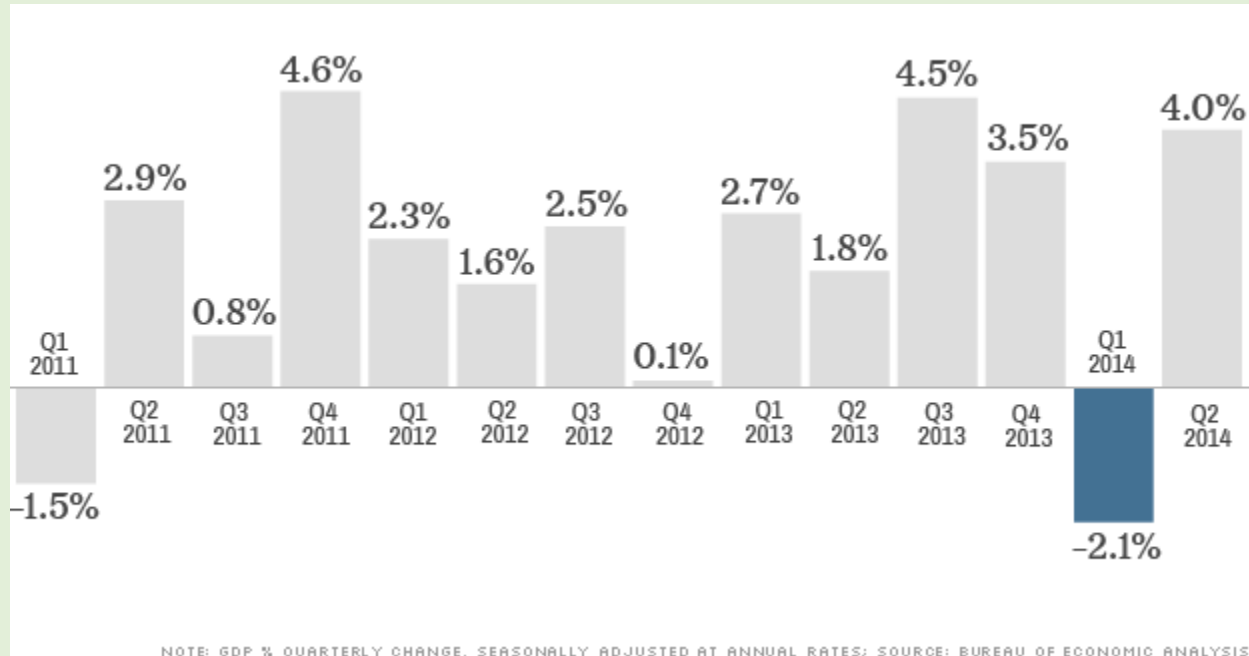
“Climate change, once considered an issue for a distant future, has moved firmly into the present,” the scientists declared in assessing the situation in the United States. The future, it would seem, has arrived.

Part II: Costs, Collateral Damage, Impediments, and Prescriptions—Next Month



U.S. ECONOMY BOUNCES BACK SHARPLY

The deep economic contraction earlier this year was temporary after all. New data showed the U.S. economy bounced back in the spring, growing at a 4% annual pace in the second quarter. That was even better than the forecast of 3% growth, according to a consensus of economists.



Consumer spending, which alone accounts for about two thirds of U.S. economic activity, strengthened, as did exports to foreign countries and business investments. American consumers spent more money on long-lasting goods like autos, appliances and furniture, while businesses invested more in technology and industrial equipment. Both can be seen as good signs that households and companies are more optimistic and investing in the future.

The Bureau of Economic Analysis also revised historical data, and the new numbers show the bad winter wasn't quite as bleak as last reported. The economy contracted at a 2.1% rate in the first three months of the year, as opposed to the decline of 2.9% reported last month. Meanwhile, the second half of 2013 was also stronger than originally reported.

The beginning of the year was marked by a disconnect in the economic data.

Employers were hiring at their strongest pace in years despite the drop in GDP. Now, economists are hoping the overall economy is back on track. A separate report released by payroll processing firm ADP earlier Wednesday shows the private sector added 218,000 jobs in July.

The Federal Reserve is closely watching the data too. The central bank is in the process of winding down its stimulative policies and is expected to consider its first interest rate hike since 2006 sometime soon.

The task before the Fed is a delicate one. If the Fed hikes rates too soon, it could hinder economic growth. If it waits too long, inflation may rise too quickly. Most economists expect the first rate increase to occur in the spring or summer of 2015.



JOBS RECOVERY MARCHES ON, BUT AT A SLOWER PACE

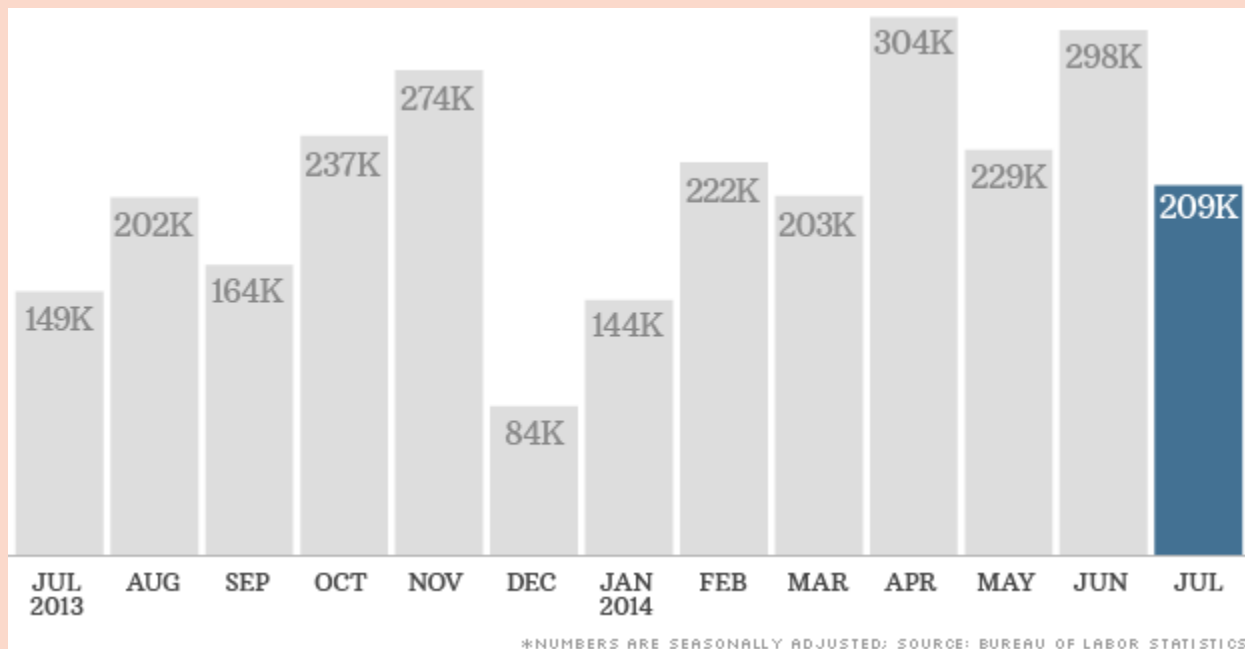
After a gangbusters jobs growth in June, hiring slowed to a less impressive pace in July. The U.S. economy added 209,000 jobs last month, the Bureau of Labor Statistics reported. The number was a bit disappointing after 298,000 jobs were added in June, but still the broader trend remains "respectable", economists said.

Over the past six months, the economy has added 1.5 million jobs, marking the strongest six months for hiring since 2006. "We're not losing ground. We're still in a recovery," said Heidi Shierholz, economist for the Economic Policy Institute. "But we're not seeing a big acceleration in job growth, either. We're back to the solid, but not stellar growth."

Meanwhile, the unemployment rate ticked up to 6.2% in July, from 6.1% in June as more workers joined the labor force. This recovery has been a long, slow haul, but it now seems to be hitting its stride. About 8.7 million American jobs were wiped out in just two years following the 2008 financial crisis. The economy finally gained them all back earlier this year.

Blue collar industries like manufacturing and construction were the hardest hit sectors in the recession, and those jobs have started to trickle back. Manufacturers have added 99,000 jobs over the past six months, while construction firms have added 114,000 jobs since January.

Meanwhile, government jobs are starting to come back slowly too. Jobs in these sectors tend to offer middle-class wages. The recovery is no longer dominated by hiring for low-wage retail and restaurant jobs.



That said, stronger hiring has yet to translate into bigger paychecks for most workers. The average American wage edged up only 1 cent in July to \$24.45 an hour. Over the past 12 months, wages rose 2%, but that's not enough to surpass inflation. "As the labor market strengthens, we should see stronger wage growth, but this report doesn't provide much evidence that that's happening yet," Shierholz said.



Federal Reserve Chair Janet Yellen has said she wants to see wages rise faster than inflation so American households will have more buying power. That has yet to happen, but the Fed is quickly nearing its other goals for a lower unemployment rate and stable prices.

The central bank is gradually winding down its stimulative policies, and investors have recently become obsessed with trying to gauge when the Fed will eventually hike interest rates. Most economists expect a rate hike will occur in the spring or summer of 2015.

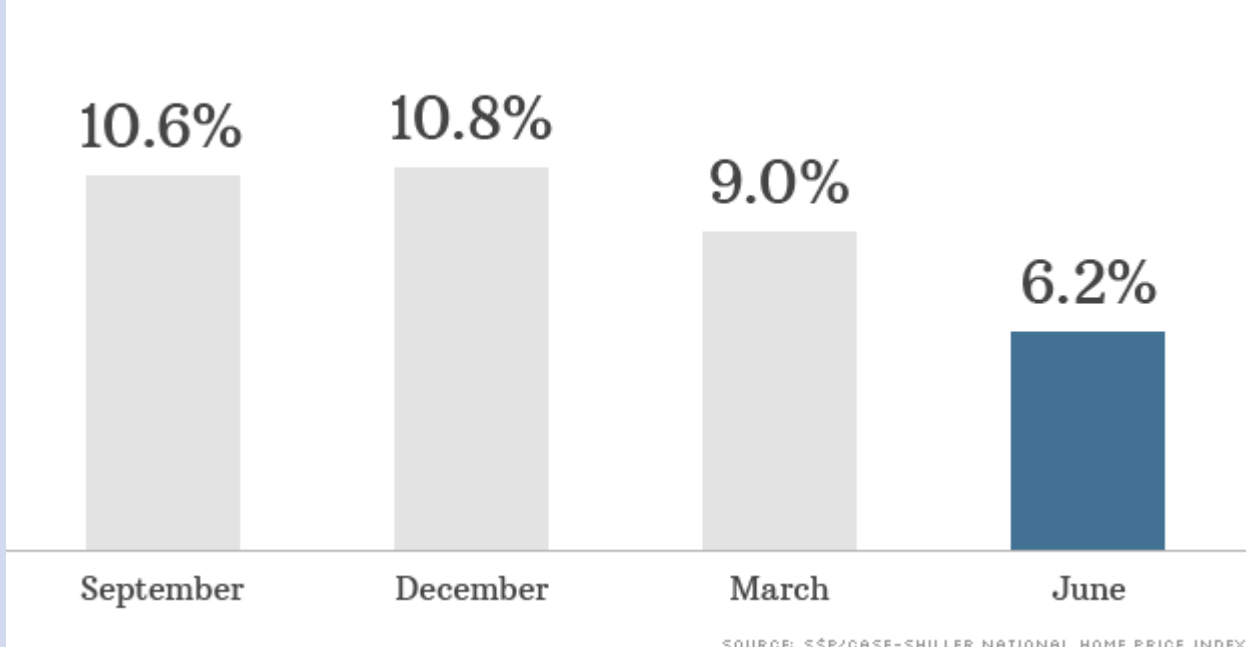
Many Americans still think the economy is not fully recovered. According to the results of a poll, 41% of people surveyed rate the economy as "good", while 58% rate the economy as "poor." But even at just 41%, it is the highest percentage of Americans with a positive view of the economy since the recession officially began in December 2007.

HOME PRICES RISING, BUT SLOWLY

Year-over-year price gains have slowed. Home prices are still rising, but the pace of increases is definitely slowing. National home prices rose 6.2% this spring, compared to the same three months last year, according to the S&P/Case-Shiller national home price index.

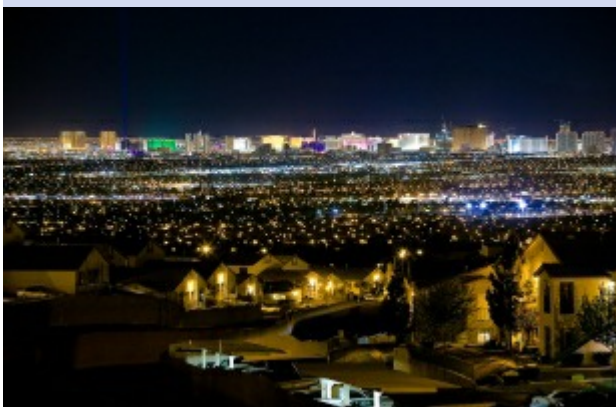
Prices in the index's 10 and 20 city measures rose at a slower year-over-year pace in June alone, with every city reporting lower gains -- the first time that's happened in more than six years. Both city indexes rose 8.1% on an annual basis.

Home price gains cooling



SOURCE: S&P/CASE-SHILLER NATIONAL HOME PRICE INDEX

Recent housing market data has sent a mixed message. The number of new homes sold dropped in July for the third straight month. But existing home sales rose in July to an annual rate of 5.15 million units, the highest level in 2014. Housing starts and builder sentiment have also been positive.



Las Vegas recorded the largest year-over-year increase of any city in June, 15.2%. San Francisco, Miami and San Diego also reported strong gains. Cleveland prices were almost flat and price increases in Charlotte, N.C., New York and Washington also trailed the larger index.



RATE SUMMARY

RATES IMPROVED EDGED LOWER DURING THE PAST 30 DAYS

*Conforming programs—an 1/8th better ↓

*Jumbos—NO CHANGE

*Governments—an 1/8th better ↓



FOR CURRENT INTEREST RATES FOR THE 16 MOST POPULAR PROGRAMS GO TO:

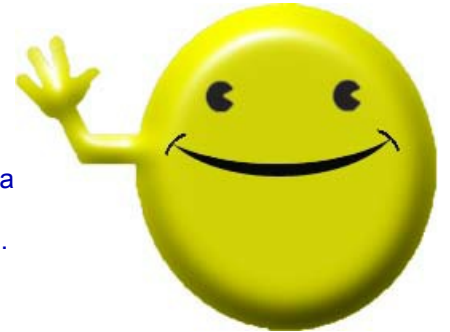
www.mortgagestraighttalk.com The rate sheets are updated every Friday.

MORTY'S MAILBAG



There were no letters in the mailbag, this month.

Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. The answer to the question will be answered either by phone or email and posted in the next issue for the benefit of all. Questions may be forwarded via mail phone or fax. Due to the high incidence of spam, if you email me a question it needs to be identified as a "real estate question" on the subject line of the email. (See front of issue for phone and fax numbers). Morty's email address is morty@mortgagestraightTalk.com



BEST BUYS THIS MONTH

- | | |
|---|--------|
| • CONFORMING 30 YR. FIXED | 3.750% |
| • CONFORMING 15 YR. FIXED | 2.875% |
| • High Balance Conforming 30 Yr. Fixed | 4.125% |
| • HIGH BALANCE CONF. 15 YR. FIXED | 2.990% |
| • Jumbo 5/1 ARM | 2.750% |
| • VA High Balance Conforming 30 Yr. Fixed | 3.500% |
| • HOMEPATH 30 YR. FIXED | 3.875% |
| • DU REFI PLUS/ OPEN ACCESS 30-YR. FIXED | 3.875% |
| • ALL-IN-ONE LOAN | 3.655% |



I ALSO DO:

- **COMMERCIAL LOANS (more than 4 units)**
- **"HARD MONEY" LOANS**
- **REVERSE MORTGAGES**
- **FOREIGN NATIONALS**
- **DELAYED FINANCING**
- **STATED INCOME LOANS**
- **MANUFACTURED HOMES**
- **ASSET DEPLETION LOANS**



MORTGAGE MIRTH

When tempted to fight fire with fire, remember that the Fire Department usually uses water.

