

Transcript of Andrew Dowie's Economics Update – 19 May 2011

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Andrew Dowie, Advance Asset Management:

Good morning. This is Andrew Dowie from Advance Asset Management with a rundown of the data releases for yesterday, Wednesday 18 May in the US.

Firstly, mortgage applications for the week ending 13 May reached their highest level since December last year. They were up 7.8%. Refinancing was up 13%, whilst purchases down at 3.2%. The driver here, being 30 year fixed loans, hitting their lowest level since the end of November last year.

On the other hand, declining property values are causing potential buyers to wait in the wings. Numbers-wise, 30 year fixed loans touched 4.6%, the lowest level recorded in data going back to 1990, was 4.21%, reached in October last.

Lastly, minutes from the latest FOMC revealed a preferred exit from the current extraordinarily low rates would, firstly, entail ceasing the reinvestment of proceeds from the sale of mortgage backed securities. Then interest rate hikes would follow, albeit based on a close watch of inflation. The sale of assets would be only a final step.

With regards to QE3, quote, there would need to be a significant change in the economic outlook or the risks to that outlook before another program of asset purchases would be warranted.

With regards to when rates will begin their move northwards, a few FOMC members thought the Fed might need to tighten policy later this year, but others felt that, quote, an early exit could unnecessarily damp the ongoing economic recovery. So, perhaps, next year we'll see higher rates and asset sales.

Thanks very much indeed.

END OF TRANSCRIPT