



MARKET FOCUS

YOUR GUIDE TO THE DAY'S ECONOMIC EVENTS



Wednesday, August 13, 2003 3:05 pm PDT

ECONOMIC INDICATORS

Retail sales rose surged 1.4% in July. Moreover, May and June's figures were upwardly revised to show gains of 0.5% (up from 0.0%) and 0.9%(up from 0.5%) respectively. Strength was broad based with gains in most major categories. Consumer spending has accelerated sharply over the last several months boosted by cash-out refinancings, tax relief and seasonably warm weather. Also, the outlook remains strong for spending with many tax rebate checks due to arrive in August.

Import prices jumped 0.5% in July on a 3.7% surge in petroleum prices. Excluding oil, import prices gained just 0.1%. Import prices are up a very mild 2.1% over the past year even with the volatility caused by the oil component. Export prices fell 0.1% last month and are up just 1.1% on the year reflecting little if any pricing power for domestic companies.

Business inventories rose a better-than-expected 0.1% in June based on a 0.4% jump in retail inventories. The inventory-to-sales ratio slipped to 1.38 months on a 1.1% jump in sales. Current lean inventories will boost production levels as demand becomes stronger. Strong sales in June are an encouraging sign of revival in the second half.

The **MBA mortgage application index** fell 16.1% to 824.6% in the week that ended August 8 as higher rates cut into demand for mortgages. The refinance index tumbled 20% last week, is down over 60%over the last 10 weeks and is off 33% from a year ago. The purchase index fell 10% last week but still remains 16% above year ago levels. As rates continue to rise, housing's role as a key driver of economic activity will continue to fade.

EQUITY MARKETS

Rising yields in the bond market got equities down today. The major indexes closed mostly lower on profit taking after a slight run up late yesterday. On Wednesday, the Dow fell 38.30 to 9271.76. The Nasdaq dipped a fraction to 1686.61.

MARKETS	CLOSING	CHANGE
DJIA	9271.76	-38.30
S&P 500	984.03	-6.32
RUSSELL 2000	467.47	0.52
NASDAQ	1686.61	-0.40

SECTORS - GAINERS & LOSERS	
▲ Food Retailers & Wholesalers	+2.91 %
▼ Mining	-3.2%

TREASURY MARKET

A combination of strong retail sales data and mortgage hedging sunk Treasury prices on Wednesday. The retail sales report revealed much stronger spending over the last three months than originally estimated which brightened the outlook for economic conditions for months to come. The Fed's decision yesterday combined with their persistent optimism also weighed. In late trading the 10-year note was down 1 5/32 to 97 13/32 to yield 4.57%. The 30-year bond fell 1 17/32 to 98 26/32 to yield 5.46%.

SECURITY	YIELD	CHANGE
2-Yr T-Note	1.82	0.09
5-Yr T-Note	3.43	0.14
10-Yr T-Note	4.57	0.15
30-Yr T-Bond	5.46	0.11

RATE WATCH

Upward pressure on interest rates is likely to persist in the near term amid increasing signs the economy is on the mend and gaining strength. Due out tomorrow: trade data, jobless claims and wholesale prices.

KEY RATES

For the week ending 08/07/2003

RATE	LATEST	CHANGE	FEES
30-Yr Fixed FHLMC	6.34	0.20	0.7
15-Yr Fixed FHLMC	5.66	0.22	0.7
Adj. Rate FHLMC	3.80	0.12	0.7
3-Mo LIBOR FNMA	1.13	0.00	N/A

FED RATES

RATE	LATEST	CHANGE
Fed Funds	1.06	0.06
Prime Rate	4.00	0.00
Fed Discount	2.00	0.00
11 th DCOF	2.113	0.000