

MORTGAGE RATE WATCH

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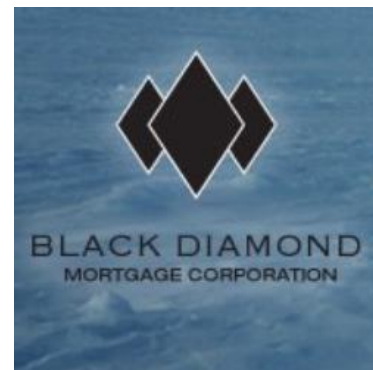
Mortgage Rates Back Above 7%

Even though Tuesday's consumer-oriented inflation report (CPI) had the biggest potential to cause drama for rates, it was today's wholesale inflation report that did the most damage.

The Producer Price Index (PPI) showed wholesale inflation running hotter than expected by quite a wide margin overall (0.6% month-over-month versus a median forecast of 0.3%). Even after stripping out more volatile food and energy prices (i.e. "core" inflation), PPI was up 0.3% versus forecasts of 0.2%.

These might seem like small numbers, but keep in mind that the Fed's inflation target is 2.0% annually at the core level. Core readings of 0.4% in CPI and 0.3% in PPI pencil out to 4.8% and 3.6% respectively.

Inflation is the biggest concern for interest rates, so it's no surprise to see rates moving higher. Today's increase brings the average to tier, conventional, 30yr fixed rate back above 7% for the first time in a week.



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