ECONOMIC OVERVIEW

MORTGAGE RATES SHOULD REMAIN BELOW 5.25 PERCENT THROUGH THE END OF NEXT YEAR.

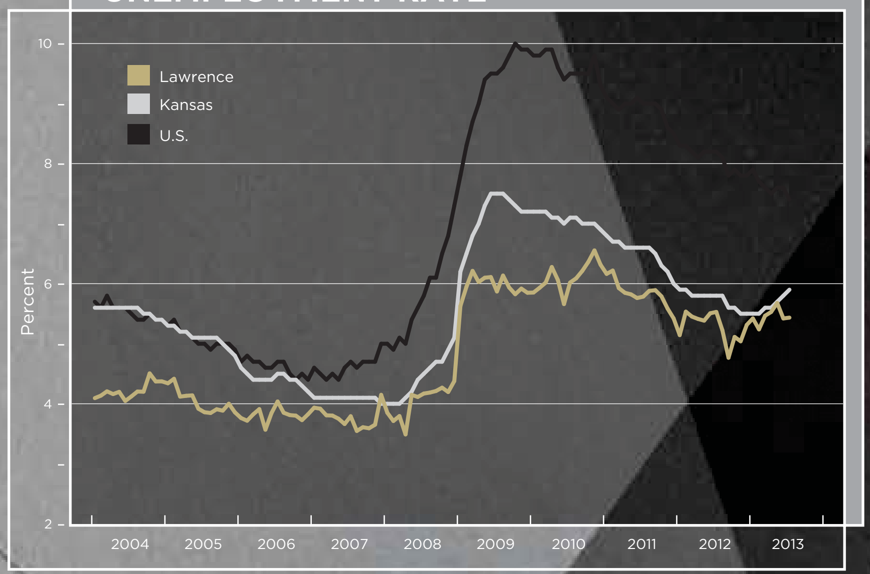
Employment growth in the Lawrence area has been halting at best since the last recession, and still remains about 2.5 percent below its level at the end of the last expansion. State budget cuts have hit the community particularly hard, limiting the growth of employment at the University.

The Lawrence unemployment rate rose sharply at the end of 2008. Interestingly, this corresponded with a sizable increase in the area labor force, meaning that most of the increase in the unemployment rate was due to more people looking for work (students perhaps?), as opposed to people losing their jobs. If students are the reason the unemployment rate rose, that could also explain why it has fallen so little during the recent recovery.

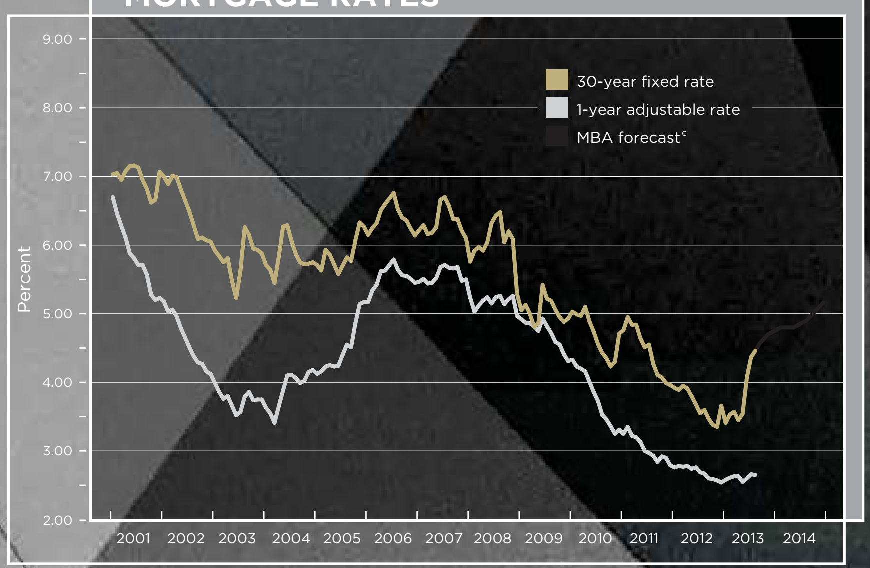
After hitting all-time lows late last year, mortgage rates rose sharply in June. Even if rates rise above 5 percent next year, however, they will still be remarkably low by any standard. As a result, rising rates shouldn't put too much of a damper on the housing market.

EMPLOYMENT GROWTH[a]

UNEMPLOYMENT RATE[b]



MORTGAGE RATES



Sources:
Freddie Mac; Mortgage Bankers Association; U.S. Bureau of Labor Statistics

Notes:
a) Year-over-year percentage change in total non-farm employment
b) Seasonally adjusted
c) Mortgage Bankers Association August 2013 forecast of the 30-year conventional mortgage rate