



MORTGAGE MATTERS...

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Keeping
up-to-date
on market
fluctuations
allows you
to bring
greater
value to
your
clients.
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Keeping you updated on the market!
For the week of

June 14, 2010

MARKET RECAP

The week was light on housing and mortgage data, which was a good thing; most of what was released offered little cheer. For instance, Capital Economics reported that 2.5 million households are going through the foreclosure process, while 5.4 million households have missed at least one mortgage payment. Capital Economics also expects another three million homes to be added to the foreclosure rolls by the end of 2011. In short, Capital Economics is calling for a housing-market double-dip.

Problems persist aside from the above mentioned, to be sure. According to more than a few sources, housing prices are under pressure. ZipRealty, for one, has noted that more than 43 percent of home sellers cut their home's list price in May, dropping the national median "for sale" price 2 percent to \$265,000.

Of course, we can always question the usefulness of national data. But if we are going to talk nationally, it's worth broaching the positive as well. On that front, Integrated Asset Services reported that its house price index rose 0.9 percent in April from March. IAS also reported that three of the four US census regions showed home-pricing gains for the month.

The expiration of the federal homebuyer tax credits remains the elephant in the room, according to the commentariat, though it appears to be less of a concern for people who actually earn a living in the housing sector. Publicly traded homebuilders are seeing sales recover after an initial drop-off following April 30. A recent analyst's report from JMP Securities noted that sales at several homebuilder communities in California, Texas, and Phoenix – those notoriously hard-hit regions – have begun to improve and are approaching pre-April numbers. JMP's report also noted that many builders are raising prices and that higher-priced homes are moving briskly.

We noted in last week's edition that the housing market could easily follow the automobile market's lead, where sales initially drop after tax-credit expiration but then regain momentum. We've also noted – quite frequently in many past editions –

that employment is the real cure to what ails us. Even though last week's employment report was tepidly received, we remain encouraged. Job openings jumped to the highest level in 16 months in April, with the number of jobs advertised rising to 3.1 million from 2.8 million. The fact that private employers accounted for the entire gain was a particularly encouraging sign.

An improving jobs outlook is good news for the economy, but less so for mortgage rates. Yes, rates continue to hold at historical lows (with improvements being marginal at best), but Federal Reserve rumblings on raising rates continue to build, which is why we continue to counsel against procrastination on a refinance or a home purchase. We also counsel that money is available: little, or negative, equity is not an exclusion to a favorable refinance.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Import Prices (May)	Tues, June 15, 8:30 am, et	0.8% (Decrease)	Important. The price trend remains non-inflationary.
Housing Market Index (June)	Tues, June 15, 10:00 am, et	22 Index	Important. Homebuilder optimism continues to improve with the overall economy.
Mortgage Applications	Wed, June 16, 7:00 am, et	None	Important. Low rates appear to have reached a saturation point.
Housing Starts (May)	Wed, June 16, 8:30 am, et	650,000 (Annualized)	Important. Markets are expecting a post tax-credit retreat, though activity appears stable.
Industrial Production (May)	Wed, June 16, 9:15 am, et	0.7% (Increase)	Important. Strong business demand is driving recent production increases.
Consumer Price Index (May)	Thurs, June 17, 8:30 am, et	All Goods: 0.1% (Decrease) Core: 0.1% (Increase)	Important. Consumer prices continue to show that inflation remains subdued.

Leading Indicators (May)	Thurs, June 17, 10:00 am, et	0.2% (Increase)	Moderately Important. The indicators suggest the economic recovery remains on track.
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Another Round of Reasonable Perspective

There is no question that we face formidable, long-term structural problems – problems that have made US markets less attractive in recent years. But these problems are surmountable. We have no qualms saying that the spirit of innovation and entrepreneurship that has defined America in past crises will prevail today.

Though housing remains tepid and debt and deficit levels are rising, compared to the rest of the world the United States is in good shape. Our economic fundamentals are sound: manufacturing levels are up and interest rates and inflation are low. What's more, the broader economic recovery is translating into meaningful employment improvements and corporate-profit growth that could potentially reach a record high in this year's third quarter.

Risks clearly remain, but markets are always fraught with risks: there are no perfect markets. To the contrary, when markets seem the most perfect, that's when they are the most risky, as the housing and mortgage markets post-2006 have so painfully revealed. Things still aren't so rosy today, but that's okay, because we're sure that better days lie ahead.



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