



MORTGAGE MATTERS...

Keeping you updated on the market!

For the week of

June 7, 2010

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Keeping
up-to-date
on market
fluctuations
allows you
to bring
greater
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MARKET RECAP

Few housing market participants were surprised when the NAR reported that its pending home sales index increased again, 6 percent in April, to 110.9 (100 is the base set in 2001) thanks to a surge in sales contracts. April, not-so-coincidentally, happened to mark the end of the extension of the federal homebuyer's tax credits. NAR chief economist Lawrence Yun was upbeat on the new business, nonetheless, noting, "The homebuyer tax credit brought close to one million additional buyers into the market, which is now helping the trade-up market and has significantly improved the inventory situation."

We can't say with certainty whether Yun's analysis is correct. We've stated in past editions that tax credits bring buyers forward, but don't increase aggregate demand. Look no further than the automobile tax credits from last year. Once the \$4,500 cash-for-clunkers purchase program ceased, sales dropped like a rock. Does that mean we should expect home sales to do the same?

We don't think so. Automobile sales have recovered, and have recovered quite nicely. In May, sales for General Motors increased 16.6 percent from the same year-ago period, while Ford's increased 23 percent. Not to be outdone by its larger competitors, Chrysler posted a 33 percent increase. What's more encouraging, the robust recovery in auto sales had nothing to do with tax credits; it had everything to do with an improving economy and improving consumer confidence.

These same factors will likely work favorably for the housing sector in coming months. In fact, they already are. Home prices climbed 6.8 percent in May 2010 from the same year-ago period, posting the largest yearly increase since July 2006, according to real estate data provider Clear Capital. Meanwhile, the number of REO properties on the market seems to be dropping. Clear Capital reports that the national REO saturation rate dropped to 27.8 percent, down from 41.7 percent last year.

We think this is a near-perfect market for homebuyers: home prices are low but stable, while mortgage rates continue to hug historical lows. In many parts of the country, buying a home is cheaper than renting.

But this scenario won't last indefinitely. More Federal Reserve Bank presidents (of which there are 12) believe the economy is sufficiently stable to begin raising interest rates. Kansas City Federal Reserve Bank President Thomas Hoening said that the US economic recovery has the momentum to sustain itself and called for an increase in the target federal funds rate to 1 percent by the end of summer. It's currently hovering near zero. Other Fed presidents have stated that they are "uncomfortable" with Federal Reserve Chairman Ben Bernanke's use of "extended period" as it is applied to low rates.

The bottom line is, when the Federal Reserve starts raising the federal funds rate –

the influential rate at which banks lend to each other – mortgage rates won't be far behind.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Consumer Credit (April)	Mon, June 7, 3:00 pm, et	\$2 Billion (Increase)	Moderately Important. Increasing credit use reflects greater consumer confidence.
Mortgage Applications	Wed, June 9, 7:00 am, et	None	Important. Lower rates have pushed refinances to a seven-month high.
Federal Reserve Beige Book	Wed, June 9, 2:00 pm, et	None	Important. The market is expecting to see continued improvement in the economic outlook.
International Trade (April)	Thurs, June 10, 8:30 am, et	\$41 Billion (Deficit)	Moderately Important. The deficit is growing on a stronger dollar and greater domestic demand.
Retail Sales (May)	Fri, June 11, 8:30 am, et	0.2% (Increase)	Important. Retail sales continue to grow on stronger demand for durable goods.
Consumer Sentiment (June)	Fri, June 11, 9:55 am, et	74 Index	Moderately Important. Despite the recent stock market drop and troubles in Europe , sentiment continues to improve.

Business Inventories (April)	Fri, June 11, 10:00 am, et	0.4% (Increase)	Moderately Important. Inventories are increasing with recent sales increases.
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Up, Up, But Not Quite Away

We were expecting a little more, but at least it's trending in the right direction. We are speaking of the employment report, which showed payrolls rose by 431,000 last month.

That would be very good news, if not for the fact that 411,000 of the new hires were related to the census. Nevertheless, that still leaves a net positive for the private sector. The increase was enough to push the unemployment rate down to 9.7 percent (though some pundits argue the drop was really due to a lower participation rate).

You never want to read too much into a single month of data, but we remain encouraged: job growth and wages picked up from April to May, while the average workweek lengthened. And although moderate compared to past post-recessions, the recovery is looking more sustainable after consumer spending and business investment rose at a healthy pace in the first quarter.

Overall, we think this latest employment report provides another reason to act now in both the mortgage and housing markets.



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