



MORTGAGE MATTERS...

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For the week of

March 15, 2010

MARKET RECAP

The era of everyday lower prices appears to be ending, at least according to recent data from real estate search firm Trulia.com, which reports a new low of 19% of listings currently on the market experiencing a price cut as of March 1, 2010 .

Trulia.com's track record isn't particularly long – it dates back to April 2009 – so we don't want to read too much into the news, but it's worth noting that it marks the first time price reduction levels have dropped below 20%. To spin things positively, we could say that over 80% of new listings aren't reducing prices.

It makes sense that price cutting is becoming less necessary. Most sellers these days are grounded in the new reality: they understand that they can't sell their home for what it would have sold for in 2005 or 2006, so they're no longer tethered to those extinct price points. Homes listed for sale these days are priced to produce an actual sale as opposed to being priced in a quixotic attempt to reclaim a sunk cost.

Of course, listing prices could come under pressure by the expected increase in foreclosures. The *Washington Post* reports that about 5 million to 7 million properties are potentially eligible for foreclosure, but have not yet been repossessed and put up for sale. The *Post* also reports that it could take nearly three years for all these homes to clear the market.

That's a worse-case scenario. So far, that's not how the market is unfolding. RealtyTrac reports that there were foreclosure filings on 308,000 homes in February, but that's a 2% decline from January. REOs were off nearly 15% from their peak of more than 92,000 in December 2009. Moreover, 60% of the activity was concentrated in six states: California , Florida , Michigan , Illinois , Arizona , and Texas . Going forward, we think stable prices and gradual appreciation will be the norm, despite the foreclosure issue and the likelihood of losing the federal homebuyer's tax credits.

We also think stable and appreciating mortgages rates will be the norm. Yes, rates continue to hold steady, like they have for the past two months, but they're not going lower. What's more, March 31 marks the Federal Reserve's expected withdraw from the mortgage-securities market. Does that mean we will be looking at 6% 30-year fixed-rate mortgages this time next year, as many pundits predict? We can't say for sure, but we wouldn't be surprised to see 5.5% by summer.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Industrial Production (February)	Mon, March 15, 9:15 am, et	0.1% (Increase)	Important. Output is improving with the overall economy.

Housing Market Index (March)	Mon, March 15, 1:00 pm, et	17 Index	Important. Inventory overhang continues to weigh on homebuilder sentiment.
Housing Starts (February)	Tues, March 16, 8:30 am, et	580,000 (Annualized)	Important. Weather will likely impede February starts.
Import Prices (February)	Tues, March 16, 8:30 am, et	No Change	Moderately Important. Import price inflation remains a non-issue.
Federal Reserve FOMC Announcement	Tues, March 16, 2:15 am, et	Federal Funds Rate: 0% to 0.25%	Important. The Fed is expected to keep rates low through at least mid-spring.
Mortgage Applications	Wed, March 17, 7:00 am, et	None	Important. Purchase activity continues to rise, possibly foreshadowing future sales gains.
Producer Price Index (February)	Wed, March 17, 8:30 am, et	All Goods: 0.1% (Increase) Core: 0.2% (Decrease)	Important. The expected decrease in producer prices will help hold interest rates steady.
Consumer Price Index (February)	Thurs, March 18, 8:30 am, et	All Goods: 0.1% (Increase) Core: 0.1% (Increase)	Important. Consumer-driven price inflation remains subdued.
Leading Indicators (February)	Thurs, March 18, 10:00 am, et	0.2% (Increase)	Important. The indicators suggest some slowing in economic growth, but the longer-term trend remains positive.

Still Expecting Better Days

We don't often discuss the stock market, but sometimes it's worth discussing. The stock market is a leading indicator: investors invest on what they expect tomorrow, not what's happening today. Many investors are expecting a better tomorrow, particularly when you look at the Dow Jones Industrial Average, which has been on a 45-degree upward trajectory since last March.

In short, investors are expecting improved corporate earnings, based on an improving economy. If the case were otherwise, the stock market would be moving in the opposite direction. Of course, the stock market can change direction – and in a hurry too – but we think that's unlikely; corporate earnings are improving and consumers are growing more confident when you consider the recent trend in retail sales.

The economy is a complex tangle of interconnections and interrelations, which means good news on the corporate, employment, and consumer fronts will eventually translate into good news on the housing front. We think many investors in the stock market are expecting better news in the housing market in coming months, as are we.



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