



MORTGAGE MATTERS...

Keeping you updated on the market!
For the week of

May 10, 2010

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Keeping
up-to-date
on market
fluctuations
allows you
to bring
greater
value to
your
clients.

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MARKET RECAP

In news that surprised no one, the pending home sales index surged to 102.9 in March. We all expected the months heading into April would produce more home sales, and that's the way it's playing out. What's more, it's likely to continue to play out over the next couple months, given closings usually occur a month or two after the contract has been signed.

Of course, the expiring federal tax credits are the impetus for the spring rush. Most market watchers are expecting a drop once they've worked their way through the system, so we shouldn't be terribly disappointed if sales growth stalls after being artificially stimulated.

That said, we remain optimistic. We think the housing market is sufficiently stable to stand on its own, particularly when considering the latest pricing data released by PMI Mortgage Insurance, which shows the risk of continued price declines is shrinking. Its latest report finds that 93% of the 384 metropolitan statistical areas it follows posted declining risk scores in the fourth quarter of 2009.

In addition to finding a less risky pricing environment, buyers are also finding a more welcoming lending environment. According to the Federal Reserve's latest survey, most banks didn't tighten lending standards during the first quarter of 2010. The survey also showed more banks expressing a greater willingness to lend. We've stated in previous newsletters that an improving economy goes hand-in-hand with less stringent underwriting, because lending is perceived as less risky in a growing economy. We expect further easing as the economy continues to grow, enticing more marginal borrowers into the market.

Consumer spending is another important measure of an economy's health. On that front, personal consumption posted a 0.6 percent gain in March, following a 0.5 percent jump the month before. Economists have been saying for months that the economic recovery would be anemic until the consumer sector became healthier. It appears healthier today.

So, we have a growing economy, stabilizing home prices, and possibly easing underwriting standards. That sounds like a recipe for higher mortgage rates, but that wasn't the case last week. In fact, rates dropped across the board and held near all-time lows. Is it possible we've cried "wolf" once too often and that low rates are now a permanent fixture of the economy?

We don't think so, because the factors that most influence interest rates still point to higher rates. The financial calamity in Greece was given as the primary reason for last week's rate decrease. Money moved out of riskier European investments into safer US Treasury and government-insured mortgage-backed securities. In short, more money was available for mortgage lending; hence the lower rates. But

this too shall pass, and likely sooner than most market watchers expect.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Wholesale Trade (March)	Tues, May 11, 10:00 am, et	0.5% (Increase)	Important. Sales are trending higher on greater business demand.
Mortgage Applications	Wed, May 12, 7:00 am, et	None	Important. Purchase activity should remain strong through May.
International Trade (March)	Wed, May 12, 8:30 am, et	\$40 Billion (Deficit)	Moderately Important. Recent growth in the deficit is due to stronger consumer demand.
Import Prices (April)	Thurs, May 13, 8:30 am, et	0.8% (Increase)	Important. The upward trend in prices could be a sign of increasing inflationary pressure.
Retail Sales (April)	Fr., May 14, 8:30 am, et	0.3% (Increase)	Important. Growth in retail sales is reflective of growing consumer optimism.
Industrial Production (April)	Fri, May 14, 9:15 am, et	0.5% (Increase)	Important. Production continues to rise, but capacity utilization remains far below inflationary levels.

Consumer Sentiment
(May)

Fri, May 14,
9:55 am, et

73.2 Index

Moderately Important.
Sentiment is improving, but
jobs remain a concern.

Good News on the Job Front

Employment, it's the reason we're hanging our hat on a sustained economic recovery. The numbers are, thankfully, improving. Payrolls jumped 290,000 last month, more than the median estimate after posting a revised 230,000 increase in March that was larger than initially estimated. The April gain included 66,000 temporary workers hired by the government to help conduct the 2010 census and, more importantly, a 231,000 rise in private payrolls. Yes, the unemployment rate rose to 9.9 percent, but mainly due to formerly discouraged workers becoming less discouraged and seeking work again.

The improving employment situation presages good news for the economy, but it also presages higher interest rates. The latest employment news could be the catalyst for the next move in long-term interest rates. Over the past two weeks, investors have gravitated toward the haven of US-dollar denominated investments, most notably long-term Treasury securities, and that's helped lower rates. But with a heating economy, the very real prospect of inflation igniting rises, which raises the very prospect of higher mortgage rates in the near future.



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