



MORTGAGE MATTERS...

Keeping you updated on the market!

For the week of

May 24, 2010

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

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MARKET RECAP

A popular investing aphorism states that markets must climb a wall of worry in order to advance. If anyone has had more worries than most in recent years, it's the homebuilders. Over the past two months though, they seem to be worrying a little less. The National Association of Homebuilders reported its housing market index – a measure of industry confidence – rose three points to 22 last month, posting its highest reading since August 2007.

Homebuilders are still far from euphoria: readings below 50 indicate negative sentiment about the market. The last time the NAHB's index was above 50 was in April 2006, and we saw how the ensuing four years played out. Perhaps the fact that homebuilders remain somewhat guarded bodes well for the industry's future. Still, many homebuilders are expecting improved sales and customer traffic in coming months despite the end of homebuyer tax incentives.

Continued price stabilization is helping to lift spirits as well. National home prices increased 1.7 percent in March compared to the same year-ago period, marking the second month of year-over-year increases, according to CoreLogic's home price index. Distressed sales continue to cloud the outlook, though CoreLogic noted that the longer-term forecast remains positive, with prices expected to rise nationally another 2.7 percent over the next 12 months.

Stabilizing and improving prices are also contributing factors to the surge in housing starts, which rose 5.8 percent to an 18-month high of 672,000 units in April. Of course, buyers eager for federal tax credits are another contributing factor, which has some pundits concerned about a precipitous drop in sales in coming months. Their concerns are not unfounded. Permits dropped 11.5 percent, which indicates many builders remain cautious (hence, the 22 reading of the latest NAHB confidence index).

The good news is that continued economic growth is more likely than not. The Federal Reserve expects GDP to grow by roughly 3.5 percent this year, up from its 3.1 percent forecast in January. Meanwhile, unemployment is expected to drop to the low 9-percent range. As the economy and employment recover, the Fed expects inflation to remain subdued.

Like the Fed, we remain upbeat on the economy, but somewhat less sanguine on the subject of inflation. Yes, mortgage rates continue to hug historic lows, but economic turmoil in other parts of the world, notably Greece and China, is the primary reason. The United States is a haven in times of tumult, but tumult doesn't last indefinitely, nor do historically low borrowing rates. It's worth stating again that any rate improvement has been marginal at best for most borrowers.

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| Economic | Release | Consensus | Analysis |
|-----------------|----------------|------------------|-----------------|

| Indicator | Date and Time | Estimate | |
|---|----------------------------|---|--|
| Existing Home Sales (April) | Mon, May 24, 10:00 am, et | 5.59 Million (Annualized) | Important. The expiring tax credits will spike sales, but markets will be vetting the data for signs of a sustained trend. |
| S&P Case-Shiller Index (March) | Tues, May 25, 9:00 am, et | None | Moderately Important. The index should support recent data on continued price stability. |
| Consumer Confidence (May) | Tues, May 25, 10:00 am, et | 59.1 Index | Moderately Important. Improving optimism is reflected in the positive trends of more expensive items. |
| Mortgage Applications | Wed, May 26, 7:00 am, et | None | Important. Purchase applications will abate on post homebuyer credit withdrawal. |
| Durable Goods Orders (April) | Wed, May 26, 8:30 am, et | 0.9% (Increase) | Moderately Important. Orders remain volatile, but the longer-term trend is positive. |
| New Home Sales (April) | Wed, May 26, 10:00 am, et | 420,000 (Annualized) | Important. Sales will spike on expiring federal tax-credit use, but homebuilders are expecting sustained activity. |
| Gross Domestic Product (1st quarter 2010) | Thurs, May 27, 8:30 am, et | 3.2% (Annualized Growth) | Important. The economy continues to grow out of the recent recession. |
| Personal Income & Outlays (April) | Fri, May 28, 8:30 am, et | Income: 0.4% (Increase) Outlays: 0.3% (Increase) | Important. Income is reflecting a more robust labor market. |

One Week Does Not Make A Trend

The Mortgage Bankers Association raised a few eyebrows the past week when it reported that purchase applications plummeted 27.1 percent. We expected a pullback, given the expiring credits (which we have noted simply pull sales forward without increasing aggregate demand), but we were expecting the market to show a little more resiliency.

So does this mean we expect gloomier days ahead? No, but a noticeable decline in sales should be expected. We don't think it's permanent, though, nor do we think it will extend far into the future. There are major issues, to be sure: the 90+ day and "in foreclosures" rate remains at record levels. This potential shadow inventory will continue to drag on the entire housing market. In addition, many pundits and market commentators continue to lament the moribund state of the jobs market, as well as the state of many international economies.

But keep in mind, markets need to climb a wall of worry in order to advance, which is why we remain optimistic on the housing market and somewhat pessimistic on the current interest-rate environment. In short, we still think this is an opportune time to buy or refinance, though we doubt tomorrow will be quite as opportune today.



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