



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

May 3, 2010

MARKET RECAP

The S&P/Case-Shiller home-price index is promoted as the leading indicator of the national trend in home prices, but we wonder if its worth is overstated – given that it tends to obfuscate as much as enlighten. For example, the index showed that home prices in 20 cities increased 0.6 percent in February. On a non-seasonally adjusted basis though, the 20-city home price index fell 0.9 percent to 144.03 while the 10-city home price index declined 0.6 percent to 156.8.

So what does it mean? Whether the 20-city or 10-city measure, changes to home prices have been so small nationally over the past few months that the Case-Shiller index has morphed into modern art – journalists and economists make of it what they want, which suggests they impart little value for handicapping the future. And let's not overlook the fact the data are already two months old when released – a lifetime in financial circles.

Things can change in a hurry. Consider the dynamics in the new home market over just one month. In March, sales surged 26.9 percent to 411,000 units, exceeding the consensus expectation by over 80,000 units. Meanwhile, inventory dropped to 6.7 months from 8.6 months, as did mean and median prices, suggesting a shift toward lower-priced homes.

Consumer confidence shifted just as suddenly, with consumers displaying much more optimism in April compared to March. The sentiment numbers suggest to us the labor market is improving, and consumers are much more willing to spend. In February, the mood was the polar opposite.

The one constant has been the Federal Reserve's willingness to hold the federal funds rate near zero, which it did once again after Wednesday's Federal Open Market Committee meeting. The Fed has held the rate near zero since December 2008 and said conditions are likely to justify leaving it at "exceptionally low" levels for "an extended period." The Fed also said that "economic activity has continued to strengthen" and "the labor market is beginning to improve," which suggests that

an “extended period” might not be as extended as many people think.

In short, mortgage rates are as low as they're going to go, and the Fed has proven over the past few months that there is little that can be done to move them lower.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Personal Income & Outlays (March)	Mon, May 3, 8:30 am, et	Income: 0.3% (Increase) Outlays: 0.6% (Increase)	Important. Income and outlay trends are indicative of an economic recovery.
Construction Spending (March)	Mon, May 3, 10:00 am, et	0.6% (Decrease)	Important. Overall spending remains down, but residential spending is likely to pick up.
Pending Home Sales Index (March)	Tues, May 4, 10:00 am, et	100.8 Index	Important. Exploitation of homebuyers' tax credits will lift the index higher.
Mortgage Applications	Wed, May 5, 7:00 am, et	None	Important. Purchase applications posted their biggest increase since last October.
Productivity and Costs (1st Quarter 2010)	Thurs, May 6, 8:30 am, et	Productivity: 2.7% (Increase) Costs: 0.0%	Important. Productivity gains continue to retard employee-driven inflation.
Employment Situation (April)	Fri, May 7, 8:30 am, et	Unemployment Rate: 9.7% Payrolls: 175,000 (Increase)	Very Important. Job growth is the key variable to sustaining the housing recovery.

Consumer Credit (March)	Fri, May 7, 3:00 pm, et	\$2.35 Billion (Decease)	Important. Tighter credit standards continue to shrink credit use.
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What Now?

It's an important question, since it appears the homebuyers tax credits won't be extended. But it's a question not to be feared. We think it's time the housing market stood on its own feet anyway. After all, we can't gauge the health of a market if it's still supported with taxpayer stanchions.

But that's okay; we think the housing and mortgage markets are sufficiently healthy to stand alone. Pessimism is the intellectual position, but the fact is the economy is getting better: Despite worries that American consumers might hunker down for years — spooked by debt, lost savings, and unemployment — austerity has given way to shadows of a new shopping spree: households are replacing cars, upgrading home furnishings, and amassing gadgets. What's more, wealth – at least wealth measured by equity holdings – is booming.

On the mortgage side, private investors are returning. A California firm recently completed the first private-sector sale of a security backed by mortgages in nearly two years, potentially reopening a market slammed shut by the housing crisis. The \$238-million deal was of the highest quality, to be sure, with borrowers making an average down payment of 45 percent and mortgage payments comprising less than 30 percent of income. But as the economy continues to improve and investors become less risk adverse, less restrictive mortgages will be securitized.

Bottom line: we see a growing economy, improving employment, stable home prices, and less restrictive (though higher rate) mortgages in our future. In other words, we see a market for buying and refinancing today.



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