



MORTGAGE MATTERS...

Keeping you updated on the market!

For the week of

August 3, 2009

MARKET RECAP

With all due respect to Ethel Merman, everything really is coming up roses...well, sort of. Sure, some weeds remain, but they are becoming fewer and farther between.

Of course we are talking about the housing market, where prices posted their first monthly gain in three years, climbing 0.5% in May according to the Case-Shiller Price Index – a closely watched housing-price monitor. The price increase offers yet another sign that the formerly battered-and-bruised residential real estate market is stabilizing.

New home sales provided another sign of stabilization, jumping 11% in June to post the biggest monthly gain in eight years. Sales of single-family homes increased to a seasonally adjusted annual rate of 384,000 units, a 2009 high, thanks to more buyers availing themselves of falling prices.

Speaking of falling prices, the median price for a new home fell to \$206,200 in June compared to \$219,000 in May; however, inventory levels are falling and prices are dropping much less quickly. Furthermore, the ratio of houses for sale to houses sold in June was 8.8, down from 10.2 in May. The aggregated data has convinced a few economists to say that they see new-home prices rising in the coming months.

Rising home prices aren't beyond the realm of possibility; the economy is performing much better than expected. Gross domestic product for the second quarter of 2009 contracted at a less-than-projected 1% annual rate. The consensus estimate was for a contraction of 1.6%. Consumer spending and unemployment remain overhangs, to be sure, but they could soon be corrected by recent increases in business earnings, which should eventually supply additional stimulus to the economy.

Continued affordability in the mortgage market should also help keep home prices stable, if not rising. Though not as low as they were a couple months ago, rates are still low by historical measures. Last week, Bankrate.com's national survey had the benchmark 30-year fixed-rate mortgage averaging 5.56% and the 15-year fixed-rate mortgage averaging 4.88%. Of course, any individual rate is subject to duration, loan type, FICO score, income, assets, down payment and points paid.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Construction Spending (June)	Mon, Aug. 3, 10:00 am, et	0.6% (Decrease)	Important. Improvements in residential construction are slowing the rate of contraction.
Personal Income & Outlays (June)	Tues, Aug. 4, 8:30 am, et	Income: 1.0% (Decrease) Outlays: 0.3% (Increase)	Important. Consumers are still willing to spend despite higher unemployment.
Pending Home Sales (June)	Tues, Aug. 4, 10:00 am, et	0.2% (Increase)	Important. Pending sales posting a 2009 high is yet another sign of an improving housing market.
Mortgage Applications	Wed, Aug. 5, 7:00 am, et	None	Important. Application activity has dropped on expectations for lower rates.
Factory Orders (June)	Wed, Aug. 5, 10:00 am, et	0.2% (Increase)	Moderately Important. Factories continue to defy the economy with their strength.
Employment Situation (July)	Fri, Aug. 7, 8:30 am, et	Unemployment rate: 9.7% Hourly wages: 0.1% (Increase)	Very Important. Growth in unemployment is expected to abate, which could put upward pressure on interest rates.
Consumer Credit (June)	Fri, Aug. 7, 3:00 pm, et	\$3.9 Billion (Decrease)	Moderately Important. Credit use is contracting at a slowing pace.

Perfection is Impossible

Bad news sells, which is why whenever a business reports starts off positively it's nearly always tempered negatively. You could call it being prudent, circumspect, and balanced, and that would be a legitimate argument. To wit: A report in Housingwire.com last week provided an example of good news being tempered by bad. Data from MDA DataQuick showed that sales in the very hard-hit Phoenix area have surged 72% this year. MDA DataQuick was quick to note, though, that “for the foreseeable future, the Phoenix region will continue to have many foreclosures to recycle, and that inventory of lender-owned property will weigh on home prices.”

Other reports last week were equally as tempered. One economist stated after the good news on new-home sales and housing prices that “a glut of grossly overpriced homes currently on the market and the possibility of climbing mortgage rates are among several potential challenges facing the market.” That sentiment was repeated often.

We are all for prudence, circumspection, and balance. After all, it's important to question the data you are being fed, because all markets offer the potential for risk, along with the potential for reward. But it's also worth remembering that there is no such thing as a “perfect market.” Home prices, mortgage rates, and the economy will never be “just right.” It's also worth remembering not to give one side of the argument more weight than it deserves.

In this market, we still think too many potential borrowers and home buyers are overweighting negative news while holding out for perfection. Unfortunately, perfection doesn't exist, which is why waiting for it guarantees missing opportunity.



This Mortgage Matters compliments of

Sam Suznevich

253-863-1113

Nikki Rosdahl, Assistant

sam@sumnerhomemortgage.com

nikki@sumnerhomemortgage.com

www.sumnerhomemortgage.com



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