



# MORTGAGE MATTERS...

*Keeping you updated on the market!*

For the week of

**August 10, 2009**

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## **MARKET RECAP**

Another week, another report on improving home sales. The latest news might not constitute a sustainable trend, but it's surely beginning to resemble one. And why not? Pending home sales were up for the fifth consecutive month. The data shows contracts signed in June increased 3.6% from May. For what it's worth, and we think it's worth something, the last time pending sales rose for a fifth straight month was in July 2003, just after the post-9/11 recession ended, and that trend didn't end until late 2006.

Of course, history never repeats exactly, but that's not to say we shouldn't be encouraged. And we are encouraged, particularly when considering new-home builders appear to be inching toward prosperity. Private single-family residential spending rebounded 2.4% in June after posting a 3.1% drop in May. It's not a lot to hang a hat on, to be sure, but it suggests the worst in new-home construction is behind us.

Of course, sustaining any positive trend depends on sustaining consumer spending. On that front, it's still a little iffy. Consumer spending jumped 0.4% after edging up 0.1% in May, though enthusiasm was tempered by concerns that the increase is reflective of one-off payments associated with the fiscal stimulus package. These payments sharply boosted the May figure but were substantially smaller in June, which means we could see a decrease in consumer spending in July.

Then again, consumer spending could be sustained if payroll numbers continue to improve. Private payroll counts showed substantial improvement last month, down 371,000 in July versus a 463,000 drop in June. The improvement, the best in eight months, confirms expectations that unemployment may not get as high as some economists have forecast. Indeed, the unemployment rate dropped to 9.4% in July when it was expected to rise to 9.7%.

For those consumers willing to spend, particularly on big-ticket items like houses, interest rates remain favorable. Bankrate.com's latest national survey showed the benchmark 30-year fixed-rate mortgage averaged 5.65% last week, while the benchmark 15-year fixed-rate mortgage averaged 4.97%. It's worth mentioning that anytime the 30-year fixed-rate mortgage is hovering around 5.5% and the 15-year fixed-rate mortgage is hovering under 5%, odds are historically slim that rates will go much lower.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Productivity & Costs (2nd Quarter 2009)	Tues, Aug. 11, 8:30 am, et	Productivity: 3.7% (Increase) Costs: No Change	Important. Productivity gains mean employee-driven inflation remains a non-issue.
Wholesale Trade (June)	Tues, Aug. 11, 10:00 am, et	0.2% (Increase)	Important. Continued gains in wholesale trade bode well for the economic outlook.
Mortgage Applications	Wed, Aug. 12, 7:00 am, et	None	Important. Applications are increasing on expectations for steady mortgage rates.
Federal Reserve FOMC Meeting	Wed, Aug. 12, 2:15 pm, et	0.25% Federal Funds Rate	Important. The Fed is expected to hold firm on short-term interest rates.
Retail Sales (July)	Thurs, Aug. 13, 8:30 am, et	0.3% (Increase)	Important. A sustained increase in retail sales is a reliable indicator of improving consumer confidence.
Consumer Price Index (July)	Fri, Aug. 14, 8:30 am, et	All Goods: 0.1% (increase) Core: 0.2% (Increase)	Important. Stable consumer prices suggest interest rates should remain stable for the immediate future.
Consumer Sentiment (August)	Fri, Aug. 14, 10:00 am, et	68 Index	Moderately Important. Consumers are fickle, but recent readings portend a more optimistic outlook.

### *Small but Consequential News*

It's usually more insightful to stitch together little pieces of news to form a mosaic that arrives at a conclusion than to draw a conclusion from one big consequential piece of news. Reason being, market bottoms usually end in a whimper instead of a bang, and these whimpers are often marked by a surfeit of anecdotes of strife and struggle.

We've been seeing a surge in strife-and-struggle articles in recent months. But these articles often serve as contrarian indicators. Yes, they can be bothersome, but they tend to increase in multitude and amplitude just when the economy is poised for a sustained recovery.

Another seemingly small piece of news that can prove consequential is when someone of renown finally acknowledges an improving market. Such was the case last week when Robert Shiller, co-founder of the Case-Shiller Home Price Index, launched a new investment vehicle, the MacroShares Major Metro Housing Up fund. Shiller's fund

essentially represents leveraged bets on housing prices. What the introduction of this fund tells us is that more investors are expecting more upside in housing prices.

On our end, we've been painting a mosaic of an improving housing and mortgage market over the past few months, and not because we wish it were so, but because the small, consequential pieces of news suggest it is so.



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