



MORTGAGE MATTERS...

Keeping you updated on the market!

For the week of

July 27, 2009

MARKET RECAP

The signs are pointing to an economy in full-recovery mode. The leading economic indicators (LEI), which attempt to forecast the economy six months hence, posted a third consecutive monthly increase, with seven of the 10 indicators improving during June. The annualized six-month rate of change of the LEI is now up 4.1%. It's worth noting that since 1950 there have been nine recessions, and the LEI has reliably foreseen the end of all of them. No wonder many economists are now calling for an end to the recession by the fourth quarter of 2009. Guess what? The fourth quarter is less than six weeks away.

Nowhere is a recovery more apparent than in housing. Prices increased 0.9% in May from April, the Federal Housing Finance Agency reported. That might not sound like much, but two hard-hit areas – California and the South Atlantic region, which includes Florida – posted meaningful improvement, with prices in California increasing 2.7% and prices in the South Atlantic states increasing 1.4%.

Further evidence of a recovery is seen in home sales, which rose 3.6% to a seasonally adjusted annual rate of 4.89 million units last month, from a revised pace of 4.72 million units in May. Sales have risen for three straight months in 40 of 55 major metropolitan areas tracked by the Associated Press-Re/Max Housing Report. It appears increased sales are finally putting a dent in inventory, with the supply of homes falling to 9.4 months from 9.8 months.

All the while, mortgages remain very affordable and rates very low by historical standards. On the national level, Bankrate.com reported that the benchmark 30-year fixed-rate mortgage averaged 5.55% last week, while the benchmark 15-year fixed-rate mortgage averaged 4.89%. For those interested in adjustable-rate mortgages, Bankrate.com reported the benchmark 5/1 adjustable-rate mortgage averaged 4.93%.

ARMs have received a lot bad press over the past year, to state the obvious, but it's worth noting that they are much less risky today than they were three years ago. Yes, short-term rates are at all-time lows, so there is the very real possibility of rate increases down the road, but with home prices stabilizing, the chances are much greater an ARM can be refinanced (if need be) on a home that will very likely have appreciated in price.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
New Home Sales (June)	Mon, July 27, 10:00 am, et	350,000 (Annualized)	Important. The worst appears to be over for homebuilders.
Consumer Confidence (July)	Tues, July 28, 10:00 am, et	50 Index	Moderately Important. Confidence is improving on positive economic data.
Mortgage Applications	Wed, July 29, 7:00 am, et	None	Important. Refinances continue to pace the application market.
Durable Goods Orders (June)	Wed, July 29, 8:30 am, et	0.5% (Decrease)	Important. Orders continue to fall, but only because of fewer automobile sales.
Gross Domestic Product (2 nd Quarter 2009)	Fri, July 31, 8:30 am, et	1.6% (Decrease)	Very Important. The GDP numbers are expected to set the stage for a second-half rebound.
Employment Cost Index (2 nd Quarter 2009)	Fri, July 31, 8:30 am, et	0.2% (Increase)	Important. The rise in unemployment is expected to keep employment costs in check.

A Little Less Contemplation, A Little More Action

For the past year, the housing market has been a buyer's market nonpareil thanks to a cascade of foreclosures that pushed prices down at an unprecedented rate. Indeed, prices are off \$79,800 from the national trend in Los Angeles , off \$72,400 in Las Vegas , off \$69,900 in Phoenix , and off \$53,000 in Miami , according to the Case-Shiller Home Price Index.

But trends – good or bad – don't last forever. In fact, the trend of falling home prices has ended in many markets, and will end in many more, leading to a new trend of rising home prices. Many parts of the country are already seeing bidding wars for homes, particularly in the lower-priced niche.

Granted, all real estate is local: Home buyers and sellers are less concerned with a few broad (yet important) data points and more concerned with where individual sub-markets are headed. After all, owning a home is an investment in a neighborhood – not necessarily a metropolitan area at large.

That said, psychology can go national, and go national rapidly. On that front, expect psychology to turn bullish. Yes, unemployment, currently posting at 9.5%, remains a concern, but corporations are posting higher earnings and higher stock prices. In fact, the Dow Jones Industrial Average broached 9,000 last week,

reclaiming all its losses for the year. That portends good news for the economy ahead.

The bottom line is, anyone looking to buy a home or refinance a mortgage should probably stop looking and start acting. More often than not, holding out for that last dollar usually means suffering a much larger loss instead.



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