



MORTGAGE MATTERS...

Keeping you updated on the market!

For the week of

October 5, 2009

MARKET RECAP

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Keeping
up-to-date
on market
fluctuations
allows you
to bring
greater
value to
your
clients.
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It was all going pretty well. Early in the week, we learned that home prices in many metropolitan regions continue to improve. In July, the S&P Case-Shiller 20-city home price index rose 1.6% after rising 1.4% in June, while the 10-city index rose by 1.7% in July after rising 12.8% in June. Annual returns for both the 10-city and the 20-city index showed some level of improvement for the sixth consecutive month.

We also learned that gross domestic product fell at a 0.7% annual rate instead of the 1.0% rate reported last month. This final revision easily beat the 1.2% decline most economists had expected. It is a notable improvement, considering GDP, which measures total goods and services output within the United States, fell at a 6.4% rate in the January-March period.

Following on the heels of the encouraging GDP data, the Bureau of Economic Analysis reported that personal incomes rose by 0.2% in August, the same percent increase as July. On the spending side, personal consumption increased 1.3%, the largest increase in nearly eight years, which suggests that consumers are feeling increasingly comfortable loosening the purse strings.

And it gets better: On Thursday, the National Association of Realtors reported that its index for pending sales of previously owned homes increased 6.4% to 103.8 in August, from 97.6 in July, posting a seventh consecutive monthly increase.

However, on Friday, the Bureau of Labor Statistics reported that the nation lost another 263,000 jobs in September, pushing the unemployment rate up to 9.8% -- the highest since June 1983. The pundits who dug beyond the headlines lamented the fact that the unemployment rate that includes those who have given up looking for work was pushed to 11.1%, while the broadest measure, which includes people who work part time but want full-time work, reached a high of 17%.

We think too much currency was given to the employment report. After all, most everyone expected the unemployment rate to rise to 9.8%. The rates on discouraged unemployed and underemployed workers were also equally well known. Headlines that included the words "unexpectedly accelerated" (and there were many) were incorrect, because the numbers were not unexpected. Yes, we all would prefer the unemployment rate to drop, and unemployment is certainly an issue, but it is an issue that should not be overplayed so alarmingly.

| Economic Indicator | Release Date and Time | Consensus Estimate | Analysis |
|------------------------------|-----------------------------|--------------------------|--|
| Mortgage Applications | Wed, Oct. 7, 7:00 am, et | None | Important. Both purchase and refinance activity drop on recent economic concerns. |
| Consumer Credit (August) | Wed, Oct. 7, 3:00 pm, et | \$8.9 Billion (Decrease) | Moderately Important. It is no surprise that decreased credit use positively correlates with decreased employment. |
| Wholesale Trade (August) | Thurs, Oct. 8, 10:00 am, et | 0.9% (Decrease) | Important. The rate of decrease in trade and inventories continues to decline, suggesting increased business demand down the road. |
| International Trade (August) | Fri, Oct. 9, 8:30 am, et | \$32 Billion (Deficit) | Moderately Important. Deficits remain at the low end of historical norms and will have little impact on exchange and interest rates. |

Up, Down, or Sideways?

We are speaking of mortgage rates, which continue to move down. Bankrate's latest survey had them averaging their lowest levels in over four months last week, with the 30-year fixed-rate mortgage averaging 5.25% and the 15-year fixed-rate mortgage averaging 4.64%. Given the recent qualms over unemployment, rates would seem likely to move down further.

And they could, but they could also move up. Last week, Dallas Federal Reserve President Richard Fisher said that the winding down of the Fed's stimulative monetary policies needed to start as soon as the economy shows signs of sustained improvement. "When it comes time to tighten monetary policy, my colleagues and I will move with an alacrity that, if needed, will be equal in speed and intensity to that with which we pursued monetary accommodation," Fisher said in a speech to the Texas Christian University Business Network of Dallas.

Until Friday, financial markets were heeding Fisher's words, with derivatives prices suggesting the fed funds rate will rise to 0.75% by mid-2010. (Since December 2008, the Fed has held the rate at a lowest-ever range of 0% to 0.25%.) Granted, the odds of an immediate increase dropped after Friday's employment report, but the May fed funds contract is still priced for a 72% chance of a 0.5% fed funds rate at the late-April rate-setting meeting.

We think it's worth heeding the Fed's intention to "move with an alacrity" once it determines the economy is fixed (and no one can be sure when the Fed will make that determination). We think it is worthwhile for potential borrowers to move with alacrity as well, particularly first-time homebuyers. After all, there is no guarantee that the \$8,000 credit will be extended beyond November 30.



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