



MORTGAGE MATTERS...

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Keeping you updated on the market!
For the week of

September 14, 2009

MARKET RECAP

The elephant in the room remains the elephant in the room. We are speaking of foreclosures, which continue to be an onerous overhang on the economy in general and the housing market in particular, at least if we can believe the latest numbers. Foreclosure filings exceeded 300,000 once again in August, according to RealtyTrac. The good news is that is down 0.5% from July's tally.

A decrease would seem a positive – and it is – but many housing watchers are concerned that if unemployment doesn't materially recede in coming months, the foreclosure roles could continue to expand. It's a legitimate concern, to be sure, because more than their tie to mortgage rates, foreclosures are tied to employment.

But a little perception is also in order; the numbers remain skewed by those regions that were most overbuilt. They are the usual suspects we are all familiar with: Nevada posted one in every 62 households receiving a filing in August; Florida posted one in every 140 households; California posted one in every 144 households; and Arizona posted one in every 150 households.

However, let us not forget that the economy continues to stabilize across much of the country, lead by a pickup in factory productivity and the long-awaited improvement in residential real estate sales. Meanwhile, more economists are growing more sanguine on the future: The latest Blue Chip survey of economists shows growth is expected to recover to a 3.0% annual rate in the July-September quarter.

Growth equates to more employment. Another tentative sign of a recovery came from reports of slight pickups in demand for temporary workers in many districts. Some economists believe that hiring part-time workers is a precursor to a return to full-time hiring.

Mortgage rates, on the other hand, could be interpreted as an economy not quite on the mend. In the normal course of events, rates tend to rise as the economy improves, but the opposite is occurring in today's market. Bankrate's latest national survey had the benchmark 30-year fixed-rate mortgage averaging 5.4% and the benchmark 15-year fixed-rate mortgage averaging 4.75% last week. Those with even better credit scores and a willingness to pay points can receive even better rates.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Producer Price Index (August)	Tues, Sept. 15, 8:30 am, et	All Goods: 0.7% (Increase) Core: 0.1% (Increase)	Important. Recent spikes in energy prices will be reflected in the August data.
Retail Sales (August)	Tues, Sept. 15, 8:30 am, et	1.2% (Increase)	Important. Government incentives have driven big-ticket items, but lesser items are also improving.
Business Inventories (July)	Tues, Sept. 15, 10:00 am, et	0.8% (Decrease)	Moderately Important. The data suggest that inventories are near historical lows, which could stimulate employment demand.
Mortgage Applications	Wed, Sept. 16, 7:00 am, et	None	Important. Refinances have surged on recent drops in mortgage rates.
Consumer Price Index	Wed, Sept. 16, 8:30 am, et	All Goods: 0.3% (Increase) Core: 0.1% (Increase)	Important. Producers have been unable to push their energy costs onto consumers.
Industrial Production (August)	Wed, Sept. 16, 9:15 am, et	0.6% (Increase)	Moderately Important. Most of the gains are the result of increased auto output.
Housing Market Index (September)	Wed, Sept. 16, 1:00 pm, et	19 Index	Important. Homebuilder sentiment continues to improve on a stabilizing market.
Housing Starts (August)	Thurs, Sept. 17, 8:30 am, et	590,000 (Annualized)	Important. A fourth-consecutive monthly improvement is further proof that homebuilders are recovering.

Buyer (Still) Beware

We warn once again that it will not be a buyer's market into perpetuity, though others have a different opinion. Some forecasters – Goldman Sachs being the most prominent – project the Federal Reserve will hold the fed funds rate low for “many years” in order to help U.S. consumers and companies pull out of their funk. If that were the case, then it would appear that mortgages rates ranging between 4.5% and 5.5% could be the norm deep into 2011.

Meanwhile, Reuters reports that homebuyers are still negotiating good discounts based on data released in July's Zillow Real Estate Market Report. Zillow notes that buyers paid 3.3%, or nearly \$7,039, less than the last listing price on homes for sale during July. What's more, 22.8% of all homes listed for sale on Zillow during August were listed for a median 96 days, up from 91 in July.

It sounds like the trend will remain the buyer's friend through 2011 – until you dig a little deeper. Zillow also noted that the 3.3% discount is down from June's 3.5% discount and substantially down from January's 4.6% discount. It is also worth noting, yet again, that the usual hard-hit burgs in Nevada , Florida and California skew the data.

“Even if prices stabilize and rise, we can still finance at cheaper rates,” so the counter argument goes. Yes, that is the case today, but we think Goldman and others are underestimating how quickly an economy can turn and how quickly inflation can conflate. It is a buyers' market today, so buyers should take advantage of it today. As for tomorrow? We are much less sure.



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