



# MORTGAGE MATTERS...

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Keeping  
up-to-date  
on market  
fluctuations  
allows you  
to bring  
greater  
value to  
your  
clients.  
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*Keeping you updated on the market!*  
For the week of

**September 21, 2009**

## MARKET RECAP

For the past 18 months, the U.S. economy has been like a misfiring V8 engine. However, in recent months it has been firing on more cylinders. This week's spat of economic news suggests the economy is getting darn close to firing on all cylinders.

The auto analogy is apropos, considering retail sales – led by auto sales – increased the most in three years, as many consumers took advantage of the government's “cash-for-clunkers” rebate program. The overall 2.7% increase easily exceeded the median forecast of economists. More important, when you exclude automobile sales, retail sales still climbed 1.1%. What's more, this broad based gain had 11 of 13 categories registering increases, easing concerns that rising unemployment would cause Americans to retrench.

Thankfully, consumers appear to have stopped retrenching and to extend their purchases into the new-home market. New housing starts and permits rose in August to their highest level in nine months, pushing the seasonally adjusted annual rate of starts to 598,000 units. Not surprisingly, homebuilder sentiment improved as well. The housing-market index rose to 19 in September from 18 in August, posting a third-consecutive increase. At 19, the index shows that about one in five builders thinks the market is good. There is still plenty of room for improvement, to be sure, but the latest reading is much improved over the one-in-11 spread that existed back in January.

Despite the overall bullish economic news, mortgage rates eased slightly last week, with the 30-year fixed-rated mortgage averaging 5.38% on the national scene and the 15-year fixed-rate mortgage averaging 4.72%, according to Bankrate's latest survey. The fact that rates eased is a minor miracle; wholesales rose twice as much as forecast in August, while consumer prices pushed higher than most pundits had

anticipated. In addition, Federal Reserve Chairman Ben Bernanke all but said that the recession is over.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Leading Indicators (August)	Tues, Sept. 22, 10:00 am, et	0.7% (Increase)	Moderately Important. The indicators continue to portend an improving economy.
FHFA Home Prices (July)	Tues, Sept. 22, 10.00 am, et	0.5% (Increase)	Important. Single-family home prices continue to stabilize.
Mortgage Applications	Wed, Sept. 23, 7:00 am, et	None	Important. Applications dipped last week, but overall activity remains robust.
Federal Reserve FOMC Meeting	Wed, Sept. 23, 2:00 pm, et	Federal Funds Rate: 0.25%	Important. The Fed is expected to hold the fed funds rate near zero through 2009.
Existing Home Sales (August)	Thurs, Sept. 24, 10:00 am, et	5.3 Million (Annualized)	Important. Sales are building momentum off the March lows.
Durable Goods Orders (August)	Fri, Sept. 25, 8:30 am, et	1.1% (Increase)	Important. Improving sales of big-ticket items are further proof the economy is on the mend.
New Home Sales (August)	Fri, Sept. 25, 10:00 am, et	450,000 (Annualized)	Important. Markets are anticipating new-home prices to firm.

### *It's All (Mostly) Good*

Stock prices are up, housing prices are up, and mortgage rates are down. Unemployment remains the last confounding variable, and on that front, it might not confound much longer. We stumbled across an uncannily accurate forecast of unemployment posted by Michael Dueker at Econbrowser.com. Dueker's forecast (published in December 2008), has accurately tracked the ebb-and-flow of unemployment through 2009, even to the most recent month. Looking ahead, Dueker predicts job losses will slow dramatically through the remainder of 2009 before job gains start in early 2010.

That's good news for the overall economy, but not necessarily good news for mortgage rates. A full-fledged recovery is sure to ignite both inflation and a rise in

interest rates. Moreover, let us not forget all the liquidity the Federal Reserve has pumped into the system over the past year. Speaking via satellite to a conference in Mumbai earlier this month, former Federal Reserve Chairman Alan Greenspan noted that failing to shrink central-bank balance sheets could lead to high price inflation. "I am not talking 3% to 5% inflation; I am talking double-digit inflation in the U.S.," he said.

The odds of double-digit inflation are fairly low, but the odds of at least some inflation are fairly high. Of course, the Fed could effectively manage its balance sheet to nip inflation in the bud, but that is an extremely difficult task, which is why – despite interest-rate improvements in the past month – we still think rates are destined to rise further out.

Given the likely confluence of awaiting events, we are compelled to advise once again that homebuyers act now. Yes, uncertainty remains; then again, uncertainty never goes away. One thing is certain; we are looking at record-low mortgage rates, plenty of available funds for loans, and affordable home prices. Couple these certainties with a likely improvement in employment and economic growth and there is little reason not to refinance or buy a home today.



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