



MORTGAGE MATTERS...

•
Keeping
up-to-date
on market
fluctuations
allows you
to bring
greater
value to
your
clients.

Keeping you updated on the market!
For the week of

March 22, 2010

MARKET RECAP

Homebuilders continue to struggle. Groundbreaking for new homes fell 5.9% to a seasonally adjusted annual rate of 575,000 units in February, according to data released by the Commerce Department. The drop-off in starts wasn't unexpected; bad weather in many parts of the country impeded starts, but it appears to have impeded them more than many economists had expected.

Given the drop in starts, we shouldn't be surprised that homebuilder confidence dropped as well. The Housing Market Index, a measure of homebuilder confidence, declined to 15 in March from an already low 17 in February. Fifty is the demarcation line – half optimistic, half pessimistic. The last time the index was above 50 was in April 2006.

Homebuilder confidence will continue to sag over the next couple months. Credit for new projects has been difficult to snare while foreclosed and REO properties continue to weigh on inventory and prices. The good news is REO supply should improve as the year progresses. In a *Wall Street Journal* article, Barclay's Capital reports that lenders held 645,800 properties in January, a 4.6% increase from December, but that's 200,000 fewer than the peak of November 2008. Barclay's expects the number of REO properties to increase in April and then decline over the remainder of the year.

Pricing remains a hot issue as well – for everyone. The national data is schizophrenic. The Case-Shiller Home Price Index has shown national improvement in pricing over the past few months, but then we get newer data from First American CoreLogic's Home Price Index, which shows national home prices were down 1.9% in January. CoreLogic projects prices will continue to decline another 3.7% before bottoming in April. After that, CoreLogic expects a modest recovery for the balance of 2010.

We shouldn't read too much into national pricing. Real estate is heterogeneous and local. What's happening in Vegas, stays in Vegas, especially for someone whose niche is San Francisco or Washington D.C. A national price, therefore, really means little in the grand scheme of things.

Mortgage rates, on the other hand, are more uniform across the country. And, yes, rates continue to hold steady at historically low levels. But we'll say it again: We don't expect rates will hold these lows in perpetuity.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Existing Home Sales (February)	Tues, March 23, 10:00 am, et	5 Million (Annualized)	Important. Sales are expected to post a fourth-consecutive monthly decline, which

			suggests tax credits have lost their impact.
FHFA Home Price Index (January)	Tues, March 23, 10:00 am, et	None	Important. Prices are likely to decline on bad weather and falling demand.
Mortgage Applications	Wed, March 24, 7:00 am, et	None	Important. Refinance demand is stagnating on extended low-rate expectations.
Durable Goods Orders (February)	Wed, March 24, 8:30 am, et	No Change	Moderately Important. Orders continue to support the moderate uptrend in manufacturing.
New Home Sales (February)	Wed, March 24, 10:00 am, et	320,000 (Annualized)	Important. Sales are expected to rebound after January's unexpected decline, though the market remains fragile.
Gross Domestic Product (4th quarter 2009)	Fri, March 26, 8:30 am, et	5.7% (Final Estimate)	Moderately Important. Final revisions to GDP should be inconsequential.
Consumer Sentiment (March)	Fri, March 26, 10:00 am, et	72.5 Index	Moderately Important. Employment improvements should keep sentiment from backsliding.

Reading Between the Lines

There is something telling in the fact that mortgage rates barely budged last week. The Federal Reserve held the federal funds rate at 0%, while also stating that its interest-rate target would remain at this exceptionally low level for "an extended period."

Meanwhile, inflation – a major variable in determining interest rates – appears non-existent. U.S. producer prices posted their biggest decline in seven months, falling 0.6%, in February. On the consumer side, prices were unchanged after rising 0.2% in January. Over the past year, core inflation, which excludes volatile energy and food prices, has risen only 1.3%, the lowest annual gain in six years.

And yet with all this favorable credit-market news, mortgage rates held firm, which tells us there is no going lower. It also tells us that when the news starts tilting toward more inflation and the Fed starts reconsidering its low-rate policy rates will move higher.

So, we'll continue to advise locking in at today's low rates, because at this point only an unforeseen, extraordinary event will move them meaningfully lower. We doubt the same can be said for the other direction. Indeed, we think it will take little more than a whiff of inflation and a little equivocating on the Federal Reserve's part to get rates moving north again.



This Mortgage Matters compliments of

Sam Suznevich

253-863-1113

Nikki Rosdahl, Assistant

sam@sumnerhomemortgage.com

nikki@sumnerhomemortgage.com

www.sumnerhomemortgage.com



If you do not wish to receive this valuable email, please let me know.

This Newsletter is for informational purposes only. The information contained herein may not be applicable to every situation or jurisdiction and we urge you to consult your professional advisor prior to acting on information contained herein. The content, accuracy and opinions expressed herein are not verified or endorsed by the sponsor hereof.

