



# MORTGAGE MATTERS...

*Week of August 30, 2010*

## Market Comment

We've been warning to expect a post-tax-credit swoon ever since the credits expired on April 30. We've been mostly right, though we didn't expect the swoon to dip so unnervingly low.

As we're sure you've heard, the National Association of Realtors reported that existing-home sales fell to a seasonally adjusted annual rate of 3.83-million units in July – the lowest annual rate in 15 years. The decline was as wide as it was ugly: sales tumbled 35.0 percent in the Midwest, 29.5 percent in the Northeast, 25.0 percent in the West and 22.6 percent in the South. The news on inventories was, perhaps, even more disturbing, rising 2.5 percent to 3.98-million units, a level unseen in nearly 30 years. At the current sales pace, it would take over a year to clear inventory.

We, as much as anyone, are keen to accentuate the positive when it's reasonable to do so. There were a few rays of light in the existing-home sales data. The national median sales price in July is up 0.7 percent, to \$182,600, compared to the July 2009 median sales price. That said, our enthusiasm is tempered be-

cause a sustained price trend is unlikely. The median price increase is mostly due to a change in product mix, with fewer starter homes sold compared to intermediate and higher-priced homes.

Not surprisingly, the data on new-home sales mirrored the existing-home sales data, except in smaller proportions. Sales plunged to an all-time low in July, falling to a 276,000 annual rate. Meanwhile, the months' supply of homes on the market rose to 9.1 months. As for pricing, the median sales price has fallen 4.8 percent in the past year to \$204,000.

That's a lot of prices and a lot of percentages, and, unfortunately, most appear headed in the wrong direction. Mortgage rates remain the constant positive though, continuing to hold at record lows. This is allowing homeowners who borrowed only a year ago to refinance economically today; thus saving even more money. Now it's just a matter of convincing buyers to take the plunge. Given the recent spat of negative data, that's going to be a difficult task, especially when considering that a MSNBC poll shows that 79 percent of respondents expect the housing market to get worse before it gets better.

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

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Personal Income & Outlays	Mon, Aug. 30, 8:30 am, et	Income: 0.3% (Increase)	Moderately Important. Employment concerns continue to weigh on consumer spending.
S&P Case-Shiller Home Price Index	Tues, Aug. 31, 9:00 am, et	3.5% (Increase)	Moderately Important. The expected price increase is likely due to a change in product mix.
Consumer Confidence (August)	Tues, Aug. 31, 10:00 am, et	58 Index	Moderately Important. Jobs and income growth remain the overriding concern.
Mortgage Applications	Wed, Sept. 1, 7:00 am, et	None	Important. Historically low rates continue to power refinance activity.
Construction Spending	Wed, Sept. 1, 10:00 am, et	0.4% (Decrease)	Important. Reduced residential spending will keep overall spending in the red.
Pending Home Sales Index (July)	Thurs, Sept. 2, 10:00 am, et	76.1 Index	Important. Expect sales to lag into early autumn.
Employment Situation	Fri, Sept. 3, 8:30 am, et	Unemployment Rate:	Very Important. The languid jobs market will keep interest rates in check.

## Cash is King, For Now

To belabor the obvious, expectations on housing and most everything else are hardly encouraging, but that doesn't mean a gloomy future is a foregone conclusion. A recent study from the Milken Institute provides a few encouraging points. While the Milken Institute expects the United States to add only 1.5 million jobs for 2010, it expects that number to more than double to 3.1 million in 2011, and then to increase by 2.6 million in 2012. These new jobs should translate into gross domestic product growth of 3.3 percent in 2010, 3.7 percent in 2011 and 3.8 percent in 2012.

Of course, statistics and predictions are the bane of the economics profession. Nevertheless, we think there is some validity to the Milken Institute's outlook. The United States is sitting on a

boatload of cash: According to Moody's, US non-financial companies hold a 50-year high of \$1.84 trillion on their balance sheets. Meanwhile, hedge funds are holding 24 percent of their assets (\$450 billion) in cash, while American households have nearly \$1 trillion parked in money-market funds.

Cash doesn't earn much of a return. In fact, it can actually be a wasting asset during inflationary times. Eventually, the cash will have to go to work – through either investment or consumption (preferably more of the former). Given the current high stockpiles, we wouldn't be surprised to see that cash go to work sooner rather than later. That would be good news for all markets, because it would mean more activity. Even more important, it would mean more jobs.

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