

Week of January 26, 2009

Market Comment

Beginning a recap with “don't shoot the messenger” suggests all was not right with the world last week, which is why we make the appeal to anyone whose stock in trade is tethered to residential real estate.

First up, homebuilders continue to suffer, and in a big way. New-home construction shriveled again last month, shrinking 15.5% from November to a seasonally adjusted annual rate of 550,000 units – the slowest pace since monthly records began in 1959. To be honest, even that pace is unlikely to be sustained given the overhang of unsold homes and the rising stream of foreclosures. Another reason the rate is likely unsustainable is the trend in permits granted, which fell nearly 11% to a seasonally adjusted annual rate of 615,000 permits, another historic low.

The glum outlook for homebuilders was reflected in the National Association of Home Builders' confidence survey,

which slipped to a new low of eight for January. A reading below 50 means most respondents view conditions as poor. A reading of eight means many respondents view conditions as downright awful.

At this point, a temporary self-imposed moratorium on home building might not be the worst thing for the market, because selling homes could get even tougher if the economy continues to slide deeper into recession. The unemployment numbers remain discouraging on that front. First time applications for state unemployment benefits for the week ending Jan. 17 climbed 11.7% to a seasonally adjusted 589,000 from the week before, according to Department of Labor numbers.

Not even the mortgage market, which has been a buttress against many of the housing market's forces over the past two months, was immune from last week's slap-down. Rates rose on fears that President Obama's proposed \$825 billion stimulus plan will reignite inflation, pushing the 30-year fixed-rate mortgage 31 basis points higher to 5.59%, according to Bankrate's national lenders survey.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Existing Home Sales (December)	Mon, Jan. 26, 10:00 am, et	4.4 Million (Annualized)	Important. Sales continue to drop, but the numbers should show some improvement after November's precipitous fall.
Leading Indicators (December)	Mon, Jan. 26, 10:00 am, et	3.0% (Decrease)	Moderately Important. The indicators portend economic slowing into the near future.
Consumer Confidence (January)	Tues, Jan. 27, 10:00 am, et	38 Index	Important. Confidence will take another hit on January's barrage of bad economic news.
Mortgage Applications	Wed, Jan. 28, 7:00 am, et	None	Important. Application activity will likely slow on the recent mortgage-rate spike.
Federal Reserve FOMC Interest Rate Announcement	Wed, Jan. 28, 2:00 pm, et	0.25% Federal Funds Rates	Moderately Important. There is little the Fed can do at this point, given the fed funds rate is already set between 0.0% and 0.25%.
New Home Sales (December)	Thurs, Jan.29, 10:00 am, et	400,000 (Annualized)	Important. Incentives are slowing the sales slide, but at a heavy cost to homebuilders' bottom line.
Gross Domestic Product (4 th Quarter 2008)	Fri, Jan.30, 8:30 am, et	5.2% (Contraction)	Very Important. Fourth quarter GDP numbers suggest a rough economic outlook for early 2009.

Stay Connected

Whether you agree with President Obama's policies or not, most will agree that he was spot-on with at least two pronouncements last week: The current environment is “sapping confidence across our land” and “it has been the risk-takers, the doers, the makers of things . . . who have carried us up the long, rugged path towards prosperity and freedom.” We've been expressing the same sentiments for the past six months.

The natural response to insecurity is to withdraw into ourselves. That's absolutely the wrong response. The correct re-

sponse is to stay connected – socialize and work. Both are therapeutic; they relieve anxiety, plus they make us feel better. Socializing and working improve our self-esteem and renew our confidence, making it much easier to deal with any setbacks thrown our way.

Perhaps the most important advice we can give you this week is to remember that economic slowdowns are the exception, not the norm. Better times will return – guaranteed. The connections you continue to establish today (through satisfied clients, professional referral partners and networking) will make those times all that much better when they do.

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