

Market Comment

Last week was neither memorable nor positive for residential real estate and mortgage markets. Foreclosure filings posted at 223,538 in September, nearly double the filings in the same year-ago period, according to RealtyTrac Inc. The latest figure represents the second-highest total for filings in a single month (the highest was in August) since RealtyTrac began tracking monthly filings two years ago.

Meanwhile, producer prices increased 1.1% in September, following a 1.4% decline in August. The higher-than-expected reading, coupled with recent robust trade and labor-market reports, could restrain the Federal Reserve from cutting interest rates again this month. Indeed, fed-funds future

traders are betting another rate cut won't occur until December.

Mortgage rates rose across the board, with the 30-year fixed-rate and 15-year fixed-rate mortgage adding three basis points each to average 6.40% and 6.06%, respectively, and the one-year Treasury-indexed adjustable-rate mortgage rising 15 basis points to average 5.73%, according to Freddie Mac's weekly survey.

The news was more upbeat on the economic front, where retail sales increased more than expected in September. The news should help ease concerns the decline in housing prices and consumer confidence will cause spending, which accounts for more than two-thirds of the economy, to retreat.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Empire State Manufacturing Survey (October)	Mon. Oct. 15, 8:30 am, et	None	Important. Survey sub-indexes are expected to show moderating commodity-price pressures.
Housing Market Index (October)	Tues. Oct. 16, 1:00 pm, et	20 Index	Important. A significant rally from multi-year lows remains unlikely.
MBA Mortgage Applications	Wed. Oct. 17, 7:00 am, et	None	Important. A slight increase in applications has had little impact on the longer-term downtrend.
Consumer Price Index (September)	Wed. Oct. 17, 8:30 am, et	All Goods: 0.2% (Increase) Core: 0.2% (Increase)	Very Important. Recent economic data releases suggest the CPI numbers could post higher than expected.
Housing Starts (September)	Wed. Oct. 17, 8:30 am, et	1.29 Million (Annualized)	Important. Housing starts are expected to post another multi-year low.
Beige Book (September)	Wed. Oct. 17, 2:00 pm, et	None	Important. Credit markets want to see further signs of moderating inflation.

Is This a Bubble?

With so many people writing "bubble" in the same sentence as "housing" these days, it begs the question: Are we in a housing bubble?

That's difficult to say because (1) the word "bubble" has no precise economic definition and (2) the word usually isn't invoked until after a sharp, precipitous declines in prices – usually stock prices.

But the real estate market is different from the stock market. For one, real estate price don't fall as quickly or as sharply. Through 2000 and 2001, the Nasdaq Composite Stock Index lost nearly 70% of its value. In comparison, through the late 1980s and early 1990s, real estate prices, at their worst, fell 10% in New York, 20% in Los Angeles, and 30% in some areas of the Northeast and Southern California.

Today's real estate environment, though painful, is really more akin to a contraction than to the far-worst bursting of a speculative bubble.

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