

## *Market Comment*

The laws of economics really do hold. Sales of existing homes rose to a 5.03 million annual rate in February, an unexpected 2.9% increase from January's revised 4.89 million annual rate, according to the National Association of Realtors last Monday. The news flew over the heads of the putative experts, who were calling for a drop to 4.85 million.

So why do the laws of economics hold? Increased sales are being spurred by lower prices. The median existing home price was \$195,900 in February, down 8.2% from \$213,500 in February 2007. Some of the same experts lamented the drop in price, but shouldn't have. Falling prices improve affordability and encourage people to make purchases, which is exactly what's beginning to occur.

The same holds true on the new-home front, where the median price decreased 2.7% to \$244,000 and sales dropped 1.8% to a 590,000 annual rate, which, though a decrease, still beat the consensus estimate by 15,000 units. Just as important, the number of new homes for sale at the end of February dropped to 471,000, the fewest since July 2005, indicating builders are making headway in clearing the inventory glut. (Lower prices also motivate suppliers – builders in this case – to cut production.)

Lower prices have also stimulated mortgage activity. The Mortgage Bankers Association reported that its four-week moving average for the seasonally adjusted market index is up 11.3%, with the purchase index up 3.1% and the refinance index up 18.3%, thanks to recent Federal Reserve actions that have shored up the mortgage market by allowing the 30-year fixed-rate mortgage to remain below 6% and the 15-year fixed-rate mortgage to hang around 5.5%.

| Economic Indicator   | Release Date and Time       | Consensus Estimate   | Analysis  |
|--|-----------------------------|--|---|
| Institute for Supply Management Manufacturing Survey (March) | Tues. April 1, 10:00 am, et | 48.5 Index   | Important. Factory managers expect orders to contract slightly over the next quarter.   |
| Construction Spending (February)                             | Tues. April 1, 10:00 am, et | 0.9% (Decrease)  | Important. Residential construction will weigh heavily on overall spending, but commercial construction is expected to remain positive. |
| Mortgage Applications  | Wed. April 2, 7:00 am, et   | None   | Important. Federal Reserve actions are stimulating refinance and purchase activity.   |
| Employment Situation (March)                                 | Fri. April 4, 8:30 am, et   | Unemployment Rate: 5.0%<br>Average Hourly Wages: 0.3% (Increase) | Very Important. Unemployment holding at a 5.0% rate could diminish the prospects, or severity, of a recession.                          |

## *Restraint, Please*

“To a man with a hammer, everything is a nail,” so goes an ancient trope. Perhaps it should be modified: “To every legislator, every answer is a regulation,” for regulation is on most politicians' minds these days. Indeed, policymakers – both left and right – have recommended stricter regulation of mortgage lenders as part of a broad effort to prevent a repeat of the credit crisis threatening to drive the country into a recession.

Maybe some new regulation is warranted. The Mortgage Bankers Association recently released its “10th Periodic Mortgage Fraud Case Report,” which wasn't exactly glowing:

“Overall, 2007 marked the lowest volume of mortgage loan originations since 2002, the highest number of delinquencies and foreclosures, rapid and near complete shutdown of the non-conforming secondary market and hundreds of announced closures of mortgage originators.”

Fair enough, but any new regulation should be marked by restraint. Regulation should restore investor confidence yet avoid reducing market efficiency and credit elimination for those in need. Both the housing and mortgage markets are showing meaningful signs of stabilizing; the last thing either needs is a legislative hammer jamming the spinning wheels of progress.

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