

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

Market Comment

It was a good week for the credit markets, thanks mostly to an inflation risk that appears to have hibernated, at least according to data on the producer and consumer front, where prices fell 1.4% and 0.1%, respectively, in August, posting the biggest decline since October 2006.

Low inflation, in turn, gives policy makers the elbow room needed to cut interest rates. On Tuesday the Federal Reserve sliced 50 basis points off the influential federal funds rate – the rate charged on overnight loans between banks – to 4.75%. It was the first time the fed funds rate has been pared in four years.

The rate reduction marked an aggressive attempt by the Fed to forestall a potentially seri-

ous economic slowdown that just a month ago seemed a remote possibility. "Economic growth was moderate during the first half of the year, but the tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth more generally," the Fed said in a statement accompanying its decision. The cut is meant to "forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time."

The aforementioned "disruptions" reside in the subprime mortgage market, where delinquencies on adjustable-rate mortgages are rising and where the number of borrowers whose mortgage payments jump in the next three months will be the second-highest ever for a quarter, according to Credit Suisse Group.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Existing Home Sales (August)	Tues. Sept. 25, 10:00 am, et	5.58 Million (Annualized)	Important. Sales are expected to hit their lowest rate of the year.
MBA Mortgage Applications	Wed. Sept. 26, 7:00 am, et	None	Important. Lower rates have lifted application activity to a five-month high.
Gross Domestic Product (2nd Q2007)	Thurs. Sept. 27, 8:30 am, et	3.9% (Annualized)	Very Important. A growth rate above 3 percent suggests the economy remains strong.
New Home Sales (August)	Thurs. Sept. 27, 10:00 am, et	828,000 (Annualized)	Important. Price cuts and perks have yet to stem the decline in new home sales.
Construction Spending (August)	Fri. Sept. 28, 10:00 am, et	0.4% (Decrease)	Important. The housing slowdown continues to weigh heavily on construction spending.

Building Confidence

A record 26% of U.S. homeowners say the value of their homes has fallen during the past year, above the previous peak of 24% seen in 1992, while 21% of homeowners polled in September expect the value of their home to decline in the year ahead according to data from a Reuters and University of Michigan survey.

Falling home prices coupled with tighter lending standards forced the Federal Reserve to act.

Tuesday's rate cut, though not an overnight panacea, will add liquidity to a desiccating lending system, encouraging lenders to extend more credit to lower rated borrowers.

The key at this point is for confidence to return. Perception is reality, and the reality is there's little confidence among homebuilders and lenders these days. Neither market will experience a sustained rebound until it does. Fortunately, it will return. It's just a matter of time.

This newsletter brought to you compliments of:

usbancorp
Mortgage Advisors, LLC

Doug Ward
425-885-9544

Email to: doug.ward@usbank.com

