

Are We There Yet?

Freddie Mac's chief economist Frank Nothaft put out a press release a few weeks ago posing an interesting question to the real estate market; "Are We There Yet?"

He offers some interesting insights in what the real estate market is doing in 2010, and this is the million-dollar question on everyone's mind as we start the new year of 2010.

Here is an excerpt from his statement:

Children on long trips often cry out, "Are we there yet?" Economists and the public at large have been asking the same question about when the recession will end. With economic growth in the third quarter, signs of a stronger fourth quarter, a sharp decrease in monthly job losses, low interest rates and a stabilization of financial markets, the outlook has been improving steadily since early summer.

Even in the housing sector, which was ground zero for many of the economic troubles during the crisis, signs are looking up. Total new and existing home sales have risen 43 percent through November from their January low and home prices have leveled off in many indexes. And while the national figure took a dip in November, single-family construction has begun to ascend in some markets. We should be "there" in the next few months if we aren't already.

But many risks remain, and the uncertain effect of two forthcoming events could have a material impact on the housing recovery: the end of the government's mortgage-backed securities (MBS) and GSE debt purchase programs and the expiration of the homebuyer tax credits.

Under the federal tax credit programs, purchase contracts must be signed by April 30 to qualify for the tax credits. The stabilization of the housing markets that has occurred to date has been sufficient to turn homebuyer sentiment from gloom to guarded optimism, and to cause inventories to shrink, especially for moderately priced homes. The tax credits have likely caused some families to purchase a home earlier than they might have otherwise, thus moving sales forward in time and helping support the housing market. High affordability and improved buyer sentiment further bolster sales.

U.S. Department of the Treasury MBS purchases were completed by year-end and Federal Reserve (Fed) purchases of MBS and Freddie Mac and Fannie Mae debt are scheduled to terminate by the end of the first quarter 2010 - both potentially pose the risk of a rise in mortgage rates relative to benchmark yields. Brian Sack, executive vice president at the Federal Reserve Bank of New York and manager of the Fed's Open Market Account, addressed such concerns in a speech late last year ("The Fed's Expanded Balance Sheet," December 2, 2009).

With respect to Fed purchase activity, the Fed plans a gradual tapering of its MBS and debt purchases to allow "time for new investors (or perhaps previously displaced investors) to enter the MBS market in the place of Fed purchases." Sack noted that the Fed followed a similar tapering strategy to their purchases of Treasury securities, which ended with no adverse market response.

Sack also said that the Fed's portfolio holdings of MBS have likely had an even more significant impact on calming financial markets than the weekly purchase activities. The Fed will continue

holding these positions well beyond the date it stops purchasing more securities, leading Sack to conclude that the impact on financial markets - and on mortgage rates - will be manageable.

While there may be some bumps along the way, the transition into economic recovery appears to be underway as we head into 2010: real economic growth in the 3 to 3.5 percent range, a cessation of job losses in the first quarter, rising home sales, and a strengthening of housing starts in some markets. We should be "there" in the next few months, if not already.

Source: Greater Milwaukee Association of REALTOR's®.



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