

# Mortgage Market Guide's Annual Forecast ~ Barry Habib

## Mortgage Market Guide

### What's Next? What Should You Expect in 2010?

After a couple of rough years, the big question again this year is the global economy. In 2009, **STOCKS** helped put us on the path of recovery with an amazing run after Congress addressed the market-to-market accounting rules. For example, stocks have soared since hitting lows in March of 2009. In fact, between March and December, the Dow was up close to 60%, and the NASDAQ climbed over 70%. Unfortunately, the market is still fragile, which means any negative surprises will take the wind out of the sails quickly and make it tough for stocks to see significant gains this year.

The sector I like best for growth this year is healthcare, since it hasn't rebounded as much as other sectors and is due for a bump. American demographics show that the country is aging, which means more medical attention will be needed. Additionally, any Healthcare Bill that insures more people should translate into more volume for healthcare providers.

Having almost doubled during 2009, **oil** prices are still half of what they were in July, 2008. This wild range for oil makes it hard to forecast. There is plenty of supply, which will weigh on prices. But the US Dollar may continue to struggle, which will help buoy the prices of oil. Overall, - we see oil making its way higher by the summer.

**GOLD** has had a huge run higher – and although prices declined at the end of the year, we see gold resuming its uptrend. A lack of confidence in sovereign debt, a struggling dollar, and the overhang of inflation in the future should help gold make new highs and push toward \$1400 / ounce.

As far as the **DOLLAR** goes, it had declined significantly during 2009, and will likely decline a bit more in 2010. The endless supply of debt from government programs and low interest rates will weigh on the dollar.

In the **job market**, we're not nearly out of the woods yet. Even in the waning months of 2009 we still saw unemployment rates at 10% and nearly 500,000 new jobless claims coming in each week. The fact is...we need to see initial claims drop beneath 400,000 before we see stabilization in the labor market and unemployment rate.

There are about 154 million people in the US labor force. And the size of the labor force rises on average by 125,000 per month, due to population growth. That means we will need to create very close to 125,000 new jobs each month to simply keep the unemployment rate stable. In order to get the unemployment rate to decline - significantly more jobs will need to be created. For example – if we would like to see the unemployment rate get back down to the 6% level that has been the norm in recent years, an additional 6 million jobs would need to be created. If this were going to happen over a five-year period, that's an additional 100,000 jobs per month over

and above the 125,000 needed to keep up with the population. That means we'd need to see positive job growth of at least 225,000 jobs created per month, just to reach that 6% level within 5 years. Is this easy to do? Well, in the entire history of the United States, it has only happened one year – during 2006. This leads us to believe that the new normal will be higher unemployment rates for quite some time.

And consider the almost 800,000 workers who are not even categorized as unemployed, but simply as “discouraged”, as they have not actively searched for a job in the past four weeks. There's a lot that can be assumed here, but it's hard to imagine that these people would not reenter the ranks of those seeking employment if conditions improved a bit. That means that these people would need to be absorbed into the system before the actual unemployment rate could decline.

Additionally - perhaps the largest category that could skew the numbers are those individuals who are accepting part-time work but would prefer full-time employment. A whopping 10 million people are in this category. You have to think that many employers would take these current part timers and give them full-time work before hiring someone new. Again, this will make it very hard to see the rate of unemployment make any meaningful decline this year.

**Home prices** began to stabilize during 2009, and home sales showed some signs of encouragement. We expect more of the same in 2010, although there will be some additional headwinds: higher rates and expiring tax incentives will likely create a lull during the summer months. After a modestly good start to the year, home prices could actually decline in some areas by 5% to 7% once the temporary stimulus expires. In the end, however, home prices should eventually and slowly begin to firm up toward the end of the year.

The Fed will have their hands full during 2010, and a big question will be whether the Fed can retain their independence in the face of political pressure. Remember, the long-term best interests of the country often conflict with the short-term re-election interests of politicians.

It's highly likely that the Fed will be “on hold” for rate changes during most of 2010. The Fed will have to try and play Goldilocks, and get it “just right” for the amount of time they leave interest rates at these historically low levels. Hike rates too soon, and it could derail an already fragile US economic recovery. And let's remember that the government has literally spent trillions to try and provide stimulus to spark that economic recovery. And the Fed will likely err on the side of keeping rates lower longer, as they certainly would not want to send the US into a double-dip recession, making all the stimulus appear to be a wasted effort. And the Fed will have an excuse to keep rates low, so long as unemployment shows no sign of improving. But there is a very big risk in keeping rates too low too long....that is inflation.

While **inflation** doesn't appear to be a present concern, it can be very difficult to control once it takes hold. And its effects can be very damaging. Inflation is the enemy of all bonds – and if it does take center stage, the Fed will have to hike rates very aggressively to attempt to keep it at bay.

2010 is a big election year, and politicians will be doing their best to influence the Fed to keep rates low. With 36 of 100 Senate seats being contested and all members of the House facing re-election, there could be some interesting changes ahead. Currently, the Senate is made up of 58 Democrats, 40 Republicans, and 2 Independents. But, as mentioned above, 36 of those positions are up for re-election. In the House, there are 256 Democrats, 178 Republicans, and 1 vacancy, and they all face re-election. When the votes are counted, I see Democrats losing a number of seats, but probably not enough for republicans to regain control.

Now for the big question...where will **home loan rates** go during 2010 and why? We've been forecasting rates for a long time and this is by far the easiest call we have ever had. **Rates are Going higher in 2010.** We do not think that the low rates seen during 2009 will be seen again. There will be more supply coming to the market in the first quarter, while the Fed's purchases will be winding down. The overall trend for rates during this period will be higher, but as usual, this will never happen in a straight line. There will be waves and cycles moving up and down – but the trend is clearly up for rates.

Once the Fed's Mortgage Backed Security buying program has expired at the end of March, it is likely that rates will edge higher still towards the summer. Eventually, supply will decline as origination volume slows – and mortgage rates should stabilize. But if there are hints that the Fed will be looking to hike rates, mortgage pricing will significantly worsen. The range for rates during 2010 is wide, with the lower end and just above 5% toward the very beginning of the year. The upper end of the range could be as high as 6.5% with rates being very volatile throughout. It is typical to see prices worsen more rapidly than they improve....but 2010 will exaggerate that characteristic, with pricing losses coming far more quickly and sharply than pricing improvements.

## FINAL WORDS OF WISDOM

Overall, 2020 will look better than 2009. But, good economic news is a double-edged sword, as it increases the risk of rising taxes and rates. Many people don't understand the relationship between the rates and the economy. Following the changing economic climate – and understanding it, is how my expertise may help you with your financing interests.

The Homebuyer Tax Credit and low rates in the early months of 2010 may be just the reason to make a move. Don't miss this historical opportunity. Rates are about 1% lower than they would be if the Fed weren't buying all those Mortgage Backed Securities. When you combine the 1% lower rate with the tax credit, you see that homebuyers stand to gain up to \$16,000 on a home in the mid 200ks. That's a big incentive for homebuyers to act now while both incentives still exist.

May 2010 be good to you and bring all the best.