



Economic Commentary - October 2019

The October 2019 Mortgage Economic Review summarizes Key Economic Data and Events that are important to Mortgage and Real Estate Professionals. For the October 2019 Mortgage Economic Calendar Click here.

We are just starting the last quarter of 2019 and getting closer to another year going into the record books. Bad news seems to have dominated the media during the last few months - geopolitical risks, global manufacturing slowdown, negative interest rates, hard Brexit, impeachment hearings, Trade War, impending Recession, etc, etc, etc..... Why is doom and gloom dominating the news when in reality the US Economy is doing fine? Wages are up, Jobs are plentiful, Inflation is low, the Dollar is strong, and the US Consumer is still buying. If you read enough Economic articles, it's easy to get caught up in the endless stream of chatter about the next Recession that's just around the corner. However, some commentators have gotten the impression that the media is trying to scare the Economy and Consumer into a Recession. Similar to a self-fulfilling prophecy - if you talk about it enough - it will happen. If a Recession does happen soon, it will be the most talked about and anticipated Recession in history. In the meantime, let's look at some of the recent Economic Data that is important to Mortgage and Real Estate Professionals.

Economic Data and Events	Inflation Economic Data / Information
Interest Rates and Fed Watch	GDP Economic Data
Housing Market Indicators	Consumer Economic Indicators
Labor Market Economic Indicators	Energy, International, and Misc

Key Economic Data and Events September 2019

- The Federal Reserve cut the Fed Funds Interest Rate by 0.25%.
- Attack on Saudi Oil Production Facilities spiked oil prices and geopolitical tensions.
- The US House of Representatives began an Impeachment Inquiry on President Trump.
- Inflation remained low with the CPI at 1.7% YoY.
- The Economy added 130,000 New Jobs during August.
- US GDP expanded at a 2.0% annualized rate in the 2nd quarter of 2019.
- Trade negotiations with China continued.

Interest Rates and Fed Watch

The latest FOMC meeting concluded on September 18th, and as widely expected, the Federal Reserve cut the Fed Funds Interest Rate by 0.25% to a target range of 1.75% - 2.00%. However, the decision to cut rates was not unanimous among all the FOMC Committee members. One member wanted a 0.50% cut while 2 others wanted to keep rates unchanged. The FOMC Statement that was released after the meeting had an overall positive tone stating there is no sign of a Recession, the Economy is in good shape with a strong Labor Market, healthy Consumer spending, and increased Economic activity. The statement also mentioned that lower exports were more about a strong dollar than the Trade War with China. The next FOMC Meeting is October 29th and 30th. At this point, the odds of another 0.25% Interest Rate cut are running at 51%.

222 Fed Target

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|---------------|---|
| • Inflation | 1.7 CPI for the last 12 months |
| • Wage Growth | 3.2% for the last 12 months |
| • GDP Growth | 2.3% annualized rate for the last 12 months |

Housing Market Data released in September 2019

Housing Data was all green this month. Existing, Pending, and New Homes Sales data were all in positive territory. The Consumer seems to be in a spending mood this year for everything - including homes. Much of the positive numbers can be attributed to lower Interest and Mortgage Rates. Mortgage Rates are so low that they were approaching the historic lows of 2012 around 3.5% on a 30 Year Fixed. Home prices are still going up, but not as fast as in the past. Home prices in Charlotte, Las Vegas, and Phoenix increased at some of the fastest rates

Housing Market Indicators Released in Sept. 2019

- **Existing Home Sales** (closed deals in August) rose 1.3% to an annual rate of 5,490,000 homes, now up 2.6% in the last 12 months. The median price for all types of homes is now \$278,200 - up 4.7% from a year ago. The median Single Family Home price is \$280,700 and \$257,600 for a condo. First Time Buyers were 31%, Investors 14%, Cash Buyers 19%. Homes were on the market an average of 31 days, and 49% were on the market for less than a month. Currently, 1,860,000 homes are for sale, down from 1,900,000 a year ago.
- **New Home Sales** (signed contracts in August) rose 7.1% to a seasonally adjusted annual rate of 713,000 homes - up 18.9% YoY. The median New Home price was \$328,400, and the average New Home price was \$404,200. The number of New Homes for sale fell 1.2% to 326,000 units from 337,000 units the previous month, which represents a 5.5 month supply.
- **Pending Home Sales Index** (signed contracts in August) rose 1.6% to 107.3 from 105.0 the prior month.
- **Housing Starts** (excavation began in August) rose 12.3% to a seasonally adjusted annual rate of 1,364,000 units - up 6.6% YoY. Single Family Starts rose 4.4% to an annual pace of 919,000 units - up 3.4% YoY.
- **Building Permits** (issued in August) rose 7.7% to an annual adjusted rate of 1,419,000 - up 12.0% YoY. Single Family permits rose 4.5% to 866,000 units - up 4.5% YoY.
- **Housing Completions** (completed in August) rose 2.4% to an annual rate of 1,294,000 units - up 5.0% in the last 12 months. Single Family Completions were up 3.7% to 945,000 units - up 0.6% YoY.
- **S&P/Case-Shiller 20 City Composite Home Price Index** rose 0.02% in July - up 2.0% YoY.
- **FHFA Home Price Index** rose 0.36 % in July, now up 4.97% YoY.



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Labor Market Economic Indicators Released in September 2019

- The Bureau of Labor Statistics reported **the Economy added 130,000 new jobs during August (160,000 expected)**. With this latest Labor Market Data, the Economy has created an average of 150,000 New Jobs per month for the last 6 months. This recent data may indicate a slowing of job creation in the Economy. Remember that this is only one data point and not a sign of an impending Recession. Looking at the trend, the Labor Market remains robust with record low Unemployment and strong Wage Growth for the foreseeable future.
- The **Economy added 130,000 new jobs in August**.
- The **Unemployment Rate** unchanged at 3.7% for the prior 3 months. The **Labor Force Participation Rate** rose to 63.2% from 63.0% the prior month.
- The **Average Hourly Wage** rose 0.4%, up from 0.3% the prior month, now 3.2% YoY.

Inflation Economic Data Released in September 2019

Inflation ticked up only 0.1% during August thanks to lower energy costs. The September CPI data was in line with expectations, and Inflation appears to remain in check. However, there was a bit of a surprise in the Core CPI and Core PPI data, which strips out the volatile food and energy prices. Over the past year, Core Inflation is running at 2.4% - higher than the Fed's target of 2.0%. Let's take a look at the trend in prices over the past 12 months in the major categories: shelter costs were up 3.4%, medical care costs up 4.3%, used vehicle prices up 2.1%, food prices up 1.7%, gasoline prices down 7.1%. The perpetual rising cost of shelter and medical care was offset by decreased energy costs over the past 12 months.

- **CPI rose 0.1%**, now up 1.7% in the last 12 months.
- **Core CPI (ex-food & energy) rose 0.3%**, now up 2.4% in the last 12 months.
- **PPI rose 0.1%**, now up 1.8% in the last 12 months.
- **Core PPI (ex-food & energy) rose 0.3%**, up 2.3% in the last 12 months.

GDP Economic Data Released in September 2019

The 3rd Estimate of 2nd Quarter 2019 GDP showed the **Economy expanded at a 2.0% annualized rate (2.0% expected)**. This latest GDP data pegs US Economic growth at 2.3% in the last 12 months. The Economy keeps chugging along despite all the negative news in the media. Although this is a lower growth rate than the 3.1% from the first quarter, it's still a substantial number thanks to a strong Labor Market and confident Consumer. As can be expected, lower data for trade and business investment was a drag on growth, but government spending provided a larger than expected boost to the Economy.

Consumer Economic Indicators Released in September 2019

US Consumers continued to keep their wallets open as Retail Sales had another good month. However, there was mixed data on how the Consumer was feeling. Consumer Sentiment jumped up while Consumer Confidence fell. What was on Consumers' shopping list? Vehicle Sales were up 1.8%, Building Materials up 1.4%, Online Retailers up 1.6%, Health Stores up 0.7%, Sporting Goods up 0.9%, Electronics were flat, Furniture down 0.5%, Bars and Restaurants down 0.2%, Clothing down 0.9%, Gas Stations down 0.9% (due to lower gas prices).

- **Retail Sales rose 0.4%**, up 4.1% in the last 12 months.
- **Consumer Confidence Index fell to 125.1** from 135.1 the prior month. **Consumer Sentiment Index (U of M) rose to 93.2** from 89.8 the prior month.

Energy, International, and things you may have missed

- Oil prices spiked then backed down after an attack on a Saudi Oil facility September 14th. Prices are now lower than 30 days ago - before the attack. (Prices as of October 1: North Sea Brent Crude about **\$59** per barrel, West Texas Intermediate Crude about **\$54** per barrel).
- **Brexit deadline** of October 31 is approaching with much uncertainty. UK Prime Minister Boris Johnson threatened to call for a general election on October 14 if Parliament attempts to block a no-deal Brexit.
- **European Yields go more negative**. German 10-Year Bond yields are hovering around -0.60% and French 10-year Bond yields around -0.30%.
- **Protests in Hong Kong continued**. These protests started in March and gained strength in numbers and violence.

This Economic Commentary is written to be a **succinct summary of the key Economic Indicators and Economic Data that influence the Mortgage and Real Estate Industries**. It is written for Mortgage Professionals that need to stay current on Economic Information but don't have hours to research and analyze Economic Data. Feel free to share this with a friend or colleague in the Mortgage or Real Estate business.

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