GMFS 20 1999-2019 Celebrating 20 Years

Economic Commentary - September 2019

Trade War escalation and recession fears rattled the stock and bond markets again this month. A flight to quality resulted as investors scrambled to buy US securities in the face of a Global Economic slowdown. Bond yields plunged and inverted the yield curve, which is an ominous sign of an impending recession. US-China trade talks continue to be contentious, and the markets believe the Trade War could continue with no end in sight. The Brexit date of October 31st is approaching, and there is no Exit Agreement between the EU and UK. If Britain exits the European Union without an agreement - a hard exit - no one really knows what will happen. Combine a slowing Global Economy, negative interest rates, an inverted yield curve, a protracted Trade War, a hard Brexit, and things could get ugly this Fall. Enough doom and gloom. Let's look at something positive. US Consumer spending is strong fueled by a healthy job market, increased wages, and low interest rates for home purchases and refinances. It's a great time to be in the Mortgage Business.

Key Economic Data and Events August 2019

- Another roller coaster in the Stock and Bond Markets due to the Trade War.
- Trade talks between the US and China continue but are contentious.
- The Dow had 2 days with drops of over 600 points ending the month at 26,403.
- Bond Yields between the 2-year and 10-year Treasury Securities inverted.
- The Economy added 164,000 New Jobs during August.
- Inflation remained low with the CPI at 1.8% YoY.
- US GDP slowed to a 2.1% annualized rate for the 2nd quarter of 2019.

Interest Rates and Fed Watch

Three pieces of news dominated the Fed Watch this month: Chairman Powell's speech at Jackson Hole, Fed Minutes, and Bill Dudley's Op-Ed in Bloomberg. At Jackson Hole, Chairman Powell said the Fed will "act as appropriate to sustain the expansion" and counteract the uncertainty created by the Trade War. The Fed Minutes showed most FOMC Members agreed that the last rate cut was a "mid-cycle adjustment" and a "recalibration" of monetary policy in the face of a protracted Trade War. They also agreed that the effects of the Trade War on the Economy are hard to quantify. The most controversial news was an Op-Ed written by Bill Dudley, former New York Fed Chair and former FOMC Vice-Chair. You can read the article HERE. He expressed a controversial opinion about the use of Monetary Policy to influence the next Presidential election. The next FOMC Meeting is September 17 and 18. At this point, the odds of a 0.25% rate cut are running 99%.

222 Fed Target

Inflation	1.8% 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 August 2019

Housing data from August showed that Home Sales were up while Home Prices continued to decelerate. The inventory of homes for sale has been an ongoing problem for several years. Builders aren't constructing enough New Homes to keep up with demand, but recent New Home Data is encouraging. Compared to last year, builders are on pace to sell 642,000 New Homes in 2019 - that's up from 617,000 in 2018. Data also shows the median price of a New Home dropped 4.5% in the last 12 months to $312,800. Builders are adjusting production to fit the budgets of today's home buyers. Hopefully, New Home Sales will continue its upward trajectory for the remainder of 2019 - helped by lower Interest Rates. Remember, New Home Data is notoriously volatile, so look at the year over year and trending data when analyzing these indicators.

Housing Market Indicators Released in August 2019

- **Existing Home Sales** (closed deals in July) rose 2.5% to an annual rate of 5,420,000 homes, now up 0.6% in the last 12 months. The median price for all types of homes is now $280,800 - up 4.3% from a year ago. The median Single Family Home price is $284,000 and $254,300 for a condo. First Time Buyers were 32%, Investors 11%, Cash Buyers 19%. Homes were on the market an average of 29 days, and 51% were on the market for less than a month. Currently, 1,890,000 homes are for sale, up from 1,920,000 a year ago.
- **New Home Sales** (signed contracts in July) fell 12.8% to a seasonally adjusted annual rate of 635,000 homes - up 4.3% YoY. The median New Home price was $312,800, and the average New Home price was $388,000. The number of New Homes for sale rose 1.2% to 337,000 units, which represents a 6.4 month supply.
- **Pending Home Sales Index** (signed contracts in July) fell 2.5% to 105.0 from 108.3 the prior month.
- **Housing Starts** (excavation began in July) fell 4.0% to a seasonally adjusted annual rate of 1,191,000 units - up 0.6% YoY. Single Family Starts rose 1.3% to an annual pace of 876,000 units - up 1.9% YoY.
- **Building Permits** (issued in July) rose 8.4% to an annual adjusted rate of 1,336,000 - up 1.5% YoY. Single Family permits rose 1.8% to 832,000 units - down 3.8% YoY.
- **Housing Completions** (completed in July) rose 7.2% to an annual rate of 1,250,000 units - up 6.3% in the last 12 months. Single Family Completions were up 4.3% to 918,000 units - up 12.2% YoY.
- **S&P/Case-Shiller 20 City Composite Home Price Index** rose 0.04% in June - up 2.1% YoY.
- **FHFA Home Price Index** rose 0.2 % in June, now up 4.8% YoY.

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Labor Market Economic Indicators Released in August 2019

The Bureau of Labor Statistics reported the Economy added 164,000 during July (164,000 expected). The latest Employment data shows the Labor Market is slowing down but confirms it is still very robust. For the past 2 months, the Economy has created 357,000 new jobs (revisions included). During June and July, the sectors creating the most jobs were: Manufacturing added 28,000, Construction added 22,000, Transportation & Warehouse added 21,000, Government added 30,000, Business & Professional Services added 76,000, Healthcare & Education added 123,000, Leisure & Hospitality added 17,000. (Note: Since the August Jobs Data was included in last month's Newsletter - the numbers and narrative are the same for this month).

- The **Economy** added 164,000 new jobs in July
- The **Unemployment Rate** was 3.7% in July
- The **Labor Force Participation Rate** rose to 63.0%
- The **Average Hourly Wage** rose 0.3% in July,

Inflation Economic Data Released in August 2019

Inflation Data ticked up slightly as the CPI increased 0.3% during July. Much of the increase can be blamed on energy costs as the price of oil jumped - then declined - last month. Besides energy, just about everything went up in price except food and new cars. Some of the increases can be attributed to tariffs on Chinese goods. However, the devaluation of the Chinese Yuan should neutralize some of the inflationary effects of the tariffs. The up-tick of Inflation Data gives the Fed ammunition to slow down their rate cutting schedule. Remember that two Fed Governors voted not to lower Interest Rates at the last FOMC meeting. They felt that low Inflation was only temporary and would soon be increasing. What were the big contributors? Energy costs were up 2.4%, computers up 2.8% (blame that one on tariffs), shelter costs up 0.3%, medical care up 0.5%, transportation up 0.8%, household furnishings up 0.4%, new cars down 0.2%.

- **CPI** rose rose 0.3%, now up 1.8% in the last 12 months.
- **Core CPI** (ex-food & energy) rose 0.3%, now up 2.2% in the last 12 months.
- **PPI** rose 0.2%, now up 1.7% in the last 12 months.
- **Core PPI** (ex-food & energy) fell 0.1%, up 2.1% in the last 12 months.

GDP Economic Data Released in August 2019

The 2nd Estimate of 2nd Quarter 2019 GDP showed the Economy expanded at a 2.0% annualized rate (2.0% expected). Economic Data continues to confirm the Global Economy is slowing. 2nd quarter UK GDP shrank 0.2%, the first negative GDP data since the Brexit vote. Germany's 3Q GDP is predicted to shrink 0.2%. The rest of the world is slowing down while the US Economy has exhibited relative resilience - thanks to a strong Consumer. US Business investment has been weak in 2019, but Corporate Profits are holding up even with increased labor costs. Compared to the rest of the world, the US is doing great.

Consumer Economic Indicators Released in August 2019

All the negative talk in the business news hasn't slowed down the Consumer buying binge but may be affecting the way they feel. Retail Sales is up again, while Consumer Confidence is down. The increase in Retail Sales was broad-based for all categories, including building materials, electronics, furniture, appliances, restaurants, clothing, and online sales. The only negative was auto sales, which was down 0.6%. Paradoxically, Consumer Confidence and Sentiment both declined. If the Consumer isn't feeling all that confident, they sure aren't acting that way in their purchase behavior - yet.

- **Retail Sales** rose 0.7% in July, up 3.4% in the last 12 months..
- **Consumer Confidence Index** fell to 135.1 from 135.7 the prior month. **Consumer Sentiment Index** (U of M) fell to 89.8 from 98.2 the prior month

Energy, International, and things you may have missed

- Oil Prices ended the month slightly lower in August. Slower global growth has tempered demand for oil. (Prices as of September 1: North Sea Brent Crude about **$59** per barrel, West Texas Intermediate Crude about **$55** per barrel).
- Eurozone Inflation clocked in at only 1.0% for the second consecutive month in August.
- "Those who live by fire will die by fire" China warned that all Hong Kong protesters will be punished.
- China continues to devalue the Yuan to offset effects of US tariffs.
- Additional sanctions against Venezuela: Venezuelan Government assets in the US were frozen, and immigration restrictions were increased to put more pressure on Maduro.

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.