



# MORTGAGE ECONOMIC COMMENTARY AND REVIEW

For the third consecutive month, Covid has dominated the news - and everyone's life - throughout the world. I have noticed that people are getting tired of hearing an endless string of depressing Covid Statistics and Commentaries. I call it "Covid Information Fatigue". Instead, this commentary will stay focused on the Economic Data that are Key Indicators for the Mortgage and Housing Markets.

This month's Economic Data Summary is almost all in the red, but there are some splashes of green. Signs of returning to normal are all around us: more traffic, more cars in parking lots, longer lines in stores, restaurants open with limited capacity, etc. Employment Data is starting to improve (ever so slightly) as furloughed workers slowly return to work. This Societal Shock will permanently change people's behavior and future business plans. The US Economy is 70% Consumer driven. The big question is: how will this shock affect Consumer Behavior and consumption patterns in the recovery and aftermath? No one really knows at this point, but it will be essential for businesses to monitor Consumption Patterns so they can adjust their plans.

## Key Economic Data and Events in May 2020

- States are beginning to slowly re-open their Economies
- The Federal Reserve reiterated they will do anything to help the Economy recover
- US GDP fell 5.0% in the First Quarter of 2020
- Over 40,000,000 workers have filed Unemployment Claims since Covid hit
- Over 4,000,000 Loans - 8% of all Mortgages - are now in Forbearance
- US-China tensions escalated over new security laws limiting Hong Kong's autonomy
- The 10 Year Treasury Security yield continues to hover around 0.7%

## Interest Rates and Fed Watch

The Fed is going to do whatever it takes to get the Economy back on its feet. Fed Chair, Jerome Powell, said on 60 Minutes: "The Fed hasn't run out of ammunition... There's really no limit to what we can do in lending programs." Chairman Powell also said the Economy could: "recover steadily through the second half of this year." That's assuming no Covid second wave. The April FOMC Minutes noted the Fed is prepared for more monetary and fiscal support "if the economic downturn persists." One thing the Fed doesn't want is Negative Interest Rates. They don't plan to allow Fed Funds to go negative. However, they haven't completely ruled out the possibility. The Fed also said they intend to keep Fed Funds Rates hovering near zero until the Economy is "on track to achieve" maximum employment and 2% inflation.

**Net Net:** The Fed is already planning their next moves. Due to the uncertainty and future risks, they are making contingency plans for a number of different recovery scenarios, including a second wave, a slowed recovery, or stalled recovery. The next FOMC Meeting will be June 8th and 9th

## Housing Market Data Released in May 2020

As expected, Data on Home Sales Data this month is all in the red - except for New Home Sales, which showed a 0.6% rise. It's small, but it's green. Home Prices are still in the green as they continue to rise. Realtors and Loan Officers are reporting that Home Sales are surprisingly brisk. Inventory is constrained because many potential sellers have postponed listing their homes due to the lockdown. The Homes that are listed for sale are attracting buyers - especially First Time Buyers, which comprised 36% of all purchase activity. Investors seem to be on the sidelines, accounting for only 10% of Home Purchases. Record Low Mortgage Rates has helped affordability, especially for the 1st Time Buyer.

- **Existing Home Sales** (closed deals in April) fell 17.8% to an annual rate of 4,330,000 homes, down 17.2% in the last 12 months. The median price for all types of homes is now \$286,800 - up 7.4% from a year ago. The median Single Family Home price is \$288,700 and \$267,200 for a condo. First Time Buyers were 36%, Investors 10%, Cash Buyers 15%. Homes were on the market an average of 27 days, and 46% were on the market for less than a month. Currently, 1,470,000 homes are for sale, down 19.7 % from 1,830,000 units a year ago..
- **New Home Sales** (signed contracts in April) rose 0.6% to a seasonally adjusted annual rate of 623,000 homes - down 6.2% YoY. The median New Home price was \$309,900, and the average was \$364,500. There are 325,000 New Homes for sale, which is a 6.3 month supply.
- **Pending Home Sales Index** (signed contracts in April) fell 21.8% to 69.0, down 33.8% YoY.
- **Building Permits** (issued in April) fell 20.8% to a seasonally adjusted annual rate of 1,074,000 - down 19.20% YoY. Single Family Permits fell 24.30% to an annual pace of 669,000 units, down 16.4% YoY.
- **Housing Starts** (excavation began in April) fell 30.2% to an annual adjusted rate of 891,000 units - down 29.7% YoY. Single-Family Starts fell 25.4% to 650,000 units - down 24.8% in the last 12 months.
- **Housing Completions** (issued in April) fell 8.1% to an annual adjusted rate of 1,176,000 - down 11.8% YoY. Single Family Completions fell 4.9% to 865,000 units - down 6.4% in the last 12 months.
- **S&P/Case-Shiller 20 City Composite Home Price Index** rose 0.47% in March, up 3.92% YoY
- **FHFA Home Price Index** rose 0.1% in March, now up 5.7% YoY.

## Labor Market Economic Data Released in May 2020

The Labor Market has taken the brunt of the Covid Pandemic, and everyone knew April Employment Data was going to be awful. The Bureau of Labor Statistics (BLS) reported the **Economy lost 20,500,000 Jobs in April**. That means the Jobless Rate quadrupled in 2 months from 3.5% in February to 14.7% in April. You might look at this data and think the math doesn't add up. At the beginning of 2020, we knew there were 156,000,000 workers in the Labor Force, and roughly 40,000,000 have filed for Unemployment Benefits since Covid hit. So:  $40 / 156 = 25.6\%$ . Shouldn't the Unemployment Rate be 25% percent? The "Official" Jobless Rate is probably understating the actual Unemployment Rate. Unemployment is a lagging indicator, and Labor Data right now is a fast-moving target. Most Economists expect the Unemployment Rate to peak between 22% to 25% before things improve. The big question is: How long will Unemployment stay elevated? Hopefully, Unemployment peaked in May. There are a few bright spots in the May Labor Data: A) Many Employers received PPP Checks and rehired furloughed staff, B) weekly Unemployment Claims are dropping, and C) People who are working are making more money with increased wages and overtime. All eyes are glued on the next Jobs Report to be released Friday, June 5th.

- The **Economy** lost 20,500,000 Jobs in April
- The **Unemployment Rate** rose to 14.7% in April from 4.4% in March
- The **Labor Force Participation Rate** fell to 60.2% from 62.7% in March
- The **Average Hourly Wage** rose 4.7% in May, up 7.9% YoY

## Inflation Economic Data Released in May 2020

Inflation in the US and around the world nose-dived as the Covid Lockdown takes its toll on the Global Economy. A few months of negative CPI & PPI is a pullback. Several months is Deflation. Inflation is no longer a near term risk despite the massive government stimulus and low Interest Rates. The CPI dropped 0.8% in April due mostly to energy prices. Energy prices fell 10%, Gasoline prices fell 20%, Airline Fares down 15%, clothes down 4.7%, Food & Beverages rose 1.4%, Shelter costs were flat. People who are laid off or working from home don't need new clothes, new cars, vacations, or traveling. They do need a roof over their head and food - and alcohol. Alcohol consumption is up - way up. The numbers are still a little fuzzy, but Liquor Sales are up an estimated 30 - 50% since the Covid Lockdown began.

- **CPI** fell 0.8%, up 0.3% in the last 12 months
- **Core CPI** (ex-food & energy) fell 0.4%, up 1.4% in the last 12 months
- **PPI** fell 1.3%, down 1.2% in the last 12 months
- **Core PPI** (ex-food & energy) fell 0.3%, up 0.6% in the last 12 months

## GDP Economic Data Released in May 2020

The 2nd Estimate of 1st Quarter 2020 GDP showed the **Economy contracted at a 5.0%** annualized rate (4.8% expected). This is about the same estimate as last month but with a clearer picture. Inventories took a big hit as the global supply chain was disrupted, and Consumers stockpiled essentials. Spending on business equipment, structures, and software was down 7.9%. Corporate profits took a big hit, dropping 13.9% in the 1st quarter. Bankruptcy filings are up. Some familiar names that filed for BK in May: Pier One, JC Penney, J Crew.

## Consumer Economic Data Released in May 2020

Retail Sales plunged in April. Working from home means you don't need new clothes - or gasoline, or lunch at a restaurant, or a new car, or a used car, or new furniture. All you need is groceries, computer equipment, an internet connection, medicine, Netflix, Hulu, etc. Consumers stopped buying just about everything, and Retail Sales broke records on the downside, but they will bounce back. In the meantime, Consumer Confidence and Sentiment increased. After 45 days in lockdown, people are starting to think the worst is behind them.

- **Retail Sales** fell 16.4% during April, now down 21.6% in the last 12 months
- **Consumer Confidence Index** rose to 86.6 from 69.9 the prior month
- **Consumer Sentiment Index** (U of M) rose to 73.7 from 71.8 the previous month

## Energy, International, and Things You May Have Missed

Tensions between China and other countries are increasing. Australia called for an investigation to determine the true origin of the Covid-19 virus. China retaliated by banning imports of meat from Australia and threatened to ban other imports such as barley, wine, dairy, etc. The EU warned China not to retaliate against countries that support the investigation.

- Oil Prices have recovered from their record lows. WTI Crude (West Texas Intermediate) is trading around \$34/barrel, and Brent Crude is trading around \$35/barrel.
- Oil demand in China has almost returned to Pre-Covid Levels.
- European oil demand is increasing as traffic picks up and resumes in Europe.
- Chinese Lawmakers passed a new Security Law, which bans secession, foreign interference, terrorism, subversion, etc. The new law vastly restricts Hong Kong's autonomy and independence.

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.



# MORTGAGE ECONOMIC CALENDAR

JUNE 2020				
MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
1  ISM Manufacturing Index Construction Spending	2	3  ISM Non-Manufacturing Index ADP Employment Report Factory Orders MBA Mortgage Applications	4  Productivity & Costs Challenger Job Cuts International Trade Weekly Jobless Claims	5  Employment Report
8	9  FOMC Meeting JOLTS NFIB Business Optimism Wholesale Trade	10  FOMC Announcement CPI MBA Mortgage Applications Fed Budget	11  PPI Weekly Jobless Claims	12  Import-Export Prices
15  Empire State Report TIC	16  Retail Sales NAHB Index Industrial Production Business Inventories	17  Housing Starts & Permits MBA Mortgage Applications	18  Leading Indicators Philly Fed Report Weekly Jobless Claims	19  Current Account
22  Existing Home Sales	23  New Home Sales	24  FHFA Home Price Index MBA Mortgage Applications	25  GDP Corporate profits Durable Goods Weekly Jobless Claims	26  PCE Personal Income & Spending Consumer Sentiment
29  Pending Home Sales	30  Consumer Confidence S&P Case-Shiller HPI			

SEE ECONOMIC INDICATOR DISCRIPTION/ DEFINITION

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# ECONOMIC INDICATOR DESCRIPTION/DEFINITION

ADP Employment	A national jobs report that derives its statistics from the actual monthly payrolls of employers in the non-farm private sector.	Gross Domestic Product	The GDP is an all encompassing measure of the economy that includes the value of all goods and services produced in the entire country.
Beige Book	Prepared by the Federal Reserve, it is a survey of economic conditions in each of the Fed's regions.	Housing Starts	This report includes housing starts, building permits, and housing completions with data obtained from surveys of homebuilders.
Business Inventories	This report includes inventory levels and statistics from various stages of the manufacturing process	Import - Export Prices	The U.S. Import and Export Price Indexes measure average changes in prices of goods and services that are imported or exported.
Chicago PMI	The Chicago Purchasing Managers Index is prepared monthly by ISM (Institute of Supply Management) and indicates regional manufacturing activity. It comes out before other ISM surveys and is closely watched as precursor to the other ISM Reports.	Industrial Production	Measures volume of goods produced by all industrial firms including factories, mines, and utilities.
CPI - Consumer Price Index	Measures the change in the cost of a basket of goods & services (about 200) each month. One of the biggest & most closely watched indicator along with the PPI.	International Trade	Measures the trade deficit - value of exports minus the value of imports.
Consumer Confidence	Measures how confident consumers feel about their individual spending plans and the economy in general.	ISM Manufacturing Index	The Institute for Supply Management (a nonprofit group) publishes the Purchasing Managers Index by surveying over 400 purchasing managers form all over the country diversified and weighted by industry and geography.
Consumer Sentiment	Published monthly by the University of Michigan the index is based on over 500 phone interviews with 50 questions asked.	ISM Non Manufacturing	Same as the above index but for the service sector which encompasses a larger portion of real GDP.
Construction Spending	Monthly estimate of the total dollar value of all construction work in the country.	JOLTS	Job Openings and Labor Turnover Survey includes employment, job openings, hires, quits, layoffs and discharges, and other separations.
Consumer Credit	Released monthly by he Federal Reserve Board it estimates changes in the amount of outstanding credit to individuals to purchase consumer goods. It contains revolving and non revolving credit like cars loans but not mortgages and equity lines.	Leading Indicators	Also called The Leading Economic Index, it is a leading economic indicator use to forecast future economic activity. Calculated byThe Conference Board, it determines the index from the valuesof ten keyvariables.
Current Account	Measures the money flows and cash transfers into and out of the country. Consists of the Trade Balance (exports minus imports of goods and services) plus the net Capital Account (income from foreign investments - payments to foreign investors).	New Home Sales	Report on the number of newly constructed homes sold in the previous month.
Durable Goods Orders	Report measures how much spending is occurring on goods expected to last over three years like appliances and cars.	NFIB Small Business	Published by the National Federation of Independent Business, the Small Business Optimism Index is an indicator of health of small businesses by surveying its members on their plans and activities.
ECB Announcement	The European Central Bank (ECB) first meeting of the month typically covers monetary policy. After the meeting, they make an announcement that discloses the issues discussed and decisions made.	Personal Income & Spending	Personal Income and Outlays report provide data on consumer behavior and total economic consumption.
Empire State Survey	Prepared by the Federal Reserve Bank of New York, this survey summarizes general business conditions of manufacturers in New York state.	Philly Fed Survey	Published by the Philadelphia Federal Reserve, this survey summarizes economic activity in its district.
Employment	Also called the Jobs Report, the Current Employment Statistics report covers general employment conditions which includes the unemployment rate, number of new jobs created, average hours worked per week, Labor Force Participation Rates, and average hourly earnings. Like the CPI and PPI, This is a very closely watched indicator.	PPI Producer Price Index	Measure the change in the price of goods from producers and includes everything from raw materials to wholesale items sold to retailers. Since it is published before the CPI, this indicator is very closely watched as a precursor to the CPI.
Employment Cost Index	Measures the general cost of labor which includes wages, benefits, and bonuses.	Productivity	The report measures how much output is created by a unit of labor.
Existing Home Sales	Reports the number of existing homes that were CLOSED during the month both nationally and regionally.	Retail Sales	Measures goods sold by retailers. This is fairly closely watched as it indicates general spending attitudes of Consumers.
Factory Orders	Indicates the activity of the country's manufacturing sector and includes new orders, unfilled orders, shipments, and inventories.	S&P/Case Shiller HPI	This Home Price Index (HPI) uses a three-month moving average to calculate its numbers giving it a two month lag.
FOMC Meeting	The Federal Open Market Committee meets every 6 weeks is to set monetary policy.	TIC	Treasury International Capital shows the flows of money across US boarders for sales of ALL securities and financial instruments.
FOMC Statement	Issued by the Fed after the FOMC meetings summarizing topics discussed, economic outlook, and policy decisions.	Weekly Jobless Claims	This report shows the number of newly unemployed workers filing unemployment claims for the first time with their state Unemployment Bureaus. The data is seasonally adjusted and aggregated on a national basis.
		Vehicle Sales	Reports the number of light vehicle cars and light trucks sold.