



# MORTGAGE ECONOMIC COMMENTARY AND REVIEW

The January 2020 Mortgage Economic Review summarizes recent Key Economic Indicators, Data, and Events that are important to Mortgage and Real Estate Professionals.

Welcome to 2020. Not only is it a New Year, but it's also a New Decade - the 20s. One hundred years ago started the Roaring 20s - a decade of massive Economic expansion. Are we at the start of another Roaring 20s? Stay tuned - we'll find out in 10 short years.

2019 was an incredible year for the Mortgage Business, the Economy, and the Stock Market. The unofficial early estimate for Total Mortgage Originations is around \$2.1 Trillion. Political gridlock and infighting continue in Washington after the House of Representatives impeached President Trump. The Stock Markets hit record highs. The Trade War with China is de-escalating as the two sides are beginning to agree on basic issues. Wages are increasing, and there are 7,500,000 unfilled jobs in the US. Inflation is tame, Interest Rates are low, and the Economy continues to chug along fueled by robust Consumer Spending. The Recession that was hyped in the media never materialized, and there is no sign it will this year. To top it off - it's an election year. 2020 is going to be a wild ride. Buckle up and enjoy the thrills because it could get bumpy along the way.

**2019 Net Net:** It was a very good year. The US was, is, and will continue as the Global Economic Dynamo with a prosperous Consumer, solid Labor Market, low Inflation, and low Interest Rates.

## Key Economic Data and Events in December 2019

- Record highs for the Stock Market - the DOW passed 28,000 for the first time
- The House of Representatives voted to Impeach President Trump but has not sent the Articles of Impeachment to the Senate
- Mortgage Originations for 2019: early estimates are about \$2.1 Trillion
- The US Economy grew at a 2.1% GDP annualized rate in the 3rd quarter of 2019
- Inflation is tame with the CPI rising 0.35% in November, now 2.3% YoY
- The Economy added 266,000 New Jobs during November
- USMCA Trade Deal agreed to by the US, Canada, and Mexico

## Interest Rates and Fed Watch

The Fed wrapped up the year with the last FOMC Meeting of 2019 on December 11th. As everyone expected, they left Interest Rates unchanged, which looks like that is what they intend to do for quite a while - maybe for all of 2020. The Fed Statement that was released after the meeting said: Economic activity is rising at a moderate rate, Inflation pressure remains low, and Economic risks appear balanced. The Fed cited a strong Labor Market and robust Consumer Spending. They feel that the current monetary policy is appropriate to maintain Economic growth and their Inflation target of 2.0%. Overall, it looks like the Fed will keep the target for Fed Funds Rate at 1.50% - 1.75% for the near future. The **next FOMC Meeting is January 28th & 29th**. Most Economists don't expect any changes to Interest Rates, so the odds of a rate cut are running at 0.0%.

## Housing Market Data Released in December 2019

There was mostly green in the December Housing data. New Home Sales, Pending Home Sales, Housing Starts, Housing Permits - were all up thanks to low Interest Rates and an upswing in Household Formation. Home Prices continue to rise but at a slower pace. Existing Home Sales was down slightly, mostly due to a lack of available homes for sale. Economists expect the demand for homes to continue into 2020. Home Builders have ramped up their efforts to build more homes but are hampered by a shortage of skilled labor and available land.

- Existing Home Sales** (closed deals in November) fell 1.7% to an annual rate of 5,350,000 homes, now up 2.7% in the last 12 months. The median price for all types of homes is now \$271,300 - up 5.3% from a year ago. The median Single Family Home price is \$274,000 and \$248,200 for a condo. First Time Buyers were 32%, Investors 16%, Cash Buyers 20%. Homes were on the market an average of 38 days, and 45% were on the market for less than a month. Currently, 1,640,000 homes are for sale, down 5.7% from 1,740,000 units a year ago.
- New Home Sales** (signed contracts in November) rose 1.3% to a seasonally adjusted annual rate of 719,000 homes - up 16.9% YoY. The median New Home price was \$330,800, and the average New Home price was \$388,200. The number of New Homes for sale rose to 323,000 from 322,000 units the previous month, which represents a 5.4 month supply.
- Pending Home Sales Index** (signed contracts in November) rose 1.2% to 108.5 from 106.7 the prior month (up 7.4% YoY).
- Housing Starts** (excavation began in November) rose 3.2% to a seasonally adjusted annual rate of 1,365,000 units - up 13.6% YoY. Single-Family Starts rose 2.4% to an annual pace of 938,000 units - up 16.7% YoY.
- Building Permits** (issued in November) rose 1.4% to an annual adjusted rate of 1,482,000 - up 11.1% YoY. Single Family permits rose 0.8% to 918,000 units - up 8.9% YoY.
- Housing Completions** (completed in November) fell 6.6% to an annual rate of 1,188,000 units - up 7.3% in the last 12 months. Single Family Completions fell 3.6% to 883,000 units - up 13.5% YoY.
- S&P/Case-Shiller 20 City Composite Home Price Index** rose 0.4% in October - up 2.1% YoY.
- FHFA Home Price Index** rose 0.2 % in October, now up 5.0% YoY.

## Labor Market Economic Data Released in December 2019

The November Jobs Report surprised everyone with the **Economy adding 266,000 new jobs**. The Labor Market is solid with continued job creation, record low Unemployment, and strong wage growth - despite the ongoing Trade War. Notable job gains were in education, healthcare, professional services, technical services, and even manufacturing. However, some of the manufacturing data was influenced when GM employees returned to work from their strike.

- The **Economy** added 266,000 New Jobs in November
- The **Unemployment Rate** fell to 3.5% in November from 3.6% the prior month
- The **Labor Force Participation Rate** Fell to 63.2% in November from 63.3% the prior month
- The **Average Hourly Wage** rose 0.2% in November, up 3.1% YoY

## Inflation Economic Data Released in December 2019

Inflation was running slightly higher than expected at the Consumer level in November with the CPI at 2.1% YoY. That is still a tame number. If you remove the volatile food and energy components, Core CPI is 2.3% YoY. Inflation at the Wholesale level is very low, with the November PPI at 1.1% and Core PPI at a negative 0.2%. Most of the increase in CPI can be attributed to the cost of services with the usual culprits of Shelter and Medical costs leading the way. Medical care prices are now up 4.2% YoY - almost double the CPI. The latest Inflation data confirms the Fed's views that Inflation pressure will be running low for the near future.

- CPI** rose 0.3%, up 2.1% in the last 12 months
- Core CPI** (ex-food & energy) rose 0.2%, up 2.3% in the last 12 months
- PPI** unchanged, up 1.1% in the last 12 months
- Core PPI** (ex-food & energy) fell 0.2%, up 1.3% in the last 12 months

## GDP Economic Data Released in December 2019

The 3rd Estimate of 3rd Quarter 2019 GDP showed the **Economy expanded at a 2.1% annualized rate** (2.1% expected). This last estimate was in line with expectations and unchanged from the last estimate. The Consumer continues to support the Economy as Consumer Spending grew 3.2% from the last quarter. A decrease in Inventories offset the increase in Consumer Spending. Businesses continue to hold back spending as investment in commercial buildings, equipment, and intellectual property fell 2.3%. The next GDP estimate will be for the 4th quarter. There is a lot of uncertainty about the ability of the Economy to continue its momentum. At this point, the different models that forecast GDP are showing a wide range of predictions - from a low of 0.8% to a high of 3.0%. So far, the Economy has proved the doom-and-gloomers to be wrong.

## Consumer Economic Data Released in December 2019

Retailers had a very Merry Christmas due to a robust Holiday Buying Season. The Consumer continues to keep their wallets open. Black Friday Online Sales hit a new record of \$7.4 Billion in one day. Consumer Confidence remained high despite the political infighting and Impeachment. All in all, the Consumer continues to maintain a very positive outlook for the Economy and Labor Market. This positive outlook is especially important to the Housing Market. People don't buy homes unless they are confident in their jobs and future income prospects.

- Retail Sales** rose 0.2% during November, up 3.3% in the last 12 months
- Consumer Confidence Index** fell slightly to 126.5 from 126.8 the prior month
- Consumer Sentiment Index** (U of M ) rose to 99.3 from 96.8 the prior month

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

- Oil prices jumped due to escalating tensions with Iran (Prices as of January 3: North Sea Brent Crude about **\$69** per barrel, West Texas Intermediate Crude about **\$64** per barrel).
- Tensions with Iran are escalating after the attack on the US embassy in Bagdad.
- UK Elections: Prime Minister Boris Johnson and his Conservative Party won a landslide victory.
- Continuing Hong Kong protests are affecting their Economy. Hong Kong expects to run a budget deficit this year as Retail Sales fell a staggering 24.3% YoY.

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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# MORTGAGE ECONOMIC CALENDAR

JANUARY 2020				
MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
		1  NEW YEAR'S DAY Markets Closed	2  MBA Mortgage Applications Weekly Jobless Claims	3  FOMC Minutes ISM Manufacturing Index Construction Spending
6	7  Factory Orders International Trade ISM Non-Manufacturing Index	8  MBA Mortgage Applications ADP Employment Report Consumer Credit	9  Weekly Jobless Claims	10  Employment Report Wholesale Inventories
13  Fed Budget	14  CPI NFIB Business Optimism	15  PPI Beige Book Empire State Report MBA Mortgage Applications	16  Retail Sales, NAHB Index, TIC, Business Inventories, Import-Export Prices, Weekly Jobless Claims	17  Housing Starts & Permits JOLTS Industrial Production
20  MARTIN LUTHER KING JR. BIRTHDAY Markets Closed	21	22  Existing Home Sales FHFA Home Price Index MBA Mortgage Applications	23  Leading Indicators Weekly Jobless Claims	24
27  New Home Sales	28  FOMC Meeting Consumer Confidence S&P Case-Shiller HPI Durable Goods	29  FOMC Announcement Pending Home Sales MBA Mortgage Applications	30  GDP Weekly Jobless Claims	31  PCE Personal Income & Spending Employment Cost Index Consumer Sentiment

SEE ECONOMIC INDICATOR DISCRPTION/ 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.