



MORTGAGE ECONOMIC COMMENTARY AND REVIEW

As we progress into the second half of 2020, people can't wait for 2020 to be over, and for life to return to normal. Baseball and Hockey just started with abbreviated seasons, and we'll see what happens to Football. Despite the news on mass media, there is encouraging data on the Economy and Covid. The Economy is on a steady recovery track - Employment is increasing, Consumers are spending, and people are getting out more. Even though there have been several Covid spikes, the good news is that the mortality rate has dropped dramatically as doctors learn how to treat it. In the meantime, the Fed continues to do "whatever it takes" and provide an accommodative Monetary Policy. Congress is hammering out another stimulus package. Mortgage Production is going gangbusters with Refi and Purchase loans...and the Housing Market is red hot.

Key Economic Data and Events in July 2020

- The last FOMC Meeting concluded with the Fed continuing its current Monetary Policy
- 2nd Quarter GDP showed the Economy Contracted 32.9%
- The Economy added 4.8 million jobs, and the Unemployment Rate fell to 11.1%
- Tensions with China escalated with the closing of both a US and Chinese Consulate
- The US Dollar continued to weaken against other major currencies
- The 10 Year Treasury Security yield is bouncing around 0.6%

Interest Rates and Fed Watch

The latest FOMC Meeting wrapped up last week with no surprises. As expected, the Fed kept Monetary Policy unchanged. They continued their mantra that they will do "whatever it takes" to foster an Economic Recovery. This includes keeping Interest Rates near zero through 2022 and maintaining all their various lending facilities and programs. No one has ever lived through a pandemic like this, and there isn't a road map or rules the Fed can follow from previous experience. The Fed also took the opportunity to urge politicians to do their part by providing additional fiscal stimulus. The next FOMC meeting is September 15th and 16th.

Housing Market Data Released in July 2020

The Housing Data is ALL GREEN this month. Home Sales are very robust driven by low Interest Rates, and Renters anxious to buy their first home. Single Family Homes, in particular, are most in demand as Consumers are looking for larger homes (with a back yard) to accommodate work-from-home needs. Many workers now have the flexibility to "Telework" and are not required to reside close to their place of employment. A new trend is developing in the Housing Markets due to the ability to Telework: home demand in less dense markets - far-out suburbs and small towns - is increasing. A robust Housing Market is a necessary factor for a sustained Economic Recovery, but continued high Unemployment will dampen Home Sales - Unemployed Workers can't buy homes.

- Existing Home Sales** (closed deals in June) rose 20.7% to an annual rate of 4,720,000 homes, down 11.3% in the last 12 months. The median price for all types of homes is \$295,300 - up 3.5% from a year ago. The median Single Family Home price is \$298,600 and \$262,700 for a condo. First Time Buyers were 35%, Investors 9%, Cash Buyers 16%. Homes were on the market for an average of 24 days, and 62% were on the market for less than a month. Currently, 1,570,000 homes are for sale, down 18.2% from 1,920,000 units a year ago.
- New Home Sales** (signed contracts in June) rose 13.8% to a seasonally adjusted annual rate of 776,000 homes - up 6.9% YoY. The median New Home price is \$329,200, and the average is \$384,700. There are 307,000 New Homes for sale, which is a 4.7 month supply.
- Pending Home Sales Index** (signed contracts in June) rose 16.6%, up 6.3% YoY.
- Building Permits** (issued in June) rose 2.1% to a seasonally adjusted annual rate of 1,241,000 - down 2.5% YoY. Single-Family Permits rose 11.8% to an annual pace of 834,000 units, down 1.1% YoY.
- Housing Starts** (excavation began in June) rose 17.3% to an annual adjusted rate of 1,186,000 units - down 4.9% YoY. Single-Family Starts rose 17.2% to 831,000 units - down 3.9% in the last 12 months.
- Housing Completions** (issued in June) rose 4.3 to an annual adjusted rate of 1,250,000 - up 5.1% YoY. Single Family Completions rose 9.6% to 910,000 units - up 4.0% in the last 12 months.
- S&P/Case-Shiller 20 City Composite Home Price Index** rose 0.04% in May, up 3.7% YoY.
- FHFA Home Price Index** fell 0.3% in May, now up 4.9% YoY.

Labor Market Economic Data Released in July 2020

The Economy added 4,800,000 Jobs in June and the Unemployment Rate fell to 11.1% from 13.3%. This is the second month in a row with encouraging Jobs Data, even though the Labor Market remains fragile. The Labor Market is steadily improving, but at a slower rate than the Economy - most likely due to a lag in recalling furloughed workers, and errors in data reporting. However, there are still millions of workers unemployed from the 2020 peak, and the Federal PUA (Pandemic Unemployment Assistance) expired on July 25th. Economists felt the generous PUA benefits created a deterrent to return to work as many workers made more money sitting at home than working. The July Jobs Report will be released Friday, August 7th. Most Economists expect to see more encouraging data, but not as good as July's data.

- The Economy added 4,800,000 Jobs in June
- The Unemployment Rate fell to 11.1% in June from 13.3% the previous month
- The Labor Force Participation Rate rose to 61.5% in June from 60.8% the previous month
- The Average Hourly Wage fell 1.2% in June, up 5.0% YoY

Inflation Economic Data Released in July 2020

Inflation data was mixed with CPI up, and the PPI down. Much of the CPI increase can be attributed to higher gasoline prices, which is a large component of the CPI. Social distancing and Telework will restrict fuel demand and keep gas prices in check. Along with higher gas prices, Consumers also paid more for groceries and clothes. The risk of Deflation has eased, but there is still downward pressure on prices. The cost of services like bars, restaurants, hair salons, barbers, health clubs, hotels, travel, and vacation destinations, is still depressed as people continue to social distance.

- CPI rose 0.6%, up 0.6% in the last 12 months
- Core CPI (ex-food & energy) rose 0.2%, up 1.2% in the last 12 months
- PPI fell 0.2%, down 0.8% in the last 12 months
- Core PPI (ex-food & energy) fell 0.3%, down 0.1% in the last 12 months

GDP Economic Data Released in July 2020

The 1st Estimate of 2nd Quarter 2020 GDP showed the Economy contracted 32.9%. Economists had estimates ranging from a 25% to 40% contraction, with the consensus at -35%. Everyone knew the numbers were going to be ugly, so 32.9% wasn't as bad as anticipated. The focus is on how fast GDP can recover. We are in the middle of the 3rd quarter, and the Economy is quickly ramping up despite the setbacks caused by Covid spikes. These setbacks were expected, and despite the Doom-and-Gloom reporting of the mass media, hard data for the recovery is actually encouraging.

Consumer Economic Data Released in July 2020

Retail Sales jumped despite Consumers feeling less confident. Retail Sales rose 7.5% in June after an 18% spike in May. With this latest data point, Retail Sales are back to levels seen in February. What are they buying - clothes, furniture, appliances, electronics, sporting goods, cars, and car parts. As can be expected, most Consumers are still avoiding bars and restaurants. Consumer Confidence took a hit as new outbreaks of Covid dampened hopes of a V-shaped recovery. Strong Consumer spending fueled by a Confident Consumer is a critical component of the recovery.

- Retail Sales rose 7.5% during June, now up 1.1% in the last 12 months
- Consumer Confidence Index fell to 92.6 from 98.1 the prior month
- Consumer Sentiment Index (U of M) fell to 72.5 from 78.1 the previous month

Energy, International, and Things You May Have Missed

Oil Prices are up slightly as they bounce around \$42 a barrel. WTI Crude (West Texas Intermediate) is trading around \$41/barrel, and Brent Crude is trading around \$44/barrel.

- The US Dollar weakened against the Euro, now about \$1.18 vs the Euro.
- The US special relationship with Hong Kong was revoked due to China's new security law.
- The USMCA (US Mexico Canada Agreement) became effective July 1.
- Eurozone GDP dropped 12.1% in the 2nd quarter. Germany's GDP was down 10.1%, France down 13.8%, Italy down 12.4%, Spain down 18.5%.
- China's GDP grew 3.2% YoY in the 2nd quarter - if you can trust their data.



MORTGAGE ECONOMIC CALENDAR

AUGUST 2020

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
3 ISM Manufacturing Index Construction Spending	4 Factory Orders	5 ISM Non-Manufacturing Index ADP Employment Report International Trade MBA Mortgage Applications	6 Challenger Job Cuts Weekly Jobless Claims	7 Employment Report Wholesale Trade
10 JOLTS	11 PPI NFIB Business Optimism	12 CPI MBA Mortgage Applications Fed Budget	13 Import-Export Prices Weekly Jobless Claims	14 Retail Sales Productivity & Costs Industrial Production Business Inventories
17 NAHB Index Empire State Report TIC	18 Housing Starts & Permits	19 FOMC Minutes MBA Mortgage Applications	20 Leading Indicators Philly Fed Report Weekly Jobless Claims	21 Existing Home Sales
24	25 New Home Sales Consumer Confidence FHFA Home Price Index S&P Case-Shiller HPI	26 Durable Goods MBA Mortgage Applications	27 GDP Pending Home Sales Corporate Profits Weekly Jobless Claims	28 PCE Personal Income & Spending Wholesale Inventories Consumer Sentiment
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SEE ECONOMIC INDICATOR DISCRPTION/ DEFINITION

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 from 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 the 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 by The Conference Board, it determines the index from the values of ten key variables.
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 borders 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.

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