



# MORTGAGE ECONOMIC COMMENTARY AND REVIEW

The Mortgage Economic Review is a monthly summary of Key Economic Indicators, Data, and Events pertinent to Mortgage and Real Estate Professionals.

## Key Economic Data and Events in February 2022

- **Interest Rates** The 10-Year Treasury yield rose to 1.83% (Feb 28) from 1.79% (Jan 31).
- **Housing:** Home Prices rose roughly 19% in 2021 after increasing 10% in 2020. January Existing Home Sales rose while New Home Sales declined.
- **Labor:** During January the Economy created 467,000 new jobs, the Unemployment Rate rose to 4.0%, and Wage Growth increased 0.7% (4.7% YoY).
- **Inflation** January CPI up 0.6% (+7.5% YoY), PPI up 1.0% (+9.7% YoY).
- **The Economy:** US GDP grew at a 7.0% annualized rate during the 4th Quarter of 2021.
- **Consumers:** January Retail Sales rose 3.8% while February Consumer Confidence fell.
- **Stock Markets:** The Ukraine War rattled the Stock Markets, but a flight to quality helped all the Stock Indexes recover from steep losses.
- **War in Europe:** Russia invaded Ukraine, sending shock waves through the Global Financial Markets and drove up the price of energy - Oil Prices are hovering around \$100 a barrel.

## Interest Rates and Fed Watch

The Financial Markets are focused on 2 things: the next FOMC Meeting on March 15th /16th and the War in Ukraine. Everyone expects the Fed will raise short term Interest Rates in March. The big question is how much - 1/4% or 1/2% increase to the Fed Funds Rate. My guess is that they haven't decided yet. Geopolitical events are moving too fast. The Fed is watching how the War unfolds and affects the Global Financial Markets before they make a final decision. Central Banks typically don't like raising Interest Rates during major geopolitical conflicts. The Fed will also get another look at Employment and CPI data before the FOMC Meeting. The War is driving oil prices higher, which will exacerbate the already high Inflation Rate. However, higher Oil Prices will eventually act as a drag on growth, slowing down demand, which will have a cooling effect on Inflation.

The Fed was in a tricky situation before the War started - now it's a real conundrum.

- **10-Year Treasury Security Yield** rose to 1.88% (Feb 28) from 1.79% (Jan 31).
- **30 Year Treasury Bond Yield** rose to 2.25% (Feb 28) from 2.12% (Feb 01)
- **30-Year Fixed Mortgage** rose to 3.89% (Feb 24) from 3.55% (Feb 03).
- **15-Year Fixed Mortgage** rose to 3.1% (Feb 24) from 2.88% (Feb 03).
- **5/1 ARM Mortgage** rose to 2.98% (Feb 24) from 2.71% (Feb 03)

## Housing Market Data Released in February 2022

Inventory problems continue to plague the Housing Market, but help is on the way. Currently 263,000 New Homes are under construction. Plus, an additional 106,000 Homes have permits and are waiting to break ground. That's 369,000 New Homes. Slowly but surely, despite labor and supply shortages, builders are getting Homes completed and delivered to buyers. The big issue facing potential buyers is affordability, especially with rising Interest Rates. Despite the setbacks, Housing Analysts expect the Housing Market to remain strong for the next 2 years as supply catches up to demand.

- **Existing Home Sales** (closed deals in January) rose 6.7% to an annual rate of 6,500,000 homes, down 2.3% in the last 12 months. The median price for all types of homes is \$355,300 - up 15.4% from a year ago. The median Single-Family Home price is \$357,100 and \$297,800 for a Condo. Homes were on the market for an average of 19 days, and 79% were on the market for less than a month. Currently, 860,000 homes are for sale, down 16.5% from 1,030,000 units a year ago.
- **New Home Sales** (signed contracts in January) fell 4.5% to a seasonally adjusted annual rate of 801,000 homes - down 19.3% YoY. The median New Home price rose to \$423,300 from \$377,700 the prior month. The average price rose to \$496,900 from \$457,300 the prior month. There are 406,000 New Homes for sale, which is a 6.1 month supply.
- **Pending Home Sales Index** ((signed contracts in January) fell 5.7% to 109.5 from 117.7 the previous month, down 9.5% YoY.
- **Housing Starts** (excavation began in January) fell 4.1% to an annual adjusted rate of 1,638,000, up 0.8% YoY. Single-Family Starts fell 5.6% to 1,116,000 units, down 2.4% YoY
- **Building Permits**(issued in December) rose 9.1% to a seasonally adjusted annual rate of 1,873,000 units - up 6.5 YoY. Single-Family Permits rose 2.0% to an annual pace of 1,128,000 homes, down 8.5% YoY.
- **Housing Completions** (completed in January) fell 5.2% to an annual adjusted rate of 1,246,000 units - down 6.2% YoY. Single-Family Completions fell 7.3% to an annual adjusted rate of 927,000 homes - down 8.4% YoY.
- **S&P/Case-Shiller 20 City Composite Home Price Index** rose 1.5% in December, up 18.6% YoY.
- **FHFA Home Price Index** rose 1.2% in December, now up 17.6% YoY.

## Labor Market Economic Data Released in February 2022

The Economy created 467,000 new jobs in January (150,000 expected). Back in March 2020, when the Economy went into lockdown mode, roughly 22,000,000 workers were suddenly laid off. Many of those workers were in the Hospitality and Travel sector. 2 years later, 19,500,000 of those workers were back in the workforce. That leaves 2,500,000 that have not returned to the Labor Force. This data is perplexing since there are 10,900,000 job openings - anyone who wants a job can quickly get one. A large chunk of those workers were nearing retirement age and decided to retire. Others needed to care for children or elderly family members. Regardless of the reason, they are permanently out of the workforce. This is one reason why the Unemployment Rate and Labor Participation Rate are so low.

- The **Economy** created 467,000 New Jobs during January
- The **Unemployment Rate** rose to 4.0% in January from 3.9% in December.
- The **Labor Force Participation Rate** rose to 62.2% in January from 61.9% in December.
- The **Average Hourly Wage** rose 0.7% in January, now up 4.7% YoY
- **Job Openings** rose slightly to 10,900,000 in December from 10,600,000 in November.

## Inflation Economic Data Released in February 2022

The Inflation data is getting worse with every month. Inflation is the highest it's been in over 40 years, which takes us back to the 1970s when "Stagflation" persisted. In 1979, Fed Chairman Paul Volker had to raise Interest Rates to 18% to "Break the Back of Inflation." It worked. Inflation dropped precipitously, but it also sent the Economy into a severe recession. Everyone knows the Fed has to raise Interest Rates - and it has to be soon - to cool off demand. Two inflationary forces worry me: the **Wage-Price Spiral** and **Inflationary Psychology**. Once Inflationary Psychology gets embedded in Consumers' psyche, it exacerbates the Wage-Price Spiral, and Inflation becomes very difficult to control without extreme measures. We may be faced with the same dilemma Volker faced in 1979.

- **CPI** rose 0.6%, up 7.5% YoY | **Core CPI** rose 0.6%, up 6.0% YoY
- **PPI** rose 1.0%, up 9.7% YoY | **Core PPI** rose 0.8%, up 8.3% YoY
- **PCE** rose 0.6%, up 6.1% YoY | **Core PCE** rose 0.5%, up 5.2% YoY

## GDP Economic Data Released in February 2022

The 2nd estimate for 4th Quarter GDP showed the US Economy grew at a 7.0% annualized rate - slightly higher than the 1st estimate of 6.9%. For all of 2021, GDP clocked in at 5.7%. Economists concluded that the Economy has completely recovered from the 2020 Covid Lockdown. The Economy is very healthy with solid demand from Consumers and Businesses. Now the debate is whether the Economy will stay overheated as the effects of excessive Monetary and Fiscal Stimulus wears off. Early estimates for 2022 GDP Growth are in the 4.0% range. .

## Consumer Economic Data Released in February 2022

Retail Sales rebounded in January, rising 3.8% (13.0% YoY). Part of that increase is due to Inflation. Real Retail Sales (Retail Sales minus Inflation) is up 6.0% - a strong signal for continued Consumer demand. The Consumers' balance sheet remains very healthy with savings up and debt down. Ports are jammed, and inventories are rising. All this good Economic news is offset by the bad news that dominates the headlines (Ukrainian War, Inflation, Energy Prices, Food Prices), which has people worried about the future. Consequently, Consumer Confidence and Sentiment Indexes declined last month. Gloomy Consumers pull back on their spending.

- **Retail Sales** rose 3.8% during January, now up 13.0% in the last 12 months
- **Consumer Confidence Index** fell 3.25% to 110.1 from 113.8 the prior month, up 16.1% YoY.
- **Consumer Sentiment Index** fell to 62.8 from 67.2 the previous month.

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

Oil Prices soared to over \$100 per barrel, then fell back as the Ukraine War sparked fears of a supply disruption.

- **West Texas Intermediate Crude** rose to \$96 (Feb 28) from \$88/barrel (Jan 31)
- **North Sea Brent Crude** rose to \$99 (Feb 28) from \$91/barrel (Jan 31).
- **Natural Gas** fell to \$4.40/MMBtu (Feb 28) from \$4.87/MMBtu (Jan 31).
- Covid restrictions and mandates are being lifted many places all over the globe.
- ISIS Leader Abu Ibrahim al-Hashimi al-Qurayshi committed suicide in Syria as US Commandos closed in on his compound.
- President Biden nominated Ketanji Brown Jackson to the Supreme Court.

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

## MARCH 2022

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
	<b>1</b> Construction Spending ISM Manufacturing Index Vehicle Sales	<b>2</b> ADP Employment MBA Mortgage Applications	<b>3</b> ISM Non-Manufacturing Index Factory Orders Weekly Jobless Claims	<b>4</b> Employment Report
<b>7</b> Consumer Credit	<b>8</b> NFIB Business Optimism Trade Balance	<b>9</b> JOLTS MBA Mortgage Applications	<b>10</b> CPI Fed Budget Weekly Jobless Claims	<b>11</b> Consumer Sentiment
<b>14</b>	<b>15</b> FOMC Meeting PPI TIC	<b>16</b> Construction Spending ISM Manufacturing Index Vehicle Sales	<b>17</b> Housing Starts & Permits Industrial Production, Weekly Jobless Claims	<b>18</b> Existing Home Sales
<b>21</b>	<b>22</b>	<b>23</b> New Home Sales MBA Mortgage Applications	<b>24</b> Durable Goods Weekly Jobless Claims	<b>25</b> Pending Home Sales Consumer Sentiment
<b>28</b>	<b>29</b> JOLTS Consumer Confidence S&P CS Home Price Index FHFA Home Price Index	<b>30</b> GDP ADP Employment MBA Mortgage Applications	<b>31</b> Weekly Jobless Claims Personal Income & Spending	

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.