



# MORTGAGE ECONOMIC COMMENTARY AND REVIEW

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

This Newsletter is a summary of Economic Data and Events that affect the Mortgage Business, but March 2020 was different. There was only one event that mattered: Covid19. Everything else paled. March 2020 and the start of the Covid19 Pandemic is a month that will be etched into the history books. Historic events are pivotal. Things are not the same afterward - but it will end, we will recover, with a new normal.

Most of the data below was released in March 2020 and reveals Economic activity during February 2020. This data is too early to reflect Covid19's damage, but is very relevant. It portrays a very healthy US Economy with a robust Labor Market, low Inflation, low Interest Rates, and a strong Consumer - before being infected with the Cononavirus. Healthy Economies, like healthy people, recover faster when they get the right treatments. To treat this disease, the Fed and Washington, immediately provided massive Monetary and Fiscal support. The Fed held emergency meetings to swiftly provide copious liquidity to support the financial markets. The US Government moved with uncharacteristic speed to pass a stimulus package providing financial support for people and businesses. That quick response and intense action boost the odds for a fast recovery.

## Key Economic Data and Events in March 2020

- The Covid19 Pandemic gripped the World and sent shockwaves thru the Global Markets and Economies
- CARES Act: Congress Passed a \$2.2T relief Package to aid the War on Covid19
- The Stock Market plummeted with the DOW dropping to a low of 18,214 before bouncing higher
- Several US Treasury Securities are at negative yields
- The Fed made 2 Emergency Interest Rate cuts totaling 1.5% to Fed Funds (target: 0.0% to 0.25%)
- The Fed announced several measures to add liquidity to the Global Financial Markets

## Interest Rates and Fed Watch

The Fed rolled out their big guns (more like Bazookas) in March to fight the War on Covid19. They made it very clear - to the country and world - they will do ANYTHING to support the global financial markets. The Fed is providing an unprecedented level of liquidity through several channels. The Fed made 2 Emergency Interest Rate cuts to Fed Funds in March: one on March 3 cutting rates by 0.5%, and another on March 15 cutting rates by an additional 1.0%. In a statement, the Fed said they will keep Interest Rates low until they are: "confident that the Economy has weathered recent events and is on track to achieve its maximum employment and price stability goals." The next FOMC Meeting is scheduled for April 28 and 29.

The Fed knows it can't prevent an Economic downturn, but aggressive Monetary Policy can soften the blow and hasten a recovery. Along with Interest Rate cuts, the Fed announced a litany of additional emergency actions aimed at pumping massive amounts of liquidity into Banks and the Financial Markets. Some of the other actions are:

- Expanding the Fed's Balance Sheet by buying \$500B of Treasury Securities and \$200B of MBS - plus reinvesting payments from Treasury Debt and MBS into purchasing more Treasury and MBS Securities
- Encouraged Bank and Depository Institutions to use the Discount Window to meet credit demands
- Lowered the Discount Rate by 1.5% to 0.25% and extended Discount Window borrowing up to 90 days, prepayable and renewable on a daily basis
- Encouraged Banks to use the Fed's Intraday Credit on a collateralized and uncollateralized basis

## Housing Market Data Released in March 2020

With all the bad news, here is some good, but old, news: Single-Family Housing starts are up 35.4% in the last year. People are still buying homes, and once this disaster passes, people will buy more homes. Economists estimate there is a housing shortage to the tune of 3,000,000 units. Covid19 may disrupt housing in the short run, but it isn't going to make that shortage disappear. In the long run, people still need a roof over their head and a place to raise families. If Builders can consistently deliver 1,000,000 New Homes per year, we can chip away at the housing shortage over the next decade.

- **Existing Home Sales** (closed deals in February) rose 6.5% to an annual rate of 5,770,000 homes, up 7.2% in the last 12 months. The median price for all types of homes is now \$270,100 - up 8.0% from a year ago. The median Single Family Home price is \$272,400 and \$249,900 for a condo. First Time Buyers were 32%, Investors 17%, Cash Buyers 20%. Homes were on the market an average of 36 days, and 47% were on the market for less than a month. Currently, 1,470,000 homes are for sale, down 9.8% from 1,630,000 units a year ago.
- **New Home Sales** (signed contracts in February) fell 4.4% to a seasonally adjusted annual rate of 765,000 homes - up 14.3% YoY. The median New Home price was \$345,900, and the average New Home price was \$403,800. There are 319,000 New Homes for sale, which is a 5 month supply.
- **Pending Home Sales Index** (signed contracts in February) rose 2.4% to 115.5, up 9.4% YoY.
- **Housing Starts** (excavation began in February) fell 1.5% to a seasonally adjusted annual rate of 1,599,000 units - up 39.2% YoY. Single-Family Starts rose 6.7% to an annual pace of 1,072,000 units - up 35.4% YoY.
- **Building Permits** (issued in February) fell 5.5% to an annual adjusted rate of 1,464,000 - up 13.8% YoY. Single Family permits rose 1.7% to 1,003,000 units - up 23.3% YoY.
- **S&P/Case-Shiller 20 City Composite Home Price Index** rose 0.3% in January, now up 3.08% YoY.
- **FHFA Home Price Index** rose 0.3% in January, now up 5.2% YoY.

## Labor Market Economic Data Released in March 2020

The latest Jobs Report showed the Economy added 273,000 New Jobs in February. During the last 3 months, the Economy created an average of 243,000 new jobs per month. In the last 12 months, the Economy created an average of 171,000 jobs per month. The Labor Market was doing great, then Covid19 hit, and in one week, 3,283,000 workers lost their jobs and filed Unemployment claims. That number is unprecedented in history. To get a perspective, the previous record was 1982, when 695,000 workers filed Unemployment claims in one week. It's too early to tell how badly Covid19 damaged the Labor Market because data is just starting to roll in. Hospitality, Travel, Leisure, Bars, and Restaurants will be especially hard hit. Once the trickle-down effect kicks in - everyone will feel some Labor Market pain. The next Jobs Report is Friday, April 3rd, but that data is too early to be a meaningful indicator of the extent of the damage.

- The Economy added 273,000 New Jobs in February
- The Unemployment Rate fell to 3.5% from 3.6% in the prior month
- The Labor Force Participation Rate was unchanged at 63.4% from 63.4% the prior month
- The Average Hourly Wage rose 0.3% in February, up 3.1% YoY

## Inflation Economic Data Released in March 2020

Inflation Data came in lower than expected as the PPI fell 0.6%, and the CPI was up only 0.1%. Economists had expected Inflation to be soft this month, but not this soft. Now, with the Covid19 Pandemic, Economists are adjusting expectations for future Inflation - all on the downside. It's too early to get an accurate read on Inflation going forward, but rough estimates range from down 0.1% to down 0.8%. Despite the drop in Inflation expectations, the cost of Shelter (up 3.3% YoY) and Medical Care (up 5.3% YoY) continue to outpace all other categories.

- CPI rose 0.1%, up 2.3% in the last 12 months
- Core CPI (ex-food & energy) rose 0.2%, up 2.4% in the last 12 months
- PPI fell 0.6%, up 1.3% in the last 12 months
- Core PPI (ex-food & energy) fell 0.3%, up 1.4% in the last 12 months

## GDP Economic Data Released in March 2020

The Final Estimate of 4th Quarter 2019 GDP showed the Economy expanded at a 2.1% annualized rate (2.1% expected). GDP Data is backward-looking, it takes time to compile, analyze, and adjust the number. 1st Quarter GDP will only be slightly affected by Covid19. The real damage to GDP will hit in the 2nd and 3rd Quarters. The big question is how fast we can recover and get people back to work. How can we do a V-shaped recovery instead of U-shaped, or L-shaped? We know 2nd Quarter GDP data is going to be ugly with preliminary estimates all over the board. 2Q2020 GDP estimates range from down 2.0% to down 5.0%. Grim numbers, but they are only speculation at this point.

## Consumer Economic Data Released in March 2020

All the Consumer Data this month is in the red, but not too bad - yet. Unfortunately, this is probably just the beginning of a string of negative Consumer Data that will be coming over the next few months. It will be interesting to see Retail Sales Data next month after Consumers went on a stock-up buying spree. Consumer Confidence and Sentiment fell and will get worse in the 2nd quarter. When and where Consumer Data will bottom out is anyone's guess. Right now, we have to just watch and wait.

- Retail Sales fell 0.5% during February, up 4.3% in the last 12 months
- Consumer Confidence Index fell 9.5% to 120.0 from a revised 132.6 the prior month
- Consumer Sentiment Index (U of M) fell to 89.1 from 101.0 the prior month

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

Oil prices tumbled due to Covid19 fears, which reduced travel and fuel demand. Plus, Russia and Saudi Arabia are in a spat over quotas, so they ramped up production and flooded the market with oil - just as demand nosedived. The last time oil was this low was 2003 during an outbreak of SARS (Severe Acute Respiratory Syndrome) in Asia. Developing Nations that rely on oil revenue may lose 85% of their income this year.

- North Sea Brent Crude fell to \$23 from \$51 per barrel
- West Texas Intermediate Crude fell to \$20 from \$46 per barrel
- Japan postponed the Summer Olympics for a year
- The European Union rolled out the PEPP (Pandemic Emergency Purchase Plan) of 750B Euros (\$820B) to support the EU Economies

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

APRIL 2020				
MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
		<b>1</b> Construction Spending ISM Manufacturing Index ADP Employment Report MBA Mortgage Applications	<b>2</b> Factory Orders Challenger Job Cuts International Trade Weekly Jobless Claims	<b>3</b> Employment Report ISM Non-Manufacturing Index
<b>6</b>	<b>7</b> JOLTS	<b>8</b> FOMC Minutes MBA Mortgage Applications	<b>9</b> <b>PASSOVER</b> PPI Wholesale Trade Weekly Jobless Claims	<b>10</b> <b>GOOD FRIDAY</b> CPI Fed Budget Markets close early
<b>13</b>	<b>14</b> NFIB Business Optimism Import-Export Prices	<b>15</b> Retail Sales, NAHB Index, TIC, Empire State Report, MBA Mortgage Apps, Business Inventories	<b>16</b> Housing Starts & Permits Philly Fed Report Weekly Jobless Claims	<b>17</b> Leading Indicators
<b>20</b>	<b>21</b> Existing Home Sales	<b>22</b> FHFA Home Price Index MBA Mortgage Applications	<b>23</b> New Home Sales Weekly Jobless Claims	<b>24</b> <b>RAMADAN BEGINS</b> Durable Goods Orders Consumer Sentiment
<b>27</b>	<b>28</b> FOMC Meeting Consumer ConfidenceS&P Case-Shiller HPI	<b>29</b> FOMC Announcement GDP Pending Home Sales MBA Mortgage Applications	<b>30</b> PCE Employment Cost Index Personal Income & Spending Weekly Jobless Claims	

[SEE ECONOMIC INDICATOR DISCRPTION/ DEFINITION](#)

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# ECONOMIC INDICATOR DESCRIPTION/DEFINITION

<b>ADP Employment</b>	A national jobs report that derives its statistics from the actual monthly payrolls of employers in the non-farm private sector.	<b>Gross Domestic Product</b>	The GDP is an all encompassing measure of the economy that includes the value of all goods and services produced in the entire country.
<b>Beige Book</b>	Prepared by the Federal Reserve, it is a survey of economic conditions in each of the Fed's regions.	<b>Housing Starts</b>	This report includes housing starts, building permits, and housing completions with data obtained from surveys of homebuilders.
<b>Business Inventories</b>	This report includes inventory levels and statistics from various stages of the manufacturing process	<b>Import - Export Prices</b>	The U.S. Import and Export Price Indexes measure average changes in prices of goods and services that are imported or exported.
<b>Chicago PMI</b>	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.	<b>Industrial Production</b>	Measures volume of goods produced by all industrial firms including factories, mines, and utilities.
<b>CPI - Consumer Price Index</b>	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.	<b>International Trade</b>	Measures the trade deficit - value of exports minus the value of imports.
<b>Consumer Confidence</b>	Measures how confident consumers feel about their individual spending plans and the economy in general.	<b>ISM Manufacturing Index</b>	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.
<b>Consumer Sentiment</b>	Published monthly by the University of Michigan the index is based on over 500 phone interviews with 50 questions asked.	<b>ISM Non Manufacturing</b>	Same as the above index but for the service sector which encompasses a larger portion of real GDP.
<b>Construction Spending</b>	Monthly estimate of the total dollar value of all construction work in the country.	<b>JOLTS</b>	Job Openings and Labor Turnover Survey includes employment, job openings, hires, quits, layoffs and discharges, and other separations.
<b>Consumer Credit</b>	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.	<b>Leading Indicators</b>	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.
<b>Current Account</b>	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).	<b>New Home Sales</b>	Report on the number of newly constructed homes sold in the previous month.
<b>Durable Goods Orders</b>	Report measures how much spending is occurring on goods expected to last over three years like appliances and cars.	<b>NFIB Small Business</b>	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.
<b>ECB Announcement</b>	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.	<b>Personal Income &amp; Spending</b>	Personal Income and Outlays report provide data on consumer behavior and total economic consumption.
<b>Empire State Survey</b>	Prepared by the Federal Reserve Bank of New York, this survey summarizes general business conditions of manufacturers in New York state.	<b>Philly Fed Survey</b>	Published by the Philadelphia Federal Reserve, this survey summarizes economic activity in its district.
<b>Employment</b>	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.	<b>PPI Producer Price Index</b>	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.
<b>Employment Cost Index</b>	Measures the general cost of labor which includes wages, benefits, and bonuses.	<b>Productivity</b>	The report measures how much output is created by a unit of labor.
<b>Existing Home Sales</b>	Reports the number of existing homes that were CLOSED during the month both nationally and regionally.	<b>Retail Sales</b>	Measures goods sold by retailers. This is fairly closely watched as it indicates general spending attitudes of Consumers.
<b>Factory Orders</b>	Indicates the activity of the country's manufacturing sector and includes new orders, unfilled orders, shipments, and inventories.	<b>S&amp;P/Case Shiller HPI</b>	This Home Price Index (HPI) uses a three-month moving average to calculate its numbers giving it a two month lag.
<b>FOMC Meeting</b>	The Federal Open Market Committee meets every 6 weeks is to set monetary policy.	<b>TIC</b>	Treasury International Capital shows the flows of money across US borders for sales of ALL securities and financial instruments.
<b>FOMC Statement</b>	Issued by the Fed after the FOMC meetings summarizing topics discussed, economic outlook, and policy decisions.	<b>Weekly Jobless Claims</b>	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.
		<b>Vehicle Sales</b>	Reports the number of light vehicle cars and light trucks sold.

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