



Economic Commentary - March 2019

From a news standpoint, politics and weather dominated the headlines in February. It's easy to get caught up in all the political media hype and lose sight of the actual Economic Data. A focus on the data shows the US Economy keeps chugging along with a solid Labor Market, low Inflation, cheap gasoline prices, a recovering Stock Market, and softened Interest Rates. Unfortunately, the Housing Market has been weak, but the spring buying season is just around the corner. Looking at the bright side, it's finally March, daylight hours are getting longer, frigid temps are behind us (hopefully), buyers are venturing out to look at homes, and mortgage rates have declined. Here is a quick review of Key Economic Indicators and Data released in February 2019 that are important to Mortgage and Real Estate Professionals.

The Government Shutdown affected the Economic Calendar. March is going to be a catch-up month for many Economic Reports that were delayed due to the Government Shutdown, especially data coming out of the Census Bureau. The March Economic Calendar has several delayed, rescheduled, or cancelled reports, and release dates may continue to change.

Economic Data and Events

Interest Rates and Fed Watch

Housing Market Indicators

Labor Market Economic Indicators

Inflation Economic Data / Information

GDP Economic Data

Consumer Economic Indicators

Energy, International, and Misc

Key Economic Data and Events February 2019

- Additional tariffs were delayed as the US and China continue trade negotiations.
- FOMC Minutes indicate the Fed will be "patient".
- Inflation falls with the CPI at 1.6% YoY.
- 2018 GDP clocks in at 3.1%.
- Overseas Economic Data continues to indicate a slowing Global Economy.
- Stock Market volatility has subsided for the time being.

Interest Rates and Fed Watch

February didn't have an FOMC Meeting, so Fed Watchers turned their attention to the FOMC Minutes (January meeting) and speaking appearances of Fed officials. The Latest FOMC Minutes had a dovish tone and showed that FOMC Committee members expect to keep the Fed Funds Rate stable for quite a while. At an appearance at a Mississippi University, Fed Chair Jerome Powell told the audience the US Economy is "in good shape", and he doesn't feel there is an elevated risk of recession. On CNBC, Fed Governor Brainard said: "we'll have to wait and see...we're in a very good place to watch and see that data as it comes in." FedSpeak Translation: They are not going to raise Interest Rates until the Economic Data supports further increases - or maybe even a decrease. The key Economic Data point they are looking at is Inflation. So keep an eye on the CPI numbers. If Inflation is low, the Fed doesn't have reason to raise short-term Interest Rates.

222 Fed Target

- Inflation 1.6% CPI for the last 12 months
- Wage Growth 3.2% for the last 12 months
- GDP Growth 3.1% annualized rate for the last 12 months

Housing Market Data released in February 2019

Another month of mixed data in the Housing Market as Existing Home Sales hit a 38 year low while the Pending Home Sales Index surged 4.6%. Despite the dismal data in Home Sales for the last few months, there was some good news: Homeownership rose to 64.8% in 4Q2018 from 64.2% in 3Q2018. Geographically, Homeownership is the highest in the Midwest at 69.3%, followed by the south at 66.0%, Northeast at 61.3%, and the West at 60.9%. Even though the Homeownership Rate has dwindled since the Financial Crisis, most people still aspire to own their own home. Don't forget that for many people it is their largest (if not only) store of wealth. Along with benefits to the owners, it also has many benefits to the community and society. Mortgage Rates have declined recently, and eventually, that will translate into more Home Sales.

Housing Market Indicators Released in February 2019

- **Existing Home Sales** (closed deals in January) fell 1.2% to an annual rate of 4,940,000 homes, now down 8.5% in the last 12 months. The median price for all types of homes is now \$247,500 - up 2.8% from a year ago. The median Single Family Home price is \$249,400 and \$233,000 for a condo. First Time Buyers were 29%, Investors 16%, Cash Buyers 23%. Homes were on the market an average of 49 days, and 38% were on the market for less than a month. Currently, 1,590,000 homes are for sale, up from 1,520,000 a year ago.
- **New Home Sales** (signed contracts in December & January) scheduled for release on March 5 & 14.
- **Pending Home Sales Index** (signed contracts in January) rose 4.6% to 103.2.
- **Housing Starts** (excavation began in December) fell 11.2% to a seasonally adjusted annual rate of 1,078,000 units - down 10.7% YoY. Single Family Housing Starts fell 6.7% to an annual pace of 758,000 units - down 13.1% YoY.
- **Building Permits** (issued in December) rose 0.3% to an annual rate of 1,326,000 - up 0.5% YoY. Single Family permits fell 2.2% to 829,000 units
- **Housing Completions** (completed in December) fell 2.7% to a seasonally adjusted rate of 1,097,000 units - down 8.4% YoY. Single Family Completions rose 0.1% to 790,000 units.
- **S&P/Case-Shiller 20 City Composite Home Price Index** rose 0.2% in December - up 4.2% YoY.
- **FHFA Home Price Index** rose 0.3% in December, now up 5.6% year over year.



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Labor Market Economic Indicators Released in February 2019

The US Economy continues to add new jobs despite the Government shutdown and frigid winter weather. **The Economy added 304,000 new jobs in January 2019.** This comes after the Economy added 222,000 new jobs in December. Two months of strong back to back Employment Reports. The Labor Force Participation Rate continues to increase, and Unemployment is hovering at a 50 year low. The Labor Market is getting off to a good start in 2019 after having a great year in 2018. The next Jobs Report is Friday, March 8th, and we will see if the momentum continues.

- The **Economy added 304,000 new jobs in January.**
- The **Unemployment Rate rose to 4.0%** in January (more potential workers entered the labor force).
- The **Labor Force Participation Rate rose to 63.2%** in January.
- The **Average Hourly Wage rose 0.1%** in January and 3.2% YoY.

Inflation Economic Data Released in February 2019

Inflation doesn't seem to be a problem for the Economy. The CPI has trended lower in the last 6 months, and in the last year, Inflation was 1.6%. A lot of the decline is due to lower energy costs, specifically lower crude oil prices. However, the lower cost of energy is offset by the rise of other necessities like food, medical care, and housing. Costs for those necessities are still increasing at a faster pace. It looks like the Global Economy is slowing, especially in Europe where UK Inflation fell below 2.0% this month. Slower Global Economic Growth should keep energy costs down. Lower Inflation means low Interest Rates, and low Interest Rates means more borrowers will be buying and refinancing homes. Watch the Inflation data as the Fed won't resume raising Interest Rates until they see Inflation creeping up again.

- **CPI was unchanged**, now up only 1.6% in the last 12 months.
- **Core CPI (ex-food & energy) rose 0.2%**, now up only 2.2% in the last 12 months.
- **PPI fell 0.1%**, now up 2.0% in the last 12 months.
- **Core PPI (ex-food & energy) rose 0.3%**, up 2.6% in the last 12 months.

GDP Economic Data Released in February 2019

The first estimate of **4th quarter 2018 GDP** showed the Economy grew at a **2.6%** annual rate. This rate was slower than the prior quarter, but well above expectations of 2.2%. For all of 2018, the Economy grew 3.1%. When you consider all the adversity the Economy endured in 2018: Higher Interest Rates, a trade war, political turmoil, stock market volatility, tax changes, etc....it is proving to be very resilient. The GDP data was a month late due to the Government shutdown and is subject to further revisions. Economists are perplexed by the mixed data, especially when you compare GDP numbers to the last Retail Sales numbers. As more data is published throughout the next few months, a clearer trend will emerge. Keep in mind that the Economy typically slows during the winter months. So a slow down in GDP in 1Q2019 can be expected.

Consumer Economic Indicators Released in February 2019

Retail Sales took an unexpected hit - falling 1.2% in December - the largest since 2009. For the year, Retail sales rose 4.2%. The Retail Sales data was at odds with Consumer Confidence, Consumer Sentiment, and GDP data, which were all very positive. Plus Retailers reported a good Holiday buying season - so why the low number conflicting with other Economic Data? Some possibilities are that the Government Shutdown affected 800,000 workers who didn't get a paycheck so they probably cut back on spending. Also, December's Stock Market volatility may have scared Consumers away from stores. It's perplexing, but one data point does not make a trend. We will have to wait and see what the Consumer data is like in the next few months.

- **Retail Sales** for December fell **1.2%**, up 4.2% in the last 12 months.
- **Consumer Confidence Index** rose to **131.4** from 121.7 the prior month.
- **Consumer Sentiment Index (U of M)** rose to **93.8** from 91.2 the prior month.

Energy, International, and Misc

- British Prime Minister Theresa May postponed the March 12 Brexit vote.
- The meeting between North Korea's Kim Jong Un and President Trump in Hanoi ended abruptly.
- Opposition against Venezuela's President Maduro intensified after he blocked humanitarian aid from entering the country despite storages of food and medical supplies.
- Oil Prices were up slightly (North Sea Brent Crude about \$66 per barrel, West Texas Crude about \$57 per barrel).

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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