



Economic Commentary - February 2019

January is usually a slow month as people recover from their Holiday hangover. That wasn't the case this year. Thanks to the Government Shutdown, political wrangling in Washington, an FOMC Meeting, and an arctic blast, 2019 had a lot going on right out of the gate. At least the Stock Market took a break from all the recent volatility. Government Employees got back to work - for now - but not soon enough to publish some of the Economic Indicators and Data that are used in this monthly review. We'll catch up next month - that is if the Government doesn't shutdown again.

If you look past recent headlines, there is a growing concern about the Global Economy slowing down. That Global Trend will affect specific sectors of our Economy like the Housing Market, Labor Market, and Interest Rates. To better understand the interplay of all these factors, let's do a quick review of Key Economic Indicators and Data from January 2019 that are important to Mortgage and Real Estate Professionals.

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

January Economic Data and Events

- The latest FOMC Meeting concluded on January 30 with no change to Interest Rates.
- The FOMC Announcement may have signaled a change in Fed policy.
- The Stock Market surged 435 points after the Fed Announcement.
- The Government was shut down for 35 days, and it may happen again in February.
- Early Indications are pointing to a slow down of the Global Economy.
- Inflation is slowing with the CPI below 2.0% for the last 12 months.

Interest Rates and Fed Watch

The latest FOMC Meeting ended January 30 and, as expected, there was no change in Interest Rates. What was interesting was the tone of the Fed Announcement. In that announcement, the Fed eliminated any reference to "...further gradual increases..." that had been in previous announcements. Does this mean they scrapped future rate increases? For the next few months? For the rest of 2019? Is it possible they may even lower rates in 2019? In a separate statement, the Fed addressed their balance sheet and said they are: "...prepared to adjust any of the details for completing balance sheet normalization in light of economic and financial developments." Translation: They are prepared to stop selling securities if Economic developments warrant the change. With most of the attention focused on Interest Rates, don't forget that the Fed is also tightening the Money Supply by selling securities from its portfolio. This aspect is often overlooked but is as important - maybe more - than Interest Rates.

222 Fed Target

- Inflation 1.9% CPI for the last 12 months
- Wage Growth 3.2% for the last 12 months
- GDP Growth 3.0% annualized rate for the last 12 months (data from Dec 2018)

Housing Market Data released in January 2019

Mixed data in the Housing Market. Existing Home Sales took a big plunge along with a drop in Pending Home Sales. New Home Sales data to a huge jump in November - that data was supposed to be released in December. Home price appreciation is slowing - prices of homes are still going up but not as fast. Many discouraged home buyers are just giving up - they can't find a home they can afford. Affordability and Inventory are stated over and over as the culprits that ail the Housing Market. My theory is very simple: we haven't built enough new homes to keep up with household formation and housing attrition. It's basic Econ 101 Supply & Demand - we need more homes and the Housing Market problems won't go away until we start building them.

Housing Market Indicators Released in January 2019

- **Existing Home Sales** (closed deals in December) fell 6.4% to an annual rate of 4,990,000 homes, now down 10.3% in the last 12 months. The median price for all types of homes is now \$253,600 - up 2.9% from a year ago. The median Single Family Home price is \$255,200 and \$240,600 for a condo. First Time Buyers were 32%, Investors 13%, Cash Buyers 22%. Homes were on the market an average of 46 days, and 39% were on the market for less than a month. Currently, 1,550,000 homes are for sale, up from 1,460,000 a year ago.
- **New Home Sales** (signed contracts in November) rose 16.9% to a seasonally adjusted annual rate of 657,000 units. Year over year New Home Sales are down 7.7%. The median price of a new home is \$302,000, (12% lower than a year ago) and the average sales price is \$362,400. Inventory of New Homes for sale is 330,000 - a 6 month supply. (Data originally scheduled for release in December)
- **Pending Home Sales Index** (signed contracts in December) fell to 99.0 from 101.2 the previous month.
- **Housing Starts** (excavation began in December) data was delayed due to the Government Shutdown.
- **Building Permits** (issued in December) data was delayed due to the Government Shutdown.
- New Home Sales, Housing Starts, and Building Permits are **notoriously volatile indicators**. They carry a lot of statistical uncertainty from constant revisions, changes to the seasonal adjustment formula, and are heavily influenced by weather.
- **S&P/Case-Shiller 20 City Composite Home Price Index** rose 0.3% in November. In the last 12 months, the index is up 4.7%.
- **FHFA Home Price Index** rose 0.4% in November, now up 5.8% year over year.



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Labor Market Economic Indicators Released in January 2019

While most of the country is in a deep freeze, the Labor Market is hot. The Economy added a revised 222,000 new jobs in December 2018 then another 304,000 in January 2019. These were strong back to back reports, both well above expectations. For 2018, the Economy created over 2,600,000 new jobs. The Labor Force Participation Rate also increased as higher wages and more job prospects attracted workers. Paradoxically, the Unemployment Rate increased creating a mixed message. Labor had a great 2018 and 2019 is getting off to a good start. However, the weak Housing Market, higher Interest Rates, and a slowing Global Economy can be a drag on job creation - but for now, the Labor Market has built up a lot of momentum.

- The Economy added a revised 222,000 new jobs in December and 304,000 in January
- The Unemployment Rate rose to 3.9% in December then to 4.0% in January.
- The Labor Force Participation Rate rose to 63.1% in December then to 63.2% in January.
- The Average Hourly Wage rose 0.4% in December and 0.1% in January - up 3.2% YoY.

Inflation Economic Data Released in January 2019

Lots of red in the Inflation data this month with the CPI and PPI both falling. Like all Economic Data - don't look at just the monthly numbers but take a look at the trend. Inflation has slowly been trending lower over the past few months - mostly due to a drop in energy prices. Annual Inflation is now below the Fed's target of 2.0%. That gives the Fed reason to stop increasing Interest Rates. Despite the good news on lower gas prices, housing and health care costs continue to rise. Shelter costs were up 0.3%, Medical Care up 0.3%, food costs up 0.4%, clothing was unchanged, and used cars fell 0.2%.

- CPI fell 0.1% now up only 1.9% in the last 12 months
- Core CPI (ex-food & energy) rose 0.2%, now up only 2.2% in the last 12 months.
- PPI rose (ex-food & energy) rose 0.2%, now up only 2.2% in the last 12 months.
- Core PPI (ex-food & energy) fell 0.1%, up 2.7% in the last 12 months.

GDP Economic Data Released in January 2019

GDP data wasn't published this month but we can look at alternative data like the Beige Book. The Beige Book is a Federal Reserve Report compiling Economic conditions across the 12 Federal Reserve Districts. According to the latest Beige Book, Economic growth continues to be "modest to moderate". Factors that are dampening the Economy include: stock market volatility, political uncertainty, tight Labor Markets, upward pressure on wages, Interest Rate fluctuations, and the trade war. Wage pressure is a particular concern as businesses are reluctant to pass those higher costs to the Consumer. Lower energy costs have helped alleviate some of the increased wage and tariff costs, but optimism among businesses has declined

Consumer Economic Indicators Released in January 2019

Retail Sales data was not released from the Census Bureau due to the Government Shutdown. However, it looks like Consumer spending is getting a boost from lower energy prices. The less money Consumers spend on gasoline gives them more money to spend on other items. Keep in mind that the first quarter of the year is typically slow for Retail Sales. Consumers are still recovering from the Holiday spending spree - and last year was a good year for Holiday spending. In the meantime, Consumer Confidence is falling. The drop can be attributed to several different issues: political uncertainty, trade war, market volatility, cold weather, etc. Watch the Consumer Data and see if it improves as the weather warms.

- Retail Sales Delayed due to Government Shutdown.
- Consumer Confidence Index fell to 120.2 from a revised 126.6 the previous month.
- Consumer Sentiment Index (U of M) fell to 90.7 from 98.3 the previous month.

Energy, International, and Misc

- A Chinese delegation arrived in Washington DC for Trade negotiations.
- China's GDP projections for 2019 have been lowered to 6.0% - 6.5% from 6.9% in 2018.
- Fear of recession in Europe as industrial output declined in Germany, France, Italy, and Spain.
- Brexit Update: The UK rejected Theresa May's Brexit Agreement with the EU. Some members of Parliament want to delay the March 29 Brexit date to avoid a hard exit.
- The US has placed sanctions on Venezuelan oil to increase pressure on President Maduro.
- Oil Prices stabilized (North Sea Brent Crude about \$62, West Texas about \$54 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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