



MORTGAGE ECONOMIC COMMENTARY AND REVIEW

Paradox. 2020 was a year full of contradictions. The end of the year finally arrived, with billions of people very happy to see 2020 come to a close. While most of the Economy was struggling, the Mortgage Business had its best year ever - closing around \$4.4 Trillion in Home Loans. Interest Rates set and hovered at all-time lows, while Stock Markets set record highs. Stimulus Packages pumped Trillions of dollars into the Economy to support businesses and unemployed workers. Housing Prices rocketed higher while the cost of rent softened. Many Millennial renters abandoned their urban apartment lifestyles to buy homes in the suburbs. Covid brought the Economy to a screeching halt in the 2nd quarter, but it came roaring back in the 3rd quarter. Household Net Worth rose \$3.8 Trillion, while millions of Borrowers are still in mortgage forbearance. The closer you look at the data, the more you see paradoxes. Next month we'll get a better look at the year-end data, but for now, let's enjoy the newborn 2021 with guarded optimism and hope for a Happy and Healthy New Year for all.

Key Economic Data and Events in December 2020

- Stock Markets hit new record highs in the last week of December: Dow 30,606, S&P 500 3,756.07, NASDAQ 12,888.28
- Covid Vaccines started to be administered to Health Professionals and high-risk groups
- Congress passed another Stimulus Package with \$900 Billion in aid
- US GDP increased by 33.4% in the 3rd quarter
- The Economy created 245,000 New Jobs as the Unemployment Rate dropped to 6.7%
- US Inflation remained tame, with the CPI at 1.2% YoY
- The yield on the 10 year Treasury Security finished the month at 0.91%

Interest Rates and Fed Watch

The Fed completed its latest FOMC Meeting on December 16th with no surprises and acknowledged that the Economic Recovery is slowing down. Despite the disturbing news of a slowing recovery, Chairman Powell sounded very upbeat: "we can kind of see the light at the end of the tunnel... we're thinking that this could be another long expansion...we're going to keep policy highly accommodative until the expansion is well down the tracks." Throughout December, he took several opportunities to urge Congress to pass a stimulus package because the pace of the recovery had recently slowed. The Fed's December Beige Book also reported a slowing recovery with continued risks to the Economy from a virus resurgence.

Housing Market Data Released in December 2020

A lot of people want to buy a home, but they just can't find one. To be more specific, they can't find one they can afford - even at these ridiculously low Mortgage Rates. It's Classic Supply and Demand from Econ 101. Inventory problems have plagued the Housing Market for the past 5 years because builders stopped constructing New Homes after the 2008 Financial Crisis. So, the supply of available homes for sale has been tight. Now, demand is up while supply is down - prices can only go up. The FHFA Home Price Index was up a whopping 10.2% YoY, which is great news for Home Owners but bad news for Home Buyers. Home demand usually tracks with the Labor Market. People don't buy homes unless they are secure in their employment - and there are 10 million workers still unemployed due to Covid. Just another 2020 Paradox.

- **Existing Home Sales** (closed deals in November) fell 2.5% to an annual rate of 6,690,000 homes, up 25.8% in the last 12 months. The median price for all types of homes is \$310,800 - up a whopping 14.6% from a year ago - which is an incredible number. The median Single Family Home price is \$315,500 and \$271,400 for a Condo. First Time Buyers were 32%, Investors 14%, Cash Buyers 20%. Homes were on the market for an average of 21 days (a record low), and 73% were on the market for less than a month. Currently, 1,280,000 homes are for sale (record low), down 22% from 1,640,000 units a year ago.
- **New Home Sales** (signed contracts in November) fell 11.0% to a seasonally adjusted annual rate of 841,000 homes - up 20.8% YoY. The median New Home price is \$335,300, and the average is \$390,100. There are 286,000 New Homes for sale, which is a 4.1 month supply.
- **Pending Home Sales Index** (signed contracts in November) fell 2.6% to 125.7 from 128.9, up 16.4% YoY.
- **Building Permits** (issued in November) rose 6.2% to a seasonally adjusted annual rate of 1,639,000 units - up 8.5% YoY. Single-Family Permits rose 1.3% to an annual pace of 1,143,000 homes, up 22.2% YoY.
- **Housing Starts** (excavation began in November) rose 1.2% to an annual adjusted rate of 1,547,000 units - up 12.8% YoY. Single-Family Starts rose 0.4% to 1,186,000 homes - up 27.1% in the last 12 months.
- **Housing Completions** (completed in November) fell 12.1% to an annual adjusted rate of 1,163,000 units - down 4.8% YoY. Single Family Completions fell 0.6% to 874,000 homes - down 4.5% in the last 12 months.
- **S&P/Case-Shiller 20 City Composite Home Price Index** rose 1.6% in October, up 7.95% YoY.
- **FHFA Home Price Index** rose 1.5% in October, now up 10.2% YoY.

Labor Market Economic Data Released in December 2020

The Economy added 245,000 Jobs in November, with the Unemployment Rate falling to 6.7%. Employment Data continued to trend in a positive direction, but it also shows that the Labor Market is slowing down. So far in 2020, of the 22 million workers laid off, 12 million have returned to work, leaving 10 million still unemployed. A small part of the soft data can be attributed to 93,000 temporary Census workers ending their assignments. Local Government employment unexpectedly declined due to lower tax receipts forcing States and municipalities to reduce workers. Expect the Employment data to remain soft into the first quarter of 2021 and (hopefully) resume its upward trajectory in 2Q 2021.

- The Economy added 245,000 new jobs during November
- The Unemployment Rate fell to 6.7% in November from 6.9% in October
- The Labor Force Participation Rate fell to 61.5% from 61.7% the previous month
- The Average Hourly Wage rose 0.3%, now up 4.4% YoY

Inflation Economic Data Released in December 2020

Inflation continues to be a non-issue, with the CPI (1.2% YoY) and PPI (0.8% YoY) well below 2.0%. Covid price disruption that started back in the spring continues today. Airfare and apparel prices tumbled, while used car and home prices soared. Those price disruptions are now normalizing as the Economy recovers, but they have still not boosted general Inflation Data. We know Inflation will be back. We don't know when, and it may be back with a vengeance.

- CPI rose 0.2%, now up 1.2% in the last 12 months
- Core CPI (ex-food & energy) rose 0.2%, up 1.6% in the last 12 months
- PPI rose 0.1%, up 0.8% in the last 12 months
- Core PPI (ex-food & energy) rose 0.1%, up 1.4% in the last 12 months

GDP Economic Data Released in December 2020

The 2nd Estimate of 3rd Quarter 2020 US GDP showed the Economy grew at a 33.1% annualized rate - unchanged from last month's estimate. There is no doubt among Economists that the Economy is recovering faster than expected. Spending increases have outpaced Employment, but that is typical in a recovery. It's now the last month of the year, and 2020 will soon be in our rearview mirror. Then we can get a better look at the data. Hindsight is always 20-20 (pun intended)

Consumer Economic Data Released in December 2020

November Retail Sales fell 1.1%, which surprised and disappointed many Economists. Consumers closed their wallets as new Covid cases spiked and the lockdowns shuttered businesses. This pullback of Consumer Spending demonstrated to politicians the need for another stimulus package. Paradoxically, the Net Worth of Households hit a record high. The Fed reported that Household Net worth rose 3.2% or \$3.8 Trillion dollars (\$3,800,000,000,000 - that's a lot of zeros). Increased Saving, a roaring stock market, Borrowers refinancing to lower Mortgage Payments, and trillions in government stimulus all worked its way into the Consumer's balance sheet.

- Retail Sales rose 0.3%, now up 10.6% in the last 12 months
- Consumer Confidence Index fell to 88.6 from 96.1 the previous month
- Consumer Sentiment Index (U of M) rose to 80.7 from 76.9 the previous month

Energy, International, and Things You May Have Missed

Oil Prices rose above \$48 in December. Lower oil inventories and Covid vaccine enthusiasm spurred speculation of heightened oil demand due to increased travel in the spring.

- As of January 4th, West Texas Intermediate crude is trading around \$48/barrel, North Sea Brent Crude is trading about \$51/barrel.
- Despite bitter and difficult negotiations, the UK and EU finally agreed on a Brexit Deal.
- A 90-year old British woman was the first person to get the COVID vaccine.
- Boeing 737 Max planes started flying commercially again.
- Copper Prices rose to a 7 year high due to industrial demand in China and US homebuilding.
- Roughly 2,700,000 loans continue to be in Mortgage Forbearance (about 5.0%).
- Propane Tanks are in short supply as restaurants provide more outdoor seating.



MORTGAGE ECONOMIC CALENDAR

JANUARY 2021

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
				1 Employment Report Factory Orders International Trade
4 Construction Spending Vehicle Sales	5 ISM Manufacturing Index	6 FOMC Minutes Factory Orders ADP Employment MBA Mortgage Applications	7 ISM Non-Manufacturing Index Trade Balance Weekly Jobless Claims	8 Employment Report Consumer Credit
11	12 JOLTS NFIB Business Optimism	13 Beige Book Fed Budget MBA Mortgage Applications	14 Import - Export Prices Weekly Jobless Claims	15 PPI Retail Sales, Industrial Production, Business Inventories
18 Martin Luther King Jr. Birthday Markets Closed	19 TIC	20 NAHB Index MBA Mortgage Applications	21 Housing Starts & Permits Weekly Jobless Claims	22 Existing Home Sales
25	26 FOMC Meeting S&P Case-Shiller Home Prices FHFA Home Price Index Consumer Confidence	27 FOMC Meeting & Statement Durable Goods MBA Mortgage Applications	28 GDP New Home Sales Weekly Jobless Claims	29 Pending Home Sales Consumer Sentiment Personal Income & Spending Employment Cost Index

SEE ECONOMIC INDICATOR DISCRIPTION/ 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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