



MORTGAGE ECONOMIC COMMENTARY AND REVIEW

Memorial Day was Monday and summer has started. The Economic news in May was overwhelmingly positive. The Economy and Corporate profits are soaring. Stock Markets are setting new highs. The Housing Market is Red Hot. Patrons are returning to Restaurants and Bars. Consumers are spending their Stimulus Checks. Airplanes are filled to capacity. The only cloud on the horizon is Inflation, which everyone is closely watching. For now, review the data below and enjoy the summer.

Key Economic Data and Events in May 2021

- A cyber attack crippled the largest US fuel pipeline for 5 days
- 24 states announced they will opt out of Federal Unemployment Benefits early
- Stock Markets set new record highs again: Dow 35,090, S&P 4,238
- The Economy added 266,000 new jobs, with the Unemployment Rate at 6.1% in April
- The 10 year US Treasury yield traded between 1.46% and 1.70% in May
- Inflation edged higher - the CPI jumped 0.8% in April, up 4.2% YoY
- The 1Q2021 US GDP clocked in at a 6.4% annual growth rate

Interest Rates and Fed Watch

Since there was no FOMC Meeting in May, the Minutes from the April FOMC Meeting were the focus of Financial Markets. The April Minutes had no surprises and reiterated the same message as in the past - it would be "some time" before the Economy had recovered to the point of changing Monetary Policy, and the Fed would provide ample notice of its intentions to change Monetary Policy. A few Fed Governors were on the speaking circuit in May. They reiterated the Fed's belief that current increases in Inflation is "transitory", and that the Fed expects a lot of "noise" in the Inflation Data through September. So for now, no change in Monetary Policy, and the Fed will continue to buy \$120B each month of Treasury and Mortgage Securities. The next FOMC meeting is on June 15th and 16th.

Housing Market Data Released in May 2021

The Housing Market has been Red Hot for several months - too hot to handle for many Homebuyers and Home Builders. If you look at the data below, it shows the Housing Market looks overheated with signs of burning out. After months of skyrocketing Home Prices, demand is starting to wane. Many prospective buyers have given up shopping for a home, and continue to rent for another year or two. Builders are postponing construction until lumber prices decline. The soaring cost of lumber added \$30,000 - \$50,000 to the cost of a new Home. What happens to New Home values when lumber prices come down? Does that home lose \$30,000 in value? Will the Homeowner be underwater on his mortgage? Anytime a market gets overheated, things get volatile, and it can end badly.

- **Existing Home Sales** (closed deals in April) fell 2.7% to an annual rate of 5,850,000 homes, up 33.9% in the last 12 months. The median price for all types of homes is \$349,600 - up an incredible 19.1% from a year ago (record high). The median Single-Family Home price is \$347,400 and \$300,400 for a Condo. 1st Time Buyers were 31%, Investors and 2nd Home Buyers 17%, Cash Buyers 25%. Homes were on the market for an average of 17 days, and 86% were on the market for less than a month. Currently, 1,160,000 homes are for sale, down 20.5% from 1,460,000 units a year ago.
- **New Home Sales** (signed contracts in April) fell 5.9% to a seasonally adjusted annual rate of 863,000 homes - up 48.3% YoY. The median New Home price is \$372,400, and the average is \$435,400. There are 316,000 New Homes for sale, which is a 4.4 month supply.
- **Pending Home Sales Index** (signed contracts in April) fell 4.4% to 106.2 from 111.3 the previous month, up 51.7% YoY.
- **Housing Starts** (excavation began in April) fell 9.5% to an annual adjusted rate of 1,569,000, but still up 67.3% YoY. Single-Family Starts fell 13.4% to 1,087,000 homes, but are up 58.7% in the last 12 months.
- **Building Permits** (issued in April) rose 0.3% to a seasonally adjusted annual rate of 1,760,000 units - up 60.9% YoY. Single-Family Permits fell 3.8% to an annual pace of 1,149,000 homes, up 70.7% YoY.
- **Housing Completions** (completed in April) fell 4.4% to an annual adjusted rate of 1,449,000 units - up 21.7% YoY. Single-Family Completions rose 0.1% to 1,045,000 homes - up 20.8% in the last 12 months..
- **S&P/Case-Shiller 20 City Composite Home Price Index** rose 1.6% in March, up 13.3% YoY.
- **FHFA Home Price Index** rose 1.4% in March, now up 13.9% YoY.

Labor Market Economic Data Released in May 2021

The Economy created 266,000 New Jobs in April. This Employment Data was much lower than Economists' expectations of 1,000,000 new jobs (some Economists expected 2,000,000 new jobs). Why were expectations so far off? Several theories: Skills mismatch, Covid fears, changing worker behavior, childcare obligations, and generous Unemployment Benefits. Many Economists think they underestimated the effects of the "enhanced" Unemployment Benefits on the Labor Market. There are millions of job openings and millions of qualified workers sitting at home. However, since generous Unemployment Benefits can pay more than working, there is no incentive to return to work. Federal Unemployment Assistance ends September 4th, but at least 24 states are opting out early. In those states, Federal Unemployment Benefits may come to an end in June or July. It will be interesting to watch the Labor Data as Unemployment Benefits end.

- The **Economy** created 266,000 New Jobs during April
- The **Unemployment Rate** rose 0.1% to 6.1% in April from 6.0% in March
- The **Labor Force Participation Rate** rose to 61.7% in April from 61.5% in March
- The **Average Hourly Wage** rose 0.7% in April, now up 0.3% YoY

Inflation Economic Data Released in May 2021

The CPI jumped 0.8%, and the PPI surged 0.9% in April - double what Economists expected. Make no mistake about it - these are scary numbers. Besides surprising Economists, this data also rattled the Financial Markets. If the Inflation numbers are "temporary or transitory", then it's tolerable for a while as the Economy recovers. However, if high CPI Data appears month after month after month, we will face the possibility of 70's style Stagflation. Some Economists even fear the specter of Hyperinflation. However, the Fed continues to believe high Inflation is transitory and "Reflation" is an expected consequence of the recovery. One thing is for sure - all eyes will be focused on Inflation Data for the next few months.

- **CPI** rose 0.8%, now up 4.2% in the last 12 months
- **Core CPI** (ex-food & energy) rose 0.9%, up 3.0% in the last 12 months
- **Owners' Equivalent Rent** rose 0.2%, up 2.0% YoY
- **PPI** rose 0.6%, up 6.2% in the last 12 months
- **Core PPI** (ex-food & energy) rose 0.7%, up 4.1% in the last 12 months

GDP Economic Data Released in May 2021

The 2nd estimate of 1st Quarter 2021 US GDP showed the Economy grew at a 6.4% annualized rate (6.5% expected). Real GDP is up 0.4% in the last 12 months. Corporate Profits were up 4.6% in April and 25.2% YoY. Residential Investment (homes) jumped 12.7%. Businesses were on a spending spree for Capital Goods: Business Fixed Investment was up 10.8%, Equipment up 13.4%, and Intellectual Property up 16.9%. Federal Government Spending was up 13.9%.

Consumer Economic Data Released in May 2021

Consumers took a break from their buying binge in April as Retail Sales were flat. Make no mistake about it - Retail Sales are still way up - up 51.2% in the last 12 months and up 18% from Pre-Covid levels. Those are huge numbers considering the US Economy is 70% Consumer-driven. The Government Stimulus did the trick, and there is still a pile of cash in Consumers' Bank Accounts. What are Consumers buying? April's Data was flat, but the Year over Year numbers are spectacular: In the last 12 months, Cars Sales are up 104.5%, Clothing up 726.8% (not a typo), Department Store Sales up 72.5%, Sporting Goods up 155.0%, Furniture up 196.4%, Electronics and Appliances up 139.0%, Building Materials up 33.8%, Health and Personal Care up 24.7%, Restaurants and Bars up 116.8%. On the flip side, fears of high Inflation dented Consumer Confidence and Consumer Sentiment.

- **Retail Sales** was unchanged in April, now up 51.2% in the last 12 months
- **Consumer Confidence Index** fell to 117.2 from 121.7 the previous month
- **Consumer Sentiment Index** (U of M) fell to 82.9 from 88.3 the previous month

Energy, International, and Things You May Have Missed

Oil prices rose in May due to increased energy demand. As of June 1st, West Texas Intermediate Crude is trading around \$68/barrel, and North Sea Brent Crude is trading about \$70/barrel.

- China's Economy grew by a record 18.3% YoY - if you believe their data. A large part of the growth was due to the US Stimulus programs that increased demand for Chinese products.
- JPMorgan expects its staff to start heading back to their offices in July.
- India is struggling with a Covid resurgence.
- The European Parliament Ratified the UK-EU Brexit Deal

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

JUNE 2021

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

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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