



# MORTGAGE ECONOMIC COMMENTARY AND REVIEW

The Mortgage Economic Review is a monthly summary of Key Economic Indicators, Data, and Events pertinent to Mortgage and Real Estate Professionals.

## Key Economic Data and Events in July 2021

- **Interest Rates:** The 10-Year US Treasury yield fell to 1.24% (July 30) from 1.48% (July 1).
- **Housing:** Home Prices set another record high, with the FHFA HPI increasing 18.0% YoY.
- **Labor:** The Economy added 850,000 new jobs during June.
- **Inflation:** Inflation stormed higher as the CPI jumped 0.9%, now up 5.4% YoY.
- **The Economy:** US GDP grew at 6.5% in the 1st Quarter of 2021.
- **Consumers:** Retail Sales surged 0.6% in June, now up 18% in the last 12 months.
- **Stock Markets** set new record highs: Dow 35,144, Nasdaq 14,840, S&P 4,422

## Interest Rates and Fed Watch

The last FOMC Meeting wrapped up on July 28 with no change to Monetary Policy or the Fed's view on Inflation. The July FOMC Statement reflects the Fed's belief that current high Inflation is only temporary, and it is too soon to scale back their accommodative Monetary Policy. In the meantime, the Fed will continue to buy \$120B per month of US Treasury and MBS Securities, and keep Fed Funds at 0.0% - 0.25%, until "substantial further progress has been made toward the Committee's maximum employment and price stability goals". FedSpeak Translation: The Economy has not recovered enough to change Monetary Policy, and they are willing to tolerate high Inflation - for now. The next FOMC Meeting will be on September 21st and 22nd.

- **10 Year Treasury Security Yield:** fell to 1.24 (July 30) from 1.48 (July 1)
- **30 Year Fixed Mortgage:** fell to 2.80% (July 30) from 2.98% (July 1)
- **15 Year Fixed Mortgage:** fell to 2.10% (July 30) from 2.26% (July 1)
- **5/1 ARM Mortgage:** fell to 2.45% (July 30) from 2.54% (July 1)

## Housing Market Data Released in July 2021

Home Prices continue to set new records. The FHFA Home Price Index is up 18.0% in the last 12 months - a new record. New Home Sales took an unexpected hit of 6.6%, while Existing Home Sales was able to squeeze out a modest gain of 1.4%. Remember when everyone was talking about Lumber Prices? Lumber Futures are down almost 70% from their highs 2 months ago. At the peak, lumber costs would have added roughly an extra \$35,000 to the average price of a New Home. Now that sawmills are reopening and more lumber is available, we could see New Home Prices retreat over the next few months.

- **Existing Home Sales** (closed deals in June) rose 1.4% to an annual rate of 5,860,000 homes, up 22.9% in the last 12 months. The median price for all types of homes is \$363,300 - up an incredible 23.4% from a year ago. The median Single-Family Home price is \$370,600 and \$311,600 for a Condo. Homes were on the market for an average of 17 days, and 89% were on the market for less than a month. Currently, 1,250,000 homes are for sale, down 18.8% from 1,540,000 units a year ago.
- **New Home Sales** (signed contracts in June) fell 6.6% to a seasonally adjusted annual rate of 676,000 homes - down 19.4% YoY. The median New Home price fell 5.0% to \$361,800. The average price fell 1.2% to \$428,700. There are 353,000 New Homes for sale, which is a 6.3 month supply.
- **Pending Home Sales Index** (signed contracts in June) fell 1.9% to 112.8 from 114.7 the previous month, 1.9% YoY.
- **Housing Starts** (excavation began in June) rose 6.3% to an annual adjusted rate of 1,643,000, up 29.1% YoY. Single-Family Starts rose 6.3% to 1,160,000 units, up 28.5% YoY.
- **Building Permits** (issued in June) fell 5.1% to a seasonally adjusted annual rate of 1,598,000 units - up 23.3% YoY. Single-Family Permits fell 6.3% to an annual pace of 1,063,000 homes, up 25.1% YoY.
- **Housing Completions** (completed in June) fell 1.4% to an annual adjusted rate of 1,342,000 units - up 6.5% YoY. Single-Family Completions fell 6.1% to 902,000 homes - down 2.7% in the last 12 months.
- **S&P/Case-Shiller 20 City Composite Home Price Index** rose 2.1% in May, up 17.0% YoY.
- **FHFA Home Price Index** rose 1.7% in May, now up 18.0% YoY.
- **Housing Affordability Index** fell 2.6% in May to 151.7 from 155.8 the prior month.

## Labor Market Economic Data Released in July 2021

The Economy created 850,000 new jobs in June, well above Economists' expectations of 706,000. Job creation is plugging along at a brisk pace as businesses reopen. The last JOLTS Report shows there are 9,209,000 job openings. Plus, Enhanced Unemployment Benefits will end September 4 - that's only a month away. The good news for people losing their Unemployment Benefits is that there are plenty of jobs available. It will be interesting to watch Wage Growth in the 2nd half of 2021 as businesses compete to attract new workers. Wage Growth has important implications for Inflation as those higher wages are passed along as higher Consumer prices and Inflation. Wage Growth also has significant consequences for Housing. Higher wages mean more people can afford larger homes and qualify for bigger mortgages. The Economy created 583,000 New Jobs during May and 850,000 in June.

- The Economy created 850,000 New Jobs during June.
- The Unemployment Rate rose 5.9% in June.
- The Labor Force Participation Rate was unchanged at 61.6% in June.
- The Average Hourly Wage rose 0.3% in June, now up 3.6% YoY.
- Job Openings fell slightly to 9,209,000 in May from 9,286,000 the previous month.

## Inflation Economic Data Released in July 2021

The recent high Inflation Data has almost everyone - Consumers, Businesses, and many Economists - worried, except the Fed. This current CPI data is some of the biggest we have seen in 30 to 40 years, so it's natural to be worried. However, the Fed is holding steadfast to their belief that high Inflation is temporary. This means these price increases will subside once the Economy has fully reopened. Some Economists are starting to agree, but we won't know until the CPI data starts cooling off. Some of the major factors driving Inflation are Gasoline which is up 45.1% YoY, Used Cars up 45.2% YoY, Car Rental up 87.7% YoY, Airfare up 24.6% YoY, Hotels up 16.9%, Furniture up 8.6%.

- CPI rose 0.9%, up 5.4% YoY | Core CPI rose 0.9%, up 4.5% YoY
- PPI rose 1.0%, up 7.3% YoY | Core PPI rose 1.0%, up 5.6% YoY
- PCE rose 0.5%, up 4.0% YoY | Core PCE rose 0.4%, up 3.5% YoY

## GDP Economic Data Released in July 2021

The 1st Estimate of 2nd Quarter 2021 US GDP showed the Economy grew at a 6.5% annualized rate, which disappointed Economists who were expecting an 8.5% growth rate. At this point, the Economy is now 0.8% above its pre-pandemic peak. Real GDP is up 12.2% in the last 12 months. Consumer and Business Spending both had another strong month, but Government spending was down 1.5%. Consumer Spending increased 11.8%. Exports had a good month and increased 6.0%, but were eclipsed by Imports which rose 7.8%. Inventories fell 1.1%, acting as a drag on GDP data.

## Consumer Economic Data Released in July 2021

Consumer Sentiment declined mostly due to Inflation fears and the Delta Variant. While most Consumers are optimistic that Inflation will be temporary, it's unnerving to see those high CPI numbers. Retail Sales had a strong month, but keep in mind it is distorted by the enhanced Unemployment Benefits and huge Government payments, which will end soon. In the meantime, it is good to see people getting back to shopping at Department Stores and eating at Restaurants. Department Store sales were up 5.9% in June and 24.4% in the last 12 months. Sales at Restaurants and Bars rose 2.3% and a whopping 40% YoY. Clothing Sales were up 2.6%, Gasoline up 2.5% (37.1% YoY), Groceries up 0.6%, Appliances up 3.3%. On the downside, Vehicle Sales fell 2.0%, but still up a healthy 19.5% YoY, Furniture down 3.6%, Building Materials down 1.6%.

- Retail Sales rose 0.6% in June, now up 18.0% in the last 12 months.
- Consumer Confidence Index rose to 129.1 from 127.3 the previous month.
- Consumer Sentiment Index (U of M) fell to 81.2 from 85.5 the previous month.

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

Oil Prices moved sideways in July as OPEC countries agreed to raise production.

- West Texas Intermediate Crude fell to \$74/barrel (July 30) from \$75/barrel (July 1)
- North Sea Brent Crude moved sideways: \$76/barrel (July 30) from \$76/barrel (July 1)
- Retail Gasoline Prices rose to \$3.09/gallon, up 42.2% YoY. FHFA removed the Adverse Market Fee on refinances that was imposed last year. The Hotel Occupancy Rate is now only 8.7% below the July 2019 rate. China's GDP clocked in at 7.9%, which was below expectations. Parts of South Africa are beginning to look like war zones as social unrest intensifies.



# MORTGAGE ECONOMIC CALENDAR

AUGUST 2021				
MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>2</b>  Construction Spending ISM Manufacturing Index Vehicle Sales	<b>3</b>  Factory Orders	<b>4</b>  ADP Employment ISM Non-Manufacturing Index MBA Mortgage Applications	<b>5</b>  Trade Balance Weekly Jobless Claims	<b>6</b>  Employment Report Consumer Credit
<b>9</b>  JOLTS	<b>10</b>  Productivity NFIB Business Optimism	<b>11</b>  CPI Fed Budget MBA Mortgage Applications	<b>12</b>  PPI Weekly Jobless Claims	<b>13</b>  Import-Export Prices
<b>16</b>  TIC	<b>17</b>  Retail Sales NAHB Index Business Inventories Industrial Production	<b>18</b>  FOMC Minutes Housing Starts & Permits MBA Mortgage Applications	<b>19</b>  Weekly Jobless Claims	<b>20</b>
<b>23</b>  Existing Home Sales	<b>24</b>  New Home Sales	<b>25</b>  Durable Goods MBA Mortgage Applications	<b>26</b>  GDP Weekly Jobless Claims	<b>27</b>  Consumer Sentiment Personal Income & Spending
<b>30</b>  Pending Home Sales	<b>31</b>  S&P Case-Shiller Home Prices FHFA Home Price Index Consumer Confidence			

SEE ECONOMIC INDICATOR DISCRIPTION/ DEFINITION

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# 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 form 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 he 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 byThe Conference Board, it determines the index from the valuesof ten keyvariables.
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 boarders 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.