



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 August 2022

- **Interest Rates:** The 10-Year Treasury yield rose to 3.26% (Sep 01) from 2.60% (Aug 01).
- **Housing:** Existing Home Sales fell 5.9%, New Home Sales fell 12.6%, and Pending Home Sales fell 1.0%. Home Price appreciation is rapidly slowing down.
- **Labor:** The Economy created 315,000 New Jobs in August and 528,000 in July. The Unemployment Rate rose to 3.7% in Aug and 3.5% in July. Wages increased 5.2% YoY.
- **Inflation:** CPI up 1.3% (+8.5% YoY), PPI down 0.5 (+7.6% YoY).
- **The Economy:** US GDP contracted at a 0.6% annualized rate in 2Q2022, up 1.7% YoY.
- **Consumers:** Retail Sales was unchanged in July while Consumer Confidence rose.
- **Stock Markets** declined over 4.0% in August: Dow - 4.2%, S&P - 4.2%, Nasdaq - 4.6%.
- **Oil prices** fell to \$89/Barrel (Aug 31) from \$104 (Jul 29). Natural Gas prices rose to \$9.16/MMBtu (Aug 31) from \$8.23/MMBtu (Jul 29).

Interest Rates and Fed Watch

All eyes were focused on Fed Chairman Powell's speech at the Jackson Hole Economic Symposium on August 27th. In his speech, he reaffirmed 3 key issues:

- The Fed's responsibility to fight Inflation - and this could be a long fight.
- The Inflation fight will "bring some pain to households and businesses."
- The dire consequences of having Inflationary Expectations embedded in Consumer Psychology.

Powell said: "Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance. Reducing Inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down Inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing Inflation. But a failure to restore price stability would mean far greater pain."

Fedspeak Translation: Don't expect interest Rates to come down any time soon. The Fed is going to keep Monetary Policy tight until Inflation is under control, and Inflationary Expectations are banished from Consumer Psychology - which could take some time.

- **10-Year Treasury Yield** rose to 3.26% (Sep 01) from 2.60% (Aug 01).
- **30-Year Treasury Bond Yield** rose to 3.37% (Sep 01) from 2.92% (Aug 01).
- **30-Year Fixed Mortgage** rose to 5.66% (Sep 01) from 5.30% (Jul 28).
- **15-Year Fixed Mortgage** rose to 4.98% (Sep 01) from 4.58% (Jul 28).
- **5/1 ARM Mortgage** rose to 4.51% (Sep 01) from 4.29% (Jul 28).

Housing Market Data Released in August 2022

There were a lot of negative numbers (again) in the August Housing Data as Sales of New and Existing Homes continued to decline. New Home Sales fell a whopping 26%, and Builders are starting to discuss price concessions. Home Completions eked out a small gain of 1.1%. Expect that number to increase because many homes are still under construction as material shortages delayed completion. The Inventory of New and Existing Homes for sale is finally beginning to grow. The FHFA Price Index was up only 0.1% in June. Adjusting for Inflation of 1.3% means that "Real Home Prices" actually declined in June.

- **Existing Home Sales** (closed deals in July) fell 5.9% to an annual rate of 4,810,000 homes, down 20.2% in the last 12 months. The median price for all types of homes is \$403,800 - up 10.8% from a year ago. The median Single-Family Home price is \$410,600, up 10.6% YoY. The Median Condo price is \$345,000, up 9.9% YoY. Homes were on the market for an average of 14 days, and 82% were on the market for less than a month. Currently, 1,310,000 homes are for sale. 24% were all Cash Sales.
- **New Home Sales** (signed contracts in July) fell 12.6% to a seasonally adjusted annual rate of 511,000 homes - down 29.6% YoY. The median New Home price rose 5.9% (+8.2% YoY) to \$439,400. The average price rose 19.6% (+18.3% YoY) to \$546,800. There are 464,000 New Homes for sale, a 10.8 month supply.
- **Pending Home Sales Index** (signed contracts in July) fell 1.0% to 89.8 from 91.0 the previous month, down 19.9% YoY.
- **Housing Starts** (excavation began in July) fell 9.6% to an annual adjusted rate of 1,446,000, down 8.1% YoY. Single-Family Starts fell 10.1% to 916,000 units, down 18.5% YoY.
- **Building Permits** (issued in July) fell 1.3% to a seasonally adjusted annual rate of 1,674,000 units - up 1.1% YoY. Single-Family Permits fell 4.3% to an annual pace of 928,000 homes, down 11.7% YoY.
- **Housing Completions** (completed in July) rose 1.1% to an annual adjusted rate of 1,424,000 units - up 3.5% YoY. Single-Family Completions fell 0.8% to an annual adjusted rate of 1,009,000 homes - up 7.0% YoY.
- **S&P/Case-Shiller 20 City Composite Home Price Index** rose 0.4% in June, up 18.6% YoY.
- **FHFA Home Price Index** rose 0.1% in June, now up 17.7% YoY

Labor Market Economic Data Released in August 2022

The Economy created 315,000 New Jobs during August and 528,000 during July. The Unemployment Rate rose to 3.7%. The July and August numbers reaffirm that Labor continues to be in short supply. The Labor issues are exacerbated by retiring Baby Boomers, as shown in the low Labor Force Participation Rate of 62.4%. Despite all the Recession talk, the Labor Market remains strong with no signs of slowing down.

- The Economy created 315,000 New Jobs during August and 528,000 during July.
- The Unemployment Rate rose to 3.7% in August from 3.5% in July and 3.6% in June.
- The Labor Force Participation Rate rose to 62.4% from 62.1% in July and 62.2% in June.
- The Average Hourly Wage rose 0.3% in August and 0.5% in July, up 5.2% YoY
- Job Openings rose to 11,200,000 in July from 10,700,000 in June and 11,254,000 in May.

Inflation Economic Data Released in August 2022

Everyone is talking about Inflation. That's a bad sign. It means that Inflation Expectations are getting ingrained into Consumers Psychology - and the beginning of a Wage-Price Spiral. Once a Wage-Price Spiral starts - it's tough to stop. The last Wage-Price Spiral began in the '60s and raged on during the '70s. It finally came to a halt in 1979 after the Fed jacked Interest Rates up to a whopping 18%. It caused a severe Recession and a lot of pain for the country. Here is some good news: PPI and PCE declined in July. That slight decline was exclusively due to lower Oil Prices and will disappear quickly if/when Oil Prices rise.

- CPI rose 1.3%, up 8.5% YoY | Core CPI rose 0.3%, up 5.9% YoY
- PPI fell 0.5%, up 9.8% YoY | Core PPI rose 0.2%, up 7.6% YoY
- PCE fell 0.1%, up 6.3% YoY | Core PCE rose 0.1%, up 4.6% YoY

GDP Economic Data Released in August 2022

The 2nd estimate for 2nd Quarter GDP showed the US Economy contracted by a 0.6% annualized rate, up 1.7% YoY. An ominous sign most people missed this month was the huge decline in Productivity of 2.5% YoY. This is very bad and few people are talking about it. This is the largest decline since the index was started in 1948. Productivity is essential for Economic Growth, so this significant decline is a big deal. Without Productivity gains, Economies can't grow. In the meantime, the Yield Curve remains inverted. The 2-10 spread hit almost 0.50% in August - the widest inversion in decades. An Inverted Yield Curve is a very accurate predictor of an upcoming Recession. With all the signs indicating an impending Recession, the question is: will it be a soft or hard landing?

Consumer Economic Data Released in August 2022

Another month of mixed Consumer Data. Retail Sales data was flat, the result of lower gasoline prices. Consumers are feeling better about the Economy. Both Consumer Confidence and Sentiment improved after several months of decline. I think it's amazing how lower gas prices can quickly improve Consumers' mood.

- Retail Sales were unchanged during July, up 10.3% in the last 12 months.
- Consumer Confidence Index rose 8.3% to 103.2 from 95.3 the prior month, down -10.4% YoY.
- Consumer Sentiment Index (U of M) rose to 58.0 from 51.5 the previous month.

Energy, International, and Things You May Have Missed

Oil and Natural Gas prices eased during June as the possibility of an impending Recession will reduce oil demand.

- West Texas Intermediate Crude fell to \$89/Barrel (Aug 31) from \$99/barrel (Jul 29).
- North Sea Brent Crude fell to \$96/Barrel (Aug 31) from \$104/Barrel (Jul 29).
- Natural Gas rose to \$9.16/MMBtu (Aug 31) from \$8.23/MMBtu (Jul 29).
- An assassination attempt (car bomb) against Russian nationalist, Alexander Dugin, a staunch supporter of Putin, missed him and killed his daughter.
- The FBI raided former President Trump's Palm Beach home looking for classified documents.
- President Biden forgave up to \$10,000 of Student debt for borrowers making under \$125,000/year.
- China's Central Bank - The People's Bank of China announced it would cut interest rates.

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

SEPTEMBER 2022

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
			1 Construction Spending Vehicle Sales ISM Manufacturing index Weekly Jobless Claims	2 Employment Report Factory Orders
5 LABOR DAY	6 ISM Non-Manufacturing index	7 Trade Balance MBA Mortgage Applications	8 Consumer Credit Weekly Jobless Claims	9
12 NAHB Index TIC	13 CPI NFIB Business Optimism Fed Budget	14 PPI MBA Mortgage Applications	15 Retail Sales, Import-Export Prices, Industrial Production, Business Inventories, Weekly Jobless Claims	16 Consumer Sentiment TIC
19 NAHB Index	20 FOMC Meeting Housing Starts & Permits	21 FOMC Meeting & Statement Existing Home Sales MBA Mortgage Applications	22 Leading Economic Indicators Weekly Jobless Claims	23
26	27 New Home Sales, Durable Goods, S&P CS Home Price Index, FHFA Home Price Index, Consumer Confidence	28 Pending Home Sales MBA Mortgage Applications	29 GDP Weekly Jobless Claims	30 Consumer Sentiment Personal Income & Spending

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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