

Economic CALENDAR

June
2022

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Mortgage Economic Review June 2022

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

AT A GLANCE - Key Economic Data and Events during May 2022

- **Interest Rates** rose in May then fell back to end the month mixed. The 10-Year Treasury yield fell to 2.85% (May 31) from 2.89% (Apr 29).
- **Housing:** Home Sales fell across the board in April: Existing Home Sales down 2.4%, New Home Sales down 16.6%, Pending Home Sales down 3.9%. Home Prices continued up at a 20% annual pace through March.
- **Labor:** The Economy created 428,000 New Jobs in April. The Unemployment Rate held steady at 3.6%, and Wages increased 5.5% YoY.
- **Inflation:** CPI up 0.3% (+8.3% YoY), PPI up 0.5% (+11.0% YoY) in April.
- **The Economy:** US GDP contracted at a 1.5% annualized rate in 1Q2022, up 3.5% YoY
- **Consumers:** Retail Sales rose 0.9% in April, Consumer Confidence and Sentiment declined.
- **Stock Markets** ended the month mixed or down slightly after a roller coaster month.
- **Oil & Energy:** Oil prices continued higher, closing at \$123/Barrel.

Interest Rates and Fed Watch

After the May 4th FOMC Meeting, the Fed raised the Fed Funds Rate by 0.50% to a target range of 0.75% - 1.00%. They also announced their intention to raise rates another 50bps after both the June 15th and July 27th FOMC Meetings. The Fed may take a "pause" in September and see how the Economy and Inflation perform with higher Interest Rates. Those announcements sent Stock Markets into a tailspin and got every Economist talking about a Recession in late 2022 or early 2023. Inflation is running hot, and the Fed is getting blamed because they didn't act sooner to raise Interest Rates. So now they are getting serious about taming Inflation. At this point, the Markets expect the Fed to follow through with its planned increases.

- **10-Year Treasury Security Yield** fell to 2.85% (May 31) from 2.89% (Apr 29).
- **30-Year Treasury Bond Yield** rose to 3.07% (May 31) from 2.94% (Apr 29).
- **30-Year Fixed Mortgage** was unchanged at 5.1% (May 26) from 5.1% (Apr 29).
- **15-Year Fixed Mortgage** fell to 4.31% (May 26) from 4.4% (Apr 29).
- **5/1 ARM Mortgage** rose to 4.20% (May 26) from 3.78% (Apr 29).

Housing Market Data Released in May 2022

There is a lot of red in the May Housing Data. Buyers are getting the double whammy - escalating Home Prices and rising Interest Rates have made monthly mortgage payments unaffordable. Demand for Homes is tapering off, which is evident in the Inventory Data. After months of declining, the inventory of Existing Homes for Sales increased in April. The health of the Housing Markets is a stalwart indicator of the Economy 6 months in the future. When the Housing Market declines, a Recession usually follows.

- **Existing Home Sales** (closed deals in April) fell 2.4% to an annual rate of 5,610,000 homes, down 5.9% in the last 12 months. The median price for all types of homes is \$391,200 - up 14.8% from a year ago. The median Single-Family Home price is \$397,600, up 14.8% YoY. The Median Condo price is \$340,000, up 13.1% YoY. Homes were on the market for an average of 17 days, and 84% were on the market for less than a month. Currently, 1,030,000 homes are for sale, down 10.4% from 1,150,000 units a year ago. 26% were all Cash Sales.
- **New Home Sales** (signed contracts in April) fell 16.6% to a seasonally adjusted annual rate of 591,000 homes - down 26.9% YoY. The median New Home price rose 3.6% (19.6% YoY) to \$450,600 from \$435,000 the prior month. The average price rose 9.1% (31.2% YoY) to \$570,300 from \$522,500 the prior month. There are 444,000 New Homes for sale, a 9.0 month supply.
- **Pending Home Sales Index** (signed contracts in April) fell 3.9% to 99.3 from 103.7 the previous month, down 9.1% YoY.
- **Building Permits** (issued in April) fell 3.2% to a seasonally adjusted annual rate of 1,819,000 units - up 3.1% YoY. Single-Family Permits fell 4.6% to an annual pace of 1,110,000 homes, down 3.6% YoY.
- **Housing Starts** (excavation began in April) fell 0.2% to an annual adjusted rate of 1,724,000, up 14.6% YoY. Single-Family Starts fell 7.3% to 1,100,000 units, up 3.7% YoY.
- **Housing Completions** (completed in April) fell 5.1% to an annual adjusted rate of 1,295,000 units - down 8.6% YoY. Single-Family Completions fell 4.9% to an annual adjusted rate of 1,001,000 homes - up 0.7% YoY.
- **S&P/Case-Shiller 20 City Home Price Index** rose 3.1% in March, up 21.2% YoY.
- **FHFA Home Price Index** rose 1.5% in March, now up 19.0% YoY.

Labor Market Economic Data Released in May 2022

The Economy created 428,000 New Jobs in April, and the Unemployment Rate held steady at 3.6%. The Labor Market is still booming as companies continue to compete for workers. Job Openings set a record high of 11,545,000. There is a paradox forming in the Labor Data. While wages are increasing due to the high demand for workers, they aren't rising enough to keep up with Inflation. Consequently, Real Wages - Wages adjusted for Inflation - are actually declining (5.5% Wage Growth - 8.3% Inflation = - 2.8% Real Wages). Why are Real Wages declining? There are several theories. It could be that many of the Job Openings are for lower-skilled workers which have lower wages. It could be a lag in the data or a mismatch in how the data is collected and calculated. Regardless of the explanation, workers are keenly aware of their declining purchasing power - and that will be a key issue in the November Elections.

- The Economy created 428,000 New Jobs during April.
- The Unemployment Rate was unchanged at 3.6% in April.
- The Labor Force Participation Rate fell to 62.2% in April from 62.4% in March.
- The Average Hourly Wage rose 0.3% in April, up 5.5% YoY.
- Job Openings rose to 11,545,000 in March from 11,300,000 in February.

Inflation Economic Data Released in May 2022

Inflation moderated a bit as the CPI clocked in at 0.3% in April, in line with expectations. Year-over-year, Inflation is running at 8.3%. Energy, Food, and Shelter costs still dominate the price increases, but everything is still going up. The Covid Lockdowns in China and Ukrainian War continued to apply upward pressure on prices. There are signs that higher Interest Rates may be starting to cool off demand. There won't be a significant drop in the CPI until Energy Prices come down, Consumer Demand cools off, or both.

- CPI rose 0.3%, up 8.3% YoY | Core CPI rose 0.6%, up 6.2% YoY
- PPI rose 0.5%, up 11.0% YoY | Core PPI rose 0.4%, up 8.8% YoY
- PCE rose 0.2%, up 6.3% YoY | Core PCE rose 0.3%, up 4.9% YoY

GDP Economic Data Released in May 2022

The 2nd estimate for 1st Quarter GDP showed the US Economy contracted by a 1.5% annualized rate, up 3.5% YoY. Despite the contraction, the US Economy remains strong with high demand, record low unemployment, and robust Consumer Spending. However, tighter Monetary Policy will significantly depress demand enough to contract the Economy and cool off Inflation. In the meantime, it's too soon to determine how the Chinese Lockdowns and Ukrainian War will affect the Economy in the long term.

Consumer Economic Data Released in May 2022

Retail Sales rose a healthy 0.9% in April, indicating that Consumers are still spending even though they may not be in a spending mood. Consumer Confidence and Sentiment both declined in April. The actual dollars spent may be more an indication of higher prices than Consumers buying more stuff. Consumer Credit took a big jump in April. Many Consumers have spent the savings they accumulated during the Covid lockdowns and are now using credit to purchase their necessities.

- Retail Sales rose 0.9% during April, now up 8.2% in the last 12 months.
- Consumer Confidence Index fell to 106.4 from 108.6 the prior month.
- Consumer Sentiment Index (U of M) fell to 58.4 from a revised 65.2 the previous month.

Energy, International, and Things You May Have Missed

Oil and Natural Gas prices continue to rise due to the disruption caused by the Ukrainian War.

- West Texas Intermediate Crude rose to \$116/barrel (May 31) from \$105/barrel (Apr 29).
- North Sea Brent Crude rose to \$123/barrel (May 31) from \$109/Barrel (Apr 29).
- Natural Gas rose to \$8.255/MMBtu (May 31) from \$7.244/MMBtu (Apr 29).
- Ferdinand Marcos Jr. (son of former dictator Ferdinand Marcos) is the President-elect of the Philippines' after winning the Presidential election in a landslide.
- Nigeria grounded all domestic flights because the cost of jet fuel was too high.
- Rich Strike won the Kentucky Derby in a stunning upset - its odds were 80 to 1.

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