

Monthly Economic Update

December 2020



2020 Refinancing Activity Breaks Record

Recent data from [Black Knight](#) show that 2020 will easily be the largest year on record for first-lien mortgage originations at an estimated \$4.4 trillion. Refinancings comprise most of that activity and through 2020 Q3, 6.4 million U.S. homeowners refinanced their primary mortgage, with a projection of 9.0 million by the end of the year. For 2020 Q3, 27% were cash-out refinancings and the residual was rate and term adjustments only. (By comparison, the cash-out share was closer to 50% in 2019 Q3.) The estimated average cash out was \$51,600 and total equity withdrawn was \$37 billion for the quarter. Data from [Freddie Mac](#) show that the dollar amount of cash-out refinancings was the largest since 2007. Other data from the Mortgage Bankers Association (proprietary) show that Pennsylvania comprises 3.1% of national refinance applications. That share implies an estimate of \$1.2 billion (3.1% * \$37 billion) of home equity withdrawn in 2020 Q3 by Pennsylvania homeowners.

Business Travel Could Permanently Decline 19% to 36%

A [recent WSJ article](#) discusses the potential long-term impact of the COVID-19 pandemic on business travel. The pandemic caused a steep drop in business travel as business trainings and meetings were canceled or moved online through videoconferencing technology. The article estimated that business travel would decline 19% to 36% permanently. This trend is primarily driven by a decline in intracompany meetings, trainings and commuting, which accounted for approximately 25% of business travel before the pandemic. An estimated 40% to 60% of this travel may be eliminated by technology. Meanwhile, other forms of business travel are expected to incur smaller long-term reductions. This includes travel to secure sales and clients (25%) and conventions and trade shows (20%). Reduced business travel will also likely impact leisure travel through increased fares and fewer flights, as business travel represents a large revenue source for airlines.

PA Renters Will Owe an Estimated \$224 Million in Rent by December 31

The federal eviction moratorium for renters expires on December 31, 2020. The [Philadelphia Federal Reserve](#) estimates that by the end of December 1.3 million (4.2%) renter households in the U.S. will owe \$7.2 billion in rent, an average of \$5,400 per household. For Pennsylvania, an estimated 48,124 (4.5%) renter households will owe \$224 million in rent, an average of \$4,663 per household. A [report](#) from the Mortgage Bankers Association finds that rental property owners lost approximately \$9.2 billion in 2020 Q3 revenue from renter households that missed, delayed or made a reduced payment. Current negotiations in Congress include the extension of the existing moratorium on evictions as well as student loans, and substantial emergency assistance for renters. Economic impact payments of \$600 to \$1,200 per eligible adult (plus amounts for dependents) are also being discussed, which could provide some immediate relief to renters behind on their payments.

Natural Gas Price Declines 21%, PA Impact Fee to Fall to Record Low

The average price of natural gas on the New York Mercantile Exchange (NYMEX), upon which the Pennsylvania Impact Fee is based, settled at \$2.08 for calendar year (CY) 2020. This represents a 21% decline from the prior year, and the lowest annual NYMEX price recorded since the Impact Fee's inception. In July 2020, the IFO [estimated](#) that if the average NYMEX price for CY 2020 settled below \$2.25, then Impact Fee collections would decline by \$53 million compared to CY 2019 (\$200 million) and reach its lowest level since inception. The IFO will release an updated projection of CY 2020 collections (remitted April 2021) in late January.

Pennsylvania Economic Indicators

<u>Monthly Data</u>	<u>Aug-20</u>	<u>Sep-20</u>	<u>Oct-20</u>	<u>Nov-20</u>	<u>Dec-20</u>
Unemployment Rate ¹	10.4%	8.3%	7.3%	n.a.	n.a.
Net Job Gains (000s) ²	-499.1	-465.3	-455.9	n.a.	n.a.
Avg. Gasoline Price ³	\$2.25	\$2.28	\$2.28	\$2.26	\$2.32
CPI-U All Items ⁴	0.4%	0.6%	0.8%	n.a.	n.a.
Natural Gas Price ⁵	\$1.22	\$1.17	\$1.07	\$0.98	\$2.37
Home Sales ⁶	13.8%	16.2%	4.7%	n.a.	n.a.
<u>Quarterly Data</u>	<u>2019.3</u>	<u>2019.4</u>	<u>2020.1</u>	<u>2020.2</u>	<u>2020.3</u>
Gross Domestic Product ⁷	2.5%	1.4%	-5.8%	-34.0%	n.a.
Personal Income ⁸	2.8%	2.8%	2.6%	12.0%	n.a.
Wages and Salaries ⁹	3.2%	4.3%	2.4%	-5.7%	n.a.
FHFA House Price Index ¹⁰	5.0%	5.2%	5.1%	4.5%	8.0%

United States Economic Indicators

<u>Monthly Data</u>	<u>Aug-20</u>	<u>Sep-20</u>	<u>Oct-20</u>	<u>Nov-20</u>	<u>Dec-20</u>
Unemployment Rate ¹	8.4%	7.9%	6.9%	6.7%	n.a.
Home Sales ⁶	2.0%	9.9%	4.3%	n.a.	n.a.
S&P 500 ¹¹	19.6%	13.0%	7.7%	15.3%	13.4%
10-Year Note ¹²	0.69	0.68	0.86	0.84	0.89
<u>Quarterly Data</u>	<u>2019.3</u>	<u>2019.4</u>	<u>2020.1</u>	<u>2020.2</u>	<u>2020.3</u>
Gross Domestic Product ⁷	2.6%	2.4%	-5.0%	-31.4%	33.1%
Personal Income ⁸	3.5%	3.5%	3.2%	10.7%	7.1%
Wages and Salaries ⁹	3.9%	4.5%	3.2%	-3.9%	1.0%
Corporate Profits ¹³	-1.9%	1.2%	-8.0%	-17.9%	9.6%

Sources and Notes:

1. Source: U.S. Bureau of Labor Statistics- Survey of Households.
2. Year-over-year increase in payroll employment. Source: U.S. Bureau of Labor Statistics- Survey of Establishments.
3. Average price for one gallon of regular gasoline. Source: U.S. Energy Information Administration.
4. Annual change in average price level for U.S. and PA-NJ-DE-MD. Source: U.S. Bureau of Labor Statistics.
5. Price is weighted average from major Pennsylvania gas hubs. Unit is dollars per MMBtu. Source: Bentek Energy.
6. Seasonally Adjusted Annual Rate. Pennsylvania figures represent northeast region. Source: National Association of Realtors.
7. The quarterly, annualized real growth rate of the economy. Excludes inflation. Source: U.S. Bureau of Economic Analysis.
8. Year-over-year growth rate of personal income. Source: U.S. Bureau of Economic Analysis.
9. Year-over-year growth rate of wages and salaries paid to all payroll employees. Source: U.S. Bureau of Economic Analysis.
10. Source: Federal Housing Finance Agency.
11. Year-over-year growth rate of S&P 500 closing price. Data as of the first of the month. Source: Yahoo! Finance.
12. Source: Yahoo! Finance.
13. Year-over-year growth rate, domestic profits only. Source: U.S. Bureau of Economic Analysis.