

# Monthly Economic Update

March 2021



## Pennsylvania Home Values Grew 10.9% in 2020 Q4

The Federal Housing Finance Agency recently released [2020 Q4 home price index data](#). Pennsylvania home values grew 10.9% in 2020 Q4 compared to the same quarter of the prior year. National 2020 Q4 home values also grew by 10.9% over the prior year. The strong gains were likely driven by consumer demand for larger homes, low inventory and record-low mortgage rates. Demand may begin to cool as a [WSJ article](#) notes that the average rate on a 30-year fixed-rate mortgage exceeded 3% in March, the highest level since July 2020. Higher rates, which lead to larger mortgage payments, may lead buyers to consider lower-priced homes or dissuade them from entering the market. However, a [Zillow survey](#) found that homeowners' willingness to move is expected to improve after the COVID-19 vaccine distribution. This could boost both demand and supply in the upcoming months, and new listings would enhance inventory in a tight housing market.

## 2020 Home Prices and Low Interest Rates Drove High Levels of Refinancing

Rapidly rising home prices, which provides homeowners with more equity, and a low interest rate environment drove significant refinancing activity in 2020. Refinancings comprised [approximately 60%](#) of all mortgage originations in 2020 and are estimated to comprise only 47% in 2021, according to the Mortgage Bankers Association. [Homeowners in Philadelphia](#) that refinanced (non-cash-out) saved an average of \$2,762 annually and homeowners in Pittsburgh saved an average of \$2,181 annually. Nationwide, homeowners gained nearly \$153 billion from [cash-out refinancings](#), a \$45 billion increase from 2019. Higher interest rates will reduce refinancing activity because they diminish the number of existing homeowners who might benefit from refinancing.

## Housing Market Highlights Divergence Between Consumer Prices and Asset Prices

Since 2012, the Federal Reserve has targeted a 2.0% inflation rate in order to achieve its goal of price stability. This metric, as measured by the [Personal Consumption Expenditures Price Index](#) (PCE index) from the U.S. Bureau of Economic Analysis, reflects price changes of goods and services purchased by U.S. consumers. A [WSJ article](#) notes that despite the low interest rate environment in place since the 2008 recession, consumer price growth has remained below the 2.0% target, growing at an average rate of 1.4% per annum. However, asset prices in the commodities, stock and housing markets recorded much stronger growth. Housing highlights the challenges in measuring consumer purchasing power. Housing is both a service that provides shelter (tracked in the PCE index) and is often the largest single asset in a homeowner's investment portfolio. Between 2012 and 2020, the value of housing services grew at an average rate of 3.1% per annum based on the PCE index, while home values grew at an average rate of 6.1% per annum based on the Federal Housing Finance Agency's Purchase-Only Index. Policymakers focus attention on the inflation metric, but it is not the only measure of price changes in the economy.

## PA Adds 35,700 Jobs in January, Employment Down 455,000 from Prior Year

On March 15, the U.S. Bureau of Labor Statistics released the January state employment [report](#). On a seasonally adjusted basis, the largest job gains occurred in the education sector (excludes elementary and secondary school employment), which added 14,000 jobs (+6.9%) in January returning to November 2020 levels. This may be due to the rehiring of support staff furloughed during the longer holiday breaks that many colleges and universities observed in response to COVID-19. The accommodations-foodservices sector added 10,000 jobs (+2.9%) in January, remaining 12,800 below the sector's recovery peak to-date in November 2020. The job recovery in this sector is likely due to the expiration of the temporary restrictions on indoor dining during the holiday season and is expected to continue into February. Other sectors that added jobs include professional and business services (+12,100, +1.6%), retail trade (+5,600, +1.0%) and arts-entertainment (+500, +0.8%).

## Pennsylvania Economic Indicators

<u>Monthly Data</u>	<u>Oct-20</u>	<u>Nov-20</u>	<u>Dec-20</u>	<u>Jan-21</u>	<u>Feb-21</u>
Unemployment Rate <sup>1</sup>	7.0%	7.1%	7.1%	7.3%	n.a.
Net Job Gains (000s) <sup>2</sup>	-451.5	-444.7	-480.5	-455.0	n.a.
Avg. Gasoline Price <sup>3</sup>	\$2.28	\$2.26	\$2.34	\$2.47	\$2.63
CPI-U All Items <sup>4</sup>	0.8%	0.9%	1.1%	1.0%	1.0%
Natural Gas Price <sup>5</sup>	\$1.07	\$1.09	\$2.01	\$2.27	\$3.18
Home Sales <sup>6</sup>	3.6%	-1.1%	3.5%	-2.2%	-11.5%
PA Turnpike Traffic (cars) <sup>7</sup>	-22.7%	-29.3%	-32.9%	-27.6%	-35.1%
PA Turnpike Traffic (commercial) <sup>7</sup>	-1.6%	0.7%	5.1%	-1.6%	-4.9%
<u>Quarterly Data</u>	<u>2019.4</u>	<u>2020.1</u>	<u>2020.2</u>	<u>2020.3</u>	<u>2020.4</u>
Gross Domestic Product <sup>8</sup>	1.4%	-5.8%	-34.0%	35.5%	n.a.
Personal Income <sup>9</sup>	2.8%	2.5%	13.1%	9.6%	n.a.
Wages and Salaries <sup>10</sup>	4.3%	2.2%	-6.2%	-0.7%	n.a.
FHFA House Price Index <sup>11</sup>	4.7%	5.2%	4.8%	8.3%	10.9%

## United States Economic Indicators

<u>Monthly Data</u>	<u>Oct-20</u>	<u>Nov-20</u>	<u>Dec-20</u>	<u>Jan-21</u>	<u>Feb-21</u>
Unemployment Rate <sup>1</sup>	6.9%	6.7%	6.7%	6.3%	6.2%
Home Sales <sup>6</sup>	4.5%	-2.1%	0.9%	0.2%	-6.6%
S&P 500 <sup>12</sup>	7.7%	15.3%	16.3%	15.2%	29.0%
10-Year Note <sup>13</sup>	0.86	0.84	0.92	1.09	1.46
<u>Quarterly Data</u>	<u>2019.4</u>	<u>2020.1</u>	<u>2020.2</u>	<u>2020.3</u>	<u>2020.4</u>
Gross Domestic Product <sup>8</sup>	2.4%	-5.0%	-31.4%	33.4%	4.1%
Personal Income <sup>9</sup>	3.5%	3.2%	10.7%	6.8%	4.0%
Wages and Salaries <sup>10</sup>	4.5%	3.2%	-3.9%	0.3%	1.3%
Corporate Profits <sup>14</sup>	1.2%	-8.0%	-17.9%	9.2%	n.a.

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. Year-over-year growth rate of monthly traffic counts based on entry data. Source: Pennsylvania Turnpike.
8. The quarterly, annualized real growth rate of the economy. Excludes inflation. Source: U.S. Bureau of Economic Analysis.
9. Year-over-year growth rate of personal income. Source: U.S. Bureau of Economic Analysis.
10. Year-over-year growth rate of wages and salaries paid to all payroll employees. Source: U.S. Bureau of Economic Analysis.
11. Source: Federal Housing Finance Agency.
12. Year-over-year growth rate of S&P 500 closing price. Data as of the first of the month. Source: Yahoo! Finance.
13. Source: Yahoo! Finance.
14. Year-over-year growth rate, domestic profits only. Source: U.S. Bureau of Economic Analysis.