



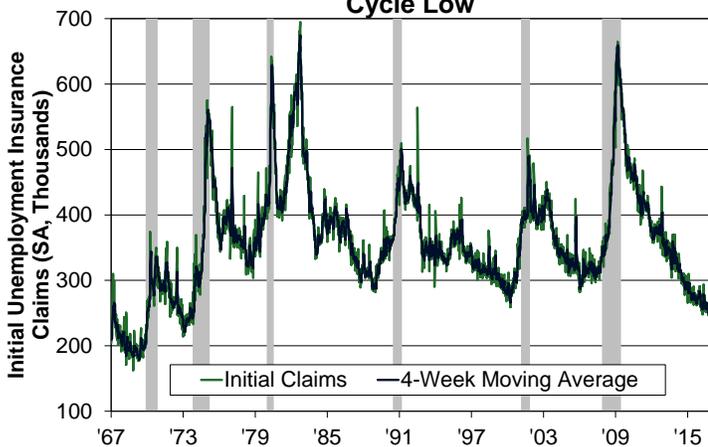
Weekly Note – February 24, 2017

### Economics: Fed Minutes Met with Muted Response

This week's sparse economic reports gave center stage to the release of the minutes from the Federal Open Market Committee (FOMC) meeting on January 31-February 1, as the market looked for clues on the timing of the next fed funds rate increase. The minutes revealed that many FOMC participants thought it would be appropriate to hike the rate "fairly soon," conditional, of course, on incoming inflation and employment data. The minutes noted that participants see considerable uncertainty regarding potential fiscal stimulus, which poses an upside risk to growth. At the same time, some noted that other (unspecified) potential policy changes could pose downside risks. While the FOMC statement released following the meeting repeated its guidance that reinvestment policy will continue until normalization of the federal funds rate is "well under way," the minutes pointed out that that the Fed will begin discussing changes to such policy "at upcoming meetings." The fed funds futures market's reaction to the minutes was muted, with the odds of a rate increase at the March 15 meeting of 34 percent, little changed from before the minutes' release. The odds moved higher by Friday afternoon, climbing to 40 percent. Given substantial domestic policy uncertainty, we expect the Fed to remain cautious in the near term. Our call remains that the next rate hike will occur at the June meeting. Signs of a pickup in inflation or a very strong jobs report could move the rate hike to May. This week's initial jobless claims showed a modest rise in claims, but the moving average dipped, declining for the seventh time in nine weeks, reaching layoff levels unseen since the early 1970s and portraying upbeat labor market conditions. Lastly, consumer sentiment dropped in January for the first time since October, as consumers' expectations were less rosy, especially regarding the outlook for their finances. However, overall sentiment remains near its expansion high.

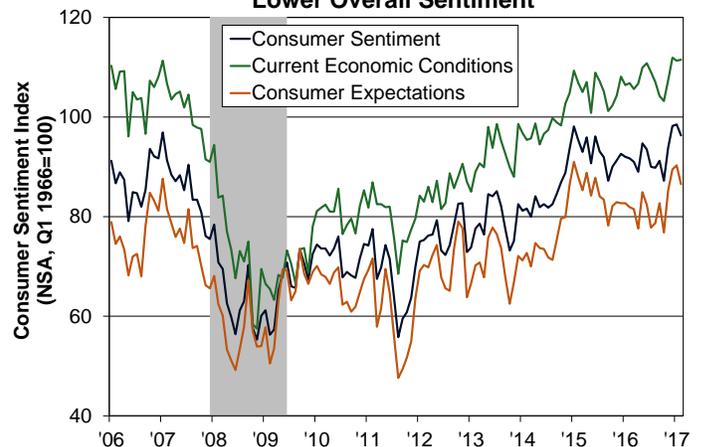
- **The University of Michigan Consumer Sentiment Index** fell 2.2 points in the final February reading to 96.3. The current economic conditions component gained two-tenths of a point to 111.5. The expectation components dropped 3.8 points to 86.5. Financial expectations eroded, with the share expecting their finances to improve in the coming year falling 6 points to 35 percent. Consumers' outlook for the economy also softened, with a four percentage point decline in the share expecting good times to 49 percent and a five percentage point rise in the share expecting bad times to 37 percent.
- **Initial claims for unemployment insurance** increased 6,000 to 244,000 in the week ending February 18, according to the Department of Labor. The four-week moving average fell 4,000 to 241,000, the lowest level since July 1973.

Initial Jobless Claims Trend Down to a Cycle Low



Source: Department of Labor

A Pullback in Consumer Expectations Brings Lower Overall Sentiment



Source: University of Michigan



## Housing: Home Sales Bounce Back

Housing data released this week offered upbeat news for the home sales market as sales rebounded sizably in January from a slump in December. Existing home sales reached a near-decade high while new home sales recovered half of the prior month's large drop. While it appears that home sales remain resilient in the face of a post-election uptrend in mortgage rates, we suspect that some of the sales could come from fence-sitters who decided to enter the market before rates rise further. If a rush to buy in the face of rising rates did indeed pull forward some future sales, we may see some payback-induced softness in the near term. Next week's pending home sales report will offer clues on whether sales could continue to improve. However, the recent trend in purchase mortgage applications suggests some near-term softening in sales. Purchase applications were down last week for the third time in four weeks, reaching a 14-week low. The ongoing decline in the for-sale inventory continues to be a concern, as it fell year-over-year for the 20<sup>th</sup> consecutive month. The tight inventory of existing homes has maintained upward pressure on home prices, as the Federal Housing Finance Agency (FHFA) index posted the sixth consecutive month of annual growth of at least six percent in December, marking the fastest pace of year-end appreciation since 2013. In contrast to the existing home market, the new home market saw the number of homes for sale rise over the past six months to reach the highest level since July 2009; however, that level is still historically low. Back to mortgage demand, refinance applications followed the same path as purchase applications and have fallen in three of the past four weeks. Mortgage rates rose this week for the first time in three weeks, with the average 30-year fixed mortgage rate edging up one basis point to 4.16 percent, according to the survey by Freddie Mac.

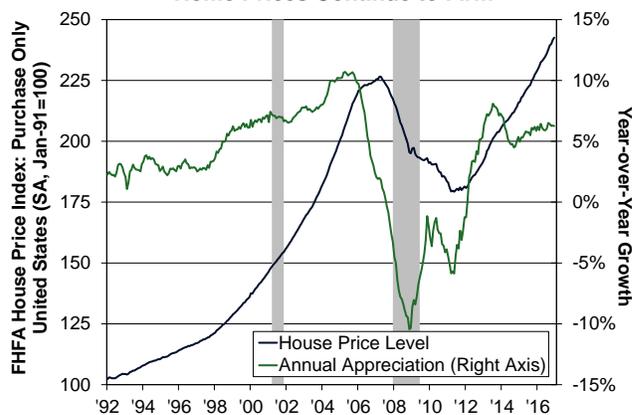
- **New single-family home sales** improved 3.7 percent to a seasonally adjusted annualized rate (SAAR) of 555,000 units in January, according to the Census Bureau. New home sales in the prior three months were revised lower by 27,000. On an annual basis, new home sales rose 5.1 percent. The number of homes for sale rose 3.5 percent from December and 11.1 percent from a year ago. The months' supply was unchanged at 5.7 months, a 16-month best. The median sales price, which is not adjusted for the composition of sales, increased 7.5 percent from a year ago.
- **Existing home sales** rose 3.3 percent in January to 5.7 million units (SAAR), according to the National Association of REALTORS® (NAR). Single-family sales increased 2.6 percent, while condo/coop sales improved 8.3 percent. From a year ago, total existing sales rose 6.0 percent, marking the sixth consecutive month of annual increases. The inventory of homes for sale (not seasonally adjusted) fell 7.1 percent year-over-year. The months' supply was unchanged at 3.6 months. The median sales price, according to NAR, increased 7.1 percent on an annual basis.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally adjusted basis, increased 0.4 percent in December. From a year ago, prices improved 6.2 percent, moderating slightly from the 6.3 percent gain in November. Prices rose 1.4 percent in Q4 2016 from Q3 and 6.2 percent from Q4 2015, which is the fastest pace since Q1 2014.
- **Mortgage applications** declined 2.0 percent for the week ending February 17 to reach the lowest level for 2017, according to the Mortgage Bankers Association. Both purchase and refinance applications decreased for a second straight week, falling 2.8 percent and 1.0 percent, respectively. Both loan types saw declines in conventional and government applications. The average 30-year fixed mortgage rate increased four basis points to 4.36 percent.

Home Sales Bounce Back, with Existing Sales Reaching a Near Decade Best



Source: National Association of REALTORS®, Census Bureau

Home Prices Continue to Firm



Source: Federal Housing Finance Agency

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