Economics: Retail Sales Rise as Inflation Slows

In a busy week for economics, retail sales edged up in January, weighed on by the largest monthly decline in motor vehicle and dealer sales in five years. Core sales (excluding autos, building supplies, and gasoline), which are an input for the consumer goods spending component of gross domestic product, posted a solid gain. However, momentum for consumer spending this quarter likely remains soft as the December figure was revised lower to show the largest decline since 2000. Durable goods orders rose for the third consecutive month in January. The outlook for business equipment investment this quarter is positive as core capital goods shipments, which exclude defense and aircraft orders and are an input for business equipment investment, posted a solid gain. In addition, core orders, a forward-looking indicator, also rose at the same pace, though the rise came on the heels of two months of large losses at the end of 2018. Industrial production rose in February for the eighth time in nine months, boosted by the largest gain in utility output in ten months, which reflected unseasonably cool temperatures. Manufacturing output fell for the second consecutive month, suggesting the global growth slowdown may be weighing on the sector. Small business confidence increased for the first time in six months in February but did little to recoup recent declines. Details remained weak, with expectations for the economy to improve regaining only half of January’s decline. Alternatively, consumer sentiment continued its rebound in March, finally recovering from January’s large drop. The annual increase in the Consumer Price Index (CPI) decelerated in February for the fourth straight month to the slowest pace since September 2016. Core CPI, which excludes food and energy, fell after flat readings in the prior three months. Finally, the Job Openings and Labor Turnover Survey showed that job openings rose for the fourth time in five months in January, while hires rose for the first time in three months.

- **Retail sales** rose 0.2 percent in January and 2.3 percent annually, according to the Census Bureau. December’s loss was revised downward to 1.6 percent. Core sales rebounded 1.1 percent during the month and 2.7 percent annually.
- **Durable goods orders** edged up 0.4 percent in January, according to the Census Bureau, following a slight upward revision to a 1.3 percent gain in December. Shipments fell 0.5 percent. Not including the volatile transportation segment, orders fell by 0.1 percent. Core orders and core shipments both rose 0.8 percent over the month.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, edged up 0.1 percent in February, according to the Federal Reserve Board. Manufacturing output dropped 0.4 percent, while mining output rose 0.3 percent and utilities output spiked 3.7 percent. Capacity utilization fell one-tenth to 78.2 percent.
- **The University of Michigan Consumer Sentiment Index** rose 4.0 points to 97.8 in the March preliminary reading. The current economic conditions and consumer expectations components rose 2.7 and 4.8 points, respectively.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** rose 0.5 points to 101.7 in February. The net share of firms expecting the economy to improve stayed near the prior month’s 2-year low.
- **The Consumer Price Index** increased 0.2 percent in February, while core CPI rose 0.1 percent. On an annual basis, both headline and core CPI slowed a tenth to 1.5 percent and 2.1 percent, respectively. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.1 percent in February. Annually, headline PPI and core PPI decelerated to 1.9 percent and 2.3 percent, respectively. **Import prices** rose 0.6 percent in February but fell 1.3 percent annually. Each of these reports is produced by the Bureau of Labor Statistics.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings rose 1.4 percent to 7.58 million in January, according to the Bureau of Labor Statistics. Both the job openings and hires rates rose by a tick to tie expansion highs of 4.8 percent and 3.9 percent, respectively. The quits rate remains unchanged at 2.3 percent.
Housing: Bleak Outlook for Q1 Residential Investment

January housing data disappointed as both new home sales and private residential construction spending fell to start the year. After strong gains to end 2018, new home sales declined in January. However, the decline of 45,000 sales over the month was more than offset by the 63,000 upward revisions to the prior three months. Sales declined in every region except the West, with sales in the Midwest falling to the lowest level in five years. New homes available for sale fell for the first time since last March but remained just shy of December’s expansion high. On an annual basis, new home inventory has increased for six straight years, though the annual growth decelerated in January to the slowest pace in five months. In January, private residential construction spending fell for the sixth straight month, hitting the lowest level in two years. The decline was driven by single-family spending, which has fallen every month since last June. Multifamily spending has fared better, increasing in six of the last seven months and reaching a new all-time high. On an annual basis, private residential construction spending dropped for the fifth straight month as single-family spending declined by the fastest pace since June 2011. The lackluster construction spending report and declines in new home sales suggest that our forecast of a slight gain in real residential fixed investment in the first quarter may need to be revised downward to reflect a drop, which would mark the fifth consecutive quarter of declines. The Job Openings and Labor Turnover Survey showed that construction workers are in high demand as hires rose for the third straight month to reach the highest level in over two years. Job openings edged up as well but remain below last June’s expansion high. Mortgage demand increased last week driven by a jump in purchase mortgage applications to the highest level in over a month, while refinance applications edged down slightly. According to Freddie Mac, the average yield on 30-year fixed-rate mortgages fell 10 basis points to 4.31 percent this week, the lowest level in over a year.

- **New single-family home sales** fell 6.9 percent to a 607,000 seasonally-adjusted annual rate (SAAR) in January, according to the Census Bureau. New home sales are down 6.3 percent from a year ago. For-sale inventory fell 1.5 percent over the month but rose 14.3 percent annually. The months’ supply rose three-tenths to 6.6 months. The median sales price, unadjusted for the composition of sales, was $317,200, down 3.8 percent annually.

- **Private residential construction spending** decreased 0.3 percent in January, driven by a 0.7 percent decline in spending on new single-family structures, according to the Census Bureau. New multifamily spending increased 1.4 percent, while spending on improvements fell 0.3 percent. From a year ago, single-family and improvements spending declined 7.8 percent and 14.9 percent, respectively, while multifamily spending rose 13.4 percent.

- **The Job Openings and Labor Turnover Survey** showed that construction job openings increased 1.0 percent in January to 302,000, according to the Bureau of Labor Statistics. The job openings rate was flat at 3.9 percent. Construction hires rose 7.3 percent to 428,000, and the hires rate jumped three-tenths to 5.7 percent. The quits rate was unchanged at 2.5 percent.

- **Mortgage applications** rose 2.3 percent for the week ending March 8, according to the Mortgage Bankers Association. Refinance applications fell 0.2 percent, while purchase applications jumped 4.3 percent. The average 30-year fixed mortgage rate fell 3 basis points to 4.64 percent.

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**Source:** Census Bureau

Rebecca Meeker
Economic and Strategic Research Group
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