Economics: Positive Retail Sales Signal Hope for Second Quarter Consumer Spending

This week’s economic data featured upbeat news on retail sales and industrial production. Retail sales increased in March for the first time in four months, boosted by the best sales at motor vehicle and parts dealers since last September and the largest monthly growth in sales at drugstores in two years. Building material sales, a gauge for home improvement spending, dragged on the headline number, as they fell for the second time in three months, supporting our forecast of a decline in residential investment in the first quarter. Core retail sales, which exclude auto, gasoline, and building material sales and are an input for the consumer goods spending component of gross domestic product, rose 0.4 percent, the largest monthly gain since last November. The report is consistent with our April forecast of a 1.1 percent annualized increase in first quarter real consumer spending growth, which would be a marked slowdown from fourth quarter growth of 4.0 percent. While the improvement in March retail sales was too late to save first quarter consumer spending, it helped build momentum. Our forecast calls for a strong pickup in real consumer spending growth to 2.9 percent in the second quarter. Meanwhile, industrial production rose for the fifth time in six months to reach a record high in March. Utility output posted the largest monthly improvement since October, boosted by colder-than-average weather from winter storms in the Northeast and the South. Mining output rose for the second consecutive month and the sixth time in seven months amid continued recovery in oil prices, while manufacturing output edged up following an outsized gain in the prior month. The capacity utilization rate—a measure of slack in the industrial sector—rose to the highest level in three years, though it remains 1.8 percentage points below its long-run average. This week’s positive news extended to the near-term economic outlook as the Leading Economic Index (LEI) rose to reach an all-time high in March. The index has not declined since May 2016, and recent strength among the index’s components has been widespread, with all ten components advancing over the six-month span through March, suggesting solid economic growth in the near term. Six of the ten components contributed to the index’s gain in March, with labor market components (initial jobless claims and manufacturing hours worked) dragging on the index. However, initial jobless claims have dropped so far in April, falling last week for the second consecutive week.

- **Retail sales** rose 0.6 percent in March as core retail sales rose 0.4 percent, according to the Census Bureau. Sales at motor vehicle and parts dealers grew 2.0 percent, while sales at health and personal care stores rose for the first time in five months, increasing 1.4 percent, the biggest gain since February 2016.

- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, rose 0.5 percent in March, according to the Federal Reserve Board. Manufacturing, mining, and utility outputs gained 0.1 percent, 1.0 percent, and 3.0 percent, respectively. The capacity utilization rate rose three-tenths to 78.0 percent.

- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, rose 0.3 percent in March, the sixth straight monthly gain.

- **Initial claims for unemployment insurance** dropped 1,000 to 232,000 in the week ending April 14, according to the Department of Labor. The four-week moving average rose 1,250 to 231,250, the highest level in almost three months.
Housing: A Positive Headline for Starts, But Issues Lurk

This week’s reports show improving home building, albeit contrasting stories for the single-family and multifamily sectors. Total housing starts increased for the second time in three months in March, as a rise in multifamily starts outweighed a drop in single-family starts. Upward revisions to single-family starts in January and to multifamily starts in February added 70,000 units, on net, to the prior two months. On a quarterly basis, total home construction increased for the third consecutive quarter, boosted by the largest quarterly increase in multifamily building since the second quarter of 2015. Meanwhile, single-family building slipped slightly in the first quarter. The near-term outlook for home building was mixed, as multifamily permits rose to the highest level since September 2016 in the face of the largest monthly decline in single-family permits since February 2011 to the lowest level since last September. Home builders’ confidence in the single-family market continued to slide in 2018, as the National Association of Home Builders/Wells Fargo Housing Market Index fell for the fourth straight month in April after climbing to an 18-year high in December. The National Association of Home Builders reported that builders face a lack of buildable lots and increased construction material costs, specifically citing tariffs placed on Canadian lumber and other imported products. This week’s release of the April Beige Book, which collects anecdotal information on economic conditions from the 12 Federal Reserve District Banks, noted that building material prices continued to increase “ briskly, especially for lumber, drywall, and concrete.” In addition, firms expect building material prices to rise further. Mortgage demand improved last week for the first time in three weeks, boosted by gains in both purchase and refinance applications. Purchase mortgage applications, in particular, posted the largest weekly rise since late February to reach the highest level since mid-January. Finally, mortgage rates climbed to a four-year high this week, with the average 30-year fixed mortgage rate rising 5 basis points to 4.47 percent, according to Freddie Mac.

- **Housing starts** rose 1.9 percent in March to 1.32 million annualized units, according to the Census Bureau. Multifamily starts rose 14.4 percent to 452,000, while single-family starts fell 3.7 percent to 867,000. Multifamily permits rose 19.0 percent to 514,000, as single-family permits dropped 5.5 percent to 840,000. Through the first quarter, multifamily and single-family starts were 10.5 percent and 6.9 percent higher than the same period a year ago, while multifamily and single-family permits were 9.6 percent and 5.5 percent higher, respectively.

- **The National Association of Home Builders/Wells Fargo Housing Market Index** slipped 1 point to 69 in April. A reading above 50 indicates that more builders view the single-family market as “good” rather than “poor.” The present sales component fell 2 points to 75, while the sales in the next six months component edged down 1 point to 77. The traffic of prospective buyers component was unchanged at a five-month low of 51.

- **Mortgage applications** increased 4.9 percent for the week ending April 13, according to the Mortgage Bankers Association (MBA). Purchase applications improved 6.1 percent, as conventional and government purchase applications rose 7.1 percent and 3.6 percent, respectively. Refinance applications were up 3.5 percent during the week, as a 5.9 percent increase in conventional refinance applications outweighed the 8.4 percent drop in government applications. The MBA survey’s average 30-year fixed mortgage rate was unchanged at 4.66 percent.

![Multifamily Starts Post Strongest Quarterly Rise Since 2015, as Single-Family Starts Slip](Source: Census Bureau)

![Home Builders Confidence Wavers in the First Four Months of 2018](Source: National Association of Home Builders/Wells Fargo)

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