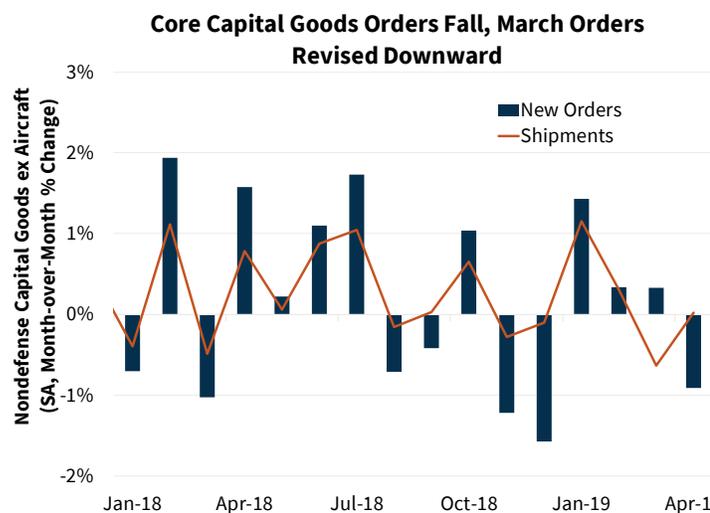


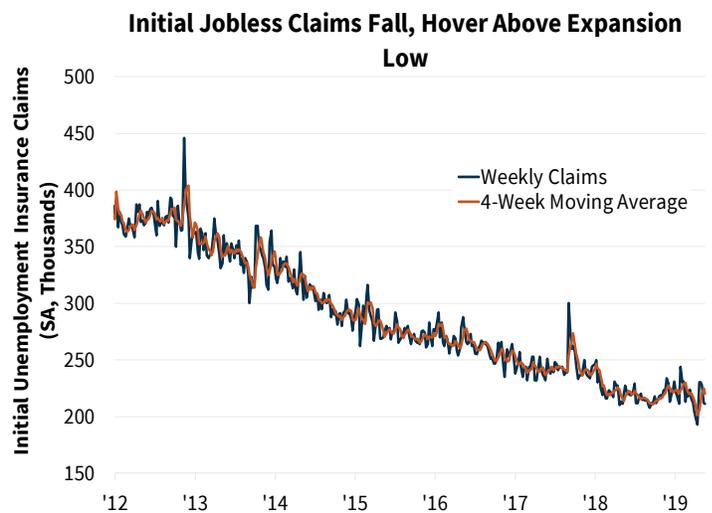
# Economics: The Fed Remains Patient

The focus this week was on the release of the Federal Open Market Committee (FOMC) [minutes](#) for the April 30–May 1 meeting. The minutes reaffirmed the Fed’s “patient” stance, with participants generally agreeing that “a patient approach to determining future adjustments to the target range for the federal funds rate remained appropriate.” A number of participants “marked up their projections for real GDP growth,” citing strength in the labor market, “improvements in consumer confidence and in financial conditions,” and diminished domestic and foreign risks. However, the FOMC meeting took place before statements made during the recent US-China trade negotiations complicated prospects for a trade deal. On inflation, participants did note “that inflation pressures remained muted and that the most recent data on overall inflation, and inflation for items other than food and energy, had come in lower than expected,” but reiterated that this weakness “could be attributed to idiosyncratic factors that seemed likely to have only transitory effects on inflation.” These statements give the Fed some room to maneuver, leaving the door open for policy changes in either direction given future developments regarding inflation and labor markets. While several participants expressed concerns that sustained below-target inflation could lead to an anchoring of inflation expectations below the 2 percent target, both headline and core Consumer Price Index (CPI) inflation came in above the target rate in April, supporting the view that a recovery in the inflation rate would protect against lowered expectations. Initial unemployment insurance claims provided another piece of good news, falling slightly last week as the labor market largely shrugged off trade concerns. On the other hand, durable goods orders fell in April for the second time in three months, and although the volatile aircraft category accounted for most of the decline, core capital goods orders (nondefense excluding aircraft), a forward-looking and less volatile indicator for business equipment spending, also fell. Weakness in durable goods orders is concerning and threatens to drag on business investment, especially given that recent manufacturing surveys have also shown weakness; moreover, March’s healthy increase in core capital goods orders was revised downward to a small increase, adding to a less-than-rosy picture for business investment and GDP.

- **Durable goods orders** fell 2.1 percent in April, according to the Census Bureau. Durable goods shipments fell 1.6 percent. The March rise in durable goods orders was revised downward 1 percentage point to a 1.7 percent rise, while shipments were revised downward eight-tenths to a 0.5 percent decrease. Core capital goods orders fell 0.9 percent, while core shipments were unchanged. Total inventories increased 0.4 percent. The March rise in core capital goods orders was revised downward seven-tenths to a 0.3 percent rise, while the decline in core capital goods shipments was revised further downward five-tenths to a 0.6 percent decrease.
- **Initial claims for unemployment insurance** fell by 1,000 to 211,000 in the week ending May 18, according to the Department of Labor. The four-week moving average dropped by 4,750 to 220,250.



Source: Census Bureau



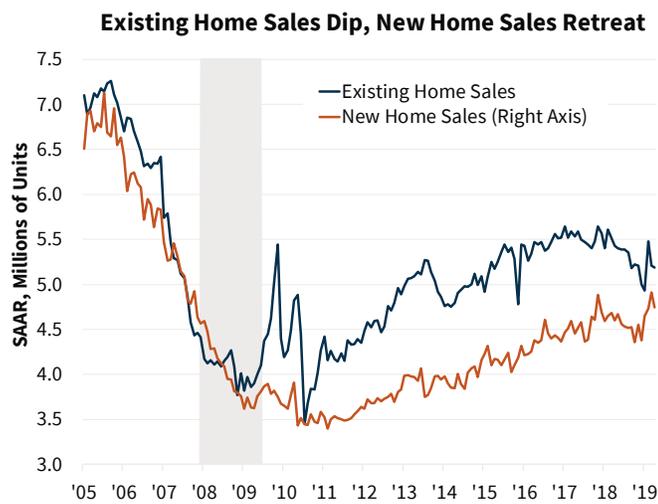
Source: Department of Labor



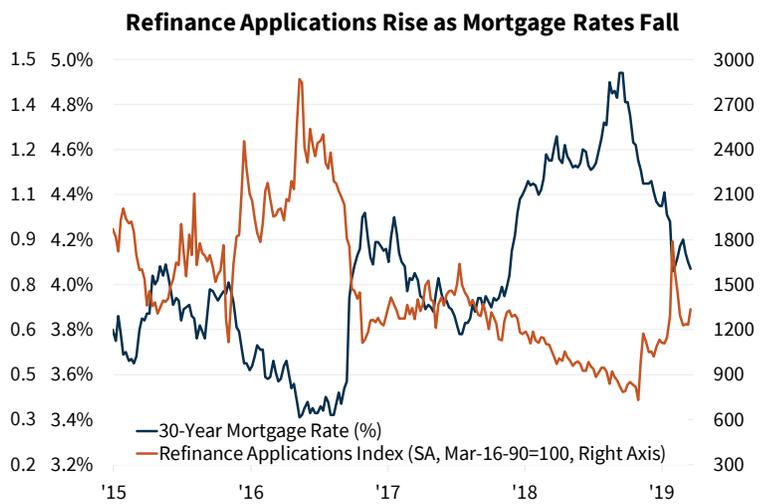
# Housing: New and Existing Home Sales Fall

This week's housing news was mixed with new single-family home sales dropping and existing home sales declining slightly while mortgage applications rose. New single-family home sales slumped in April, ending three consecutive months of increases; the magnitude of the decline, however, seemed large partly owing to a strong upward revision of the March number to 723,000, the highest since October 2007. Sales in April were concentrated in the upper price tiers, with 62 percent of sales in the \$300,000-plus category, leading to the highest median sales price since December 2017. The months' supply at the current sales rate also rose, though new homes for sale fell slightly. Existing home sales, after spiking by more than 11 percent in February, edged down in April for the second consecutive month as a decline in single-family sales outweighed a gain in condo/co-op sales. Thirty-two percent of existing home sales were to first-time buyers. On a year-over-year basis, existing home sales fell for the fourteenth straight month. The median sales price for existing homes rose in April and has grown on an annual basis for more than seven years. Inventories of existing homes improved, with the months' supply rising to 4.2 months, the highest level since last October; this is well below a balanced 6.0-month supply, however, and indicates that limited housing stock remains a constraint on sales and poses a downside risk to our forecast of a strong homebuying season. Offsetting those concerns were two forward-looking indicators: March pending home sales, which typically lead closings by one to two months, rose to the highest level in eight months, while mortgage applications rose last week, with a jump in refinance applications outweighing a decline in purchase applications and suggesting that homeowners are beginning to respond to the decline in mortgage rates. The average yield on 30-year fixed-rate mortgages fell 1 basis point this week, the fourth consecutive week of decline; the latest reading of 4.06 percent, according to Freddie Mac, is down 60 basis points from a year ago and down 88 basis points from the peak in November. While purchase applications fell, the lagged effect from the decline in mortgage rates should give purchase applications a boost in coming weeks, which should help lift new and existing home sales in the second quarter of 2019.

- **New single-family home sales** fell 6.9 percent to a seasonally adjusted annual rate (SAAR) of 673,000 in April, according to the Census Bureau. From a year ago, new single-family home sales were up 7.0 percent. The months' supply at the current sales rate rose three-tenths to 5.9. New homes for sale fell 0.9 percent to 332,000, up 11 percent from a year ago. The median sales price of new houses sold in April was \$342,200, not seasonally adjusted. Sales fell in three of the four census regions, with the Northeast being the only region to see an increase.
- **Existing home sales** dipped 0.4 percent to a seasonally adjusted annual rate of 5.19 million in April, according to the National Association of REALTORS®. Sales of existing single-family homes fell 1.1 percent, outweighing a 5.6 percent rise in condo/co-op sales. From a year ago, sales were down 4.4 percent. The months' supply of existing homes rose four-tenths to 4.2 months as total inventories rose 1.7 percent from a year ago to 1.83 million, not seasonally adjusted. From a year ago, the median existing home sales price rose 3.6 percent to \$267,300. Of the four Census regions, only the West increased in sales.
- **Mortgage applications** grew 2.4 percent for the week ending May 17, according to the Mortgage Bankers Association. Refinance applications rose 8.3 percent, while purchase applications fell 2.0 percent.



Source: Census Bureau, National Association of REALTORS®



Source: Freddie Mac, Mortgage Bankers Association

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 May 24, 2019



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