Economics: Weak Headline Capital Goods Orders Mask Solid Details

The quiet week offered a weak headline for capital goods orders in July, consistent with an earlier report of a softening new orders component in the purchasing managers' survey from the Institute for Supply Management. However, the details bode well for the outlook for business investment on equipment in the fourth quarter, as core capital goods orders, a forward-looking indicator for business equipment investment, rose solidly in July, marking the fourth consecutive increase. Separately, initial jobless claims continue to portray a healthy labor market, as claims this week remained near expansion lows, with the four-week moving average falling to just 250 claims above the expansion best of 213,500 reached in mid-May.

- **Durable goods orders** fell 1.7 percent in July, according to the Census Bureau. A plunge in commercial aircraft orders drove the decline. Excluding transportation, orders rose 0.2 percent. Shipments of durable goods fell 0.2 percent, the first drop in three months, and were also dragged down by a sharp drop in the aircraft component. Core capital goods shipments (nondefense excluding aircrafts) increased 0.9 percent for the second consecutive month. Core capital goods orders were up 1.4 percent, and previous months' readings were revised slightly higher. Durables inventories rose 1.3 percent, the biggest monthly gain since March 2011.

- **Initial claims for unemployment insurance** fell 2,000 to 210,000 in the week ending August 18, according to the Department of Labor. The four-week moving average dropped 1,750 to 213,750.
Housing data were mixed this week with declining home sales, moderating home price appreciation, falling mortgage rates, and rising mortgage demand. Existing home sales, which account for nearly 90 percent of total home sales, fell in July for the fourth consecutive month, sliding to the lowest level since February 2016. Single-family home sales ticked down to the lowest level in two years, and condo/coop sales declined for the first time in five months. On an annual basis, sales fell for the sixth time this year, with year-to-date sales 1.6 percent below sales during the same period a year ago. Regionally, sales declined in every region except the West. The number of existing homes for sale was flat from year-ago levels, ending three years of annual declines and keeping the months’ supply at 4.3 months. New home sales also disappointed in July, falling for the second consecutive month along with a small net downward revision to the prior three months. Driving the decline were sales in the Northeast, which fell to the lowest level since September 2015. New home inventory continues to improve, increasing every month since the start of 2013. While the shortage of housing inventory remains the key driver of strong home price appreciation – and thus affordability challenges – home price gains appear to have softened in recent months. The annual increase in the FHFA Purchase-Only House Price Index decelerated in June to the slowest rate since the start of 2017. On a quarterly basis, the index (seasonally adjusted) rose only 1.1 percent from the first quarter, the smallest quarterly gain in four years, and increased 6.5 percent from a year ago, the slowest pace in more than a year. Recent mortgage rate trends have also been positive for home purchase affordability. Mortgage rates fell this week for the third straight week, with the average 30-year fixed mortgage rate dropping 2 basis points to 4.51 percent, the lowest level in over a month, according to Freddie Mac. Finally, mortgage demand increased this week for the first time in six weeks, as both purchase and refinance applications rose.

- **Existing home sales** fell 0.7 percent in July to 5.34 million units (seasonally-adjusted annualized rate, or SAAR), according to the National Association of REALTORS®. Single-family sales fell 0.2 percent, dropping to 4.75 million units, while condo/coop sales slid 4.8 percent to 590,000 units. The median sales price rose 4.5 percent annually.

- **New single-family home sales** fell 1.7 percent in July to 627,000 units (SAAR), according to the Census Bureau. Sales from the prior three months were revised lower by 4,000, on net. Year-to-date sales are 7.5 percent more than during the same period in 2017. The number of new homes for sale rose 12.7 percent from a year ago. The months’ supply (seasonally adjusted) rose two-tenths to 5.9 months. The median sales price rose 1.8 percent annually.

- The **FHFA Purchase-Only House Price Index**, reported on a seasonally-adjusted basis, rose 0.2 percent in June. On an annual basis, the index rose 6.5 percent, decelerating two-tenths from the increase in May.

- **Mortgage applications** increased 4.2 percent for the week ending August 17, according to the Mortgage Bankers Association. Purchase applications rose 2.9 percent, increasing for the first time in six weeks. Refinance applications increased for the first time in three weeks, gaining 6.0 percent, the largest weekly improvement in two months. The MBA survey’s average 30-year fixed mortgage rate was unchanged at 4.81 percent.

![New and Existing Home Sales Both Fall...Again](chart1)

**New and Existing Home Sales Both Fall...Again**

**Existing Home Sales**

**New Home Sales (Right Axis)**

![Annual Growth in the FHFA Home Price Index Hits the Lowest Level Since January 2017](chart2)

**Annual Growth in the FHFA Home Price Index**

*Source: Federal Housing Finance Agency*

Rebecca Meeker and Orawin Velz
Economic and Strategic Research Group
August 24, 2018
Opinions, analyses, estimates, forecasts and other views of Fannie Mae’s Economic and Strategic Research (ESR) Group included in these materials should not be construed as indicating Fannie Mae’s business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the ESR group bases its opinions, analyses, estimates, forecasts and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts and other views published by the ESR group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.