Economics: Business Equipment Investment Appears to Lose Momentum

This week’s reports were on the soft side. Headline durable goods orders declined the most since July 2017 in October, driven by the volatile aircraft orders component. Details were also lackluster, as core capital goods shipments, which are an input to estimate business equipment spending, rose modestly, reversing two straight monthly declines. Core orders, the forward-looking indicator, were unchanged after two consecutive drops, which bodes poorly for the capital expenditures momentum going into 2019. In addition to weak October data, estimates for both core shipments and core orders for September were revised lower. These trends are quite disappointing given favorable tax treatment of capital investments in the 2017 tax act. Various manufacturing surveys suggest that uncertainty about trade policy is weighing on business capital spending plans. The durable goods report supports our forecast of a bounce back in business equipment investment this quarter from an essentially flat reading in the third quarter; however, the rebound will likely be weaker than we previously expected. The Leading Economic Index (LEI) posted the smallest gain since May in October. Combined with the durable goods orders report, the LEI signaled that economic growth is likely to slow next year. On the consumer front, sentiment fell in November for the fourth time in five months to the lowest reading since August, though it remains historically elevated. Lastly, initial unemployment claims increased last week to the highest level since the end of June.

- **Durable goods orders** dropped 4.4 percent in October, according to the Census Bureau. A large decline in the defense aircraft orders following a surge in September drove the overall decrease. However, excluding transportation, orders were also weak, edging up just 0.1 percent. Core shipments (nondefense capital goods excluding aircrafts) rose 0.3 percent.

- **The University of Michigan Consumer Sentiment Index** declined 1.1 points to 97.5 in the November final reading. The current economic condition component and the consumer expectations components fell 0.8 points and 1.2 points, respectively.

- **The Conference Board Leading Economic Index**, a gauge of the economic outlook over the next three to six months, ticked up 0.1 percent in October. All but three of the index’s ten components, building permits, initial claims, and stock prices were in positive territory in October. Consumer expectations for business conditions and the interest rate spread made the largest contributions to the index.

- **Initial claims for unemployment insurance** rose 3,000 to 224,000 in the week ending November 17, according to the Department of Labor. The four-week moving average increased 2,000 to 218,500.
Housing: Starts and Sales Rise, Builder Sentiment Falls

This week’s housing news was mixed as improved starts and existing home sales countered declines in permits and builder sentiment. Total housing starts increased for the third time in four months in October, though levels still have not fully recovered from June’s substantial decline. Single-family starts posted the largest decline since June but were outweighed by a gain in multifamily starts. The outlook for home building was less encouraging, as multifamily permits fell for the seventh consecutive month to the lowest level since March 2016, and single-family permits edged down for the second time in three months. Existing home sales rose for the first time in seven months in October, driven by increases in both single-family and condo/coop sales. Despite the modest uptick, existing sales remain just above the two-year low seen in September. On an annual basis, sales fell for the ninth time this year, with year-to-date sales holding steady at 2.1 percent below sales during the same period a year ago. Inventories of existing homes continued to experience much needed relief as the number of homes available for sale rose 2.8 percent annually, posting the third straight increase. The National Association of Home Builders Housing Market Index nosedived in November, posting the largest monthly decline since February 2014 and falling to its lowest level in two years. Builder confidence declined in every region and across every component. While higher mortgage rates have eroded sentiment, the index remained elevated, likely due to the strong labor market and wage growth. Finally, mortgage demand fell last week for the fourth consecutive week to the lowest level in nearly four years. While purchase applications rose, refinance applications declined to a fresh 17-year low.

- **Housing starts** rose 1.5 percent in October to 1.23 million annualized units, according to the Census Bureau. Multifamily starts rose for the second time in three months, increasing 10.3 percent to 363,000 units. Single-family starts declined for the second straight month, falling 1.8 percent to 865,000 units. Year-to-date multifamily starts were 6.3 percent greater than the same period a year ago, and single-family starts were 5.0 percent higher. Multifamily permits fell 0.5 percent to 414,000, and single-family permits edged down 0.6 percent to 849,000.

- **Existing home sales** rose 1.4 percent to 5.22 million units (seasonally-adjusted annualized rate) in October, according to the National Association of REALTORS®. Single-family and condo/coop sales both improved, rising 0.9 percent to 4.62 million and 5.3 percent to 600,000, respectively. The median sales price, which is not adjusted for the mix of sales, increased 3.8 percent from the prior year. The months’ supply was 4.3 months, compared with 3.9 months a year ago.

- **The National Association of Home Builders/Wells Fargo Housing Market Index** plummeted 8 points to 60 in November (a reading greater than 50 means more builders view conditions as good than poor). The component measuring current sales conditions fell 7 points to 67, the component gauging expectations declined 10 points to 65, and the component assessing buyer traffic dropped 8 points to 45.

- **Mortgage applications** ticked down 0.1 percent for the week ending November 16, according to the Mortgage Bankers Association. Purchase applications rose 3.1 percent, the second gain in three weeks, while refinance applications declined 5.0 percent, the fourth straight decline. The survey’s average 30-year fixed mortgage rate fell 1 basis point to 5.16 percent, the first decline in seven weeks.

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**A Gain in Multifamily Starts Outweighs a Decline in Single-Family Starts**

Source: Census Bureau

Rebecca Meeker and Orawin Velz
Economic and Strategic Research Group
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