Economics: Business Capital Investment Remains a Bright Spot for Growth

The holiday-shortened week provided some mixed news. Durable goods orders declined in October, driven lower by the volatile aircraft orders component. However, the details were more positive. Core capital goods shipments, an input used to estimate the business investment in equipment component of gross domestic product (GDP), rose for the 11th consecutive month. Although the corresponding leading indicator, core capital goods orders, fell during the month, the decline was modest and followed three consecutive monthly gains. In addition, both core capital goods orders and shipments for September were revised higher. Overall, the report supports our view that business capital investment will add to GDP growth this quarter for the fifth consecutive quarter.

The Conference Board Leading Economic Index, a gauge of economic activity for the next three to six months, jumped in October, reflecting dissipating hurricane impacts. The index’s recent trend suggests that solid economic growth will continue into 2018. Consumer sentiment softened in November but gave back less than half of October’s jump, which had sent sentiment to the highest level of the expansion. Meanwhile, initial jobless claims fell sharply last week, retracing the prior week’s rise.

- **Durable goods orders** fell 1.2 percent in October, according to the Census Bureau. Excluding transportation, durable goods order fell 0.4 percent. Motor vehicle orders increased 1.7 percent, consistent with the strong gain in auto production in recent months in response to the post-hurricane surge in replacement demand. Core capital goods (nondefense capital goods excluding aircraft) shipments increased 0.4 percent, while core capital goods orders fell 0.5 percent. September shipments and orders of core capital goods were revised upward by 0.2 percent and 0.4 percent, respectively.

- **The University of Michigan Consumer Sentiment Index** dropped 2.2 points from October to 98.5 in the final November reading. The decrease followed a 5.6 point gain in October. Current conditions fell 3.0 points to 113.5. Consumer expectations declined 1.6 points to 88.9.

- **The Conference Board Leading Economic Index (LEI)** rose 1.2 percent in October. Jobless claims, building permits, and new orders made the largest contributions to the rise in the top-line index. Of the 10 components in the index, only manufacturers’ new orders for nondefense capital goods excluding aircraft was negative.

- **Initial claims for unemployment insurance** decreased 13,000 to 239,000 in the week ending November 18, reversing the 13,000 gain in the prior week, according to the Department of Labor. Claims fell 1,000 from a 10-year high in Puerto Rico in a sign that healing from Hurricane Maria might have begun. The national four-week moving average fell slightly to 239,750.

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**Core Capital Goods Orders Take a Breather Following Three Straight Monthly Gains**

**Consumer Sentiment Pulls Back from an Expansion High**

*Source: The U.S. Census Bureau*

*Source: University of Michigan*
Housing: Existing Home Sales Provide More Positive News at the Start of the Fourth Quarter

This week offered some positive news for the home purchase market. Existing home sales rose in October, posting two consecutive monthly gains for the first time this year. The gain was slightly better than expected, given an earlier report of flat pending home sales (contract signings of existing home sales) in October. However, on a year-over-year basis, existing home sales fell for the second consecutive month, the first such occurrence since 2014. Very lean inventory continues to restrain sales amid lingering hurricane impacts in parts of Texas and Florida. The number of homes for sale posted the biggest year-over-year drop since August 2016, suggesting supply will remain tight into next year. The near-term outlook for home sales showed some improvement, however, as purchase mortgage applications rose last week for the third consecutive week. Overall, this week’s reports support our forecast that total existing home sales will increase only about 1 percent for all for 2017. However, the increase in October existing home sales, combined with last week’s upbeat housing starts report, suggests that real residential investment will likely increase modestly this quarter for the first time in three quarters, compared to our expectations for a modest decline. Lastly, Freddie Mac’s survey showed that mortgage rates declined this week, with the average yield on 30-year fixed-rate mortgages falling 3 basis points to 3.92 percent.

- **Existing home sales** rose 2.0 percent to a 5.48 million seasonally adjusted annualized rate (SAAR) in October following a 0.4 percent increase in the prior month, according to the National Association of REALTORS® (NAR). Sales increased in all four regions, with sales in the South rising for the first time in three months. NAR noted some residual effects on sales from Hurricanes Harvey and Irma. The West is the only region that showed an increase in sales on a year-over-year basis. The inventory of homes for sale (not seasonally adjusted) fell 10.4 percent from last year’s level, extending the string of annual declines to 29 months. The months’ supply, or the inventory-to-sales ratio, was 3.9 months, compared with 4.4 months last October. The median price, which is not adjusted for the composition of sales, was $247,000, up 5.5 percent from a year ago. Homes were sold more quickly than a year ago, with properties typically staying on the market for 34 days, down from 41 days last October. Year-to-date total existing home sales through October were 1.3 percent higher than sales during the same period in 2016.

- **Mortgage applications** edged up 0.1 percent for the week ending November 17, according to the Mortgage Bankers Association (MBA). Purchase applications rose 5.3 percent, thanks to 4.5 percent and 7.9 percent increases in conventional and government purchase applications, respectively. Refinance applications fell 4.8 percent, as a result of a 5.9 percent decrease in conventional applications amid flat government applications. The MBA survey’s average 30-year fixed mortgage rate increased 2 basis points to 4.20 percent.

![Existing Home Sales Show the First Back-to-Back Gains This Year](image1)

![For-Sale Inventory Posts a Double-Digit Annual Decline](image2)

Source: National Association of REALTORS®

Orawin T. Velz and Rebecca Meeker
Economic and Strategic Research Group
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