Economics: On Second Thought, Q3 Growth Accelerated

Third quarter economic growth received a three-tenths upgrade in the second estimate of GDP to post the fastest annualized growth rate in three years. Consumer spending remained the main driver of growth, despite being the only main component to see a downward revision. Notably, business equipment investment was revised higher to show the strongest gain in three years. The report offered the first look at third quarter corporate profits, which posted the strongest quarter-over-quarter gain in a year. On an annual basis, corporate profits have increased for four consecutive quarters. The increase in profits was broad-based across foreign, domestic, financial, and nonfinancial segments. Monthly data for consumer spending at the start of the fourth quarter disappointed, as real consumer spending posted only a slight uptick after a large increase in September, which was boosted by robust replacement demand for vehicles damaged during the hurricanes. However, real personal income showed the biggest gain since May, and the saving rate increased for the first time over that span, rising from an expansion low in the prior month. The Personal Consumption Expenditures deflator showed that annual headline inflation slowed in October, weighed down by energy prices, which fell during the month after surging in September. Excluding food and energy, annual core inflation ticked up, however. Overall, the report suggests some downside risk to our forecast for real consumer spending growth of 3.0 percent annualized in the fourth quarter. Consumers are increasingly optimistic, as the Conference Board Consumer Confidence Index rose for the fifth straight month to reach a 17-year high in November. Consumers are upbeat both about the present situation and the future, as each component climbed to an expansion best. Finally, the November Institute for Supply Management manufacturing survey, a survey of purchasing managers, indicated a slowing pace of expansion for the second straight month after hitting a 13-year high in September.

- **Gross domestic product (GDP)**, adjusted for inflation, expanded by 3.3 percent annualized in Q3 2017, according to the second estimate from the Bureau of Economic Analysis. The contributions from business fixed investment, net exports, and the change in inventories were revised upward. The drag from residential fixed investment was less than the initial estimate, and the slight drag from government spending was revised upward to a slight contribution. Real personal consumption expenditures (PCE) was revised down one-tenth to 2.3 percent annualized. Corporate profits rose 4.3 percent (not annualized) from the prior quarter, and 5.4 percent from Q3 2016.

- **Personal income**, adjusted for inflation, rose 0.3 percent in October, according to the Bureau of Economic Analysis. Real PCE edged up 0.1 percent. The personal saving rate rose two-tenths to 3.2 percent. The PCE deflator rose 0.1 percent from September. On an annual basis, it increased 1.6 percent, slowing from 1.7 percent in the prior month. The core deflator increased 0.2 percent from September, and 1.4 percent from October 2016.

- **The Institute for Supply Management (ISM) Manufacturing Index** fell 0.5 points in November to 58.2 (any reading above 50 indicates expansion). Declines in the supplier deliveries and inventories components outweighed gains in new orders and production. The employment component edged down slightly during the month.

- **The Conference Board Consumer Confidence Index** improved 3.3 points to 129.5 in November.

- **Initial claims for unemployment insurance** decreased by 2,000 to 238,000 in the week ending November 25, according to the Department of Labor. The four-week moving average increased by 2,250 to 242,250.

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**Upward Revisions to Every Component Except Consumer Spending Bump Up Q3 Growth**

Source: Bureau of Economic Analysis

**Annual Growth in Headline PCE Deflator Slows, But the Core PCE Deflator Accelerates**

Source: Bureau of Economic Analysis

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Housing: Fourth Quarter Home Sales Outlook Improves

This week offered positive news for the home buying market. New home sales rose in October, posting a third consecutive monthly gain to reach a decade high. Every region saw an increase, with sales in the Northeast and the South climbing to expansion highs. However, the positive headline was tempered by sizable downward revisions to the prior three months. Meanwhile, the inventory of new homes for sale increased for the fifth time in the past six months to reach a new expansion high. Shifting to the existing home market, pending home sales, which record contract signings of existing homes and typically lead closings by one to two months, rebounded in October following three consecutive monthly declines, as sales in the South bounced back from hurricane disruptions. However, pending sales remained below last year’s levels for the fourth straight month. The jumps in October new and pending home sales point to a brighter outlook for fourth quarter sales and residential investment, which includes brokerage fees, after their third quarter drops. However, another report this week was less upbeat on residential investment, as spending on new construction spending edged down, driven by a decline in new multifamily construction spending, which fell for the fifth time in the last six months. The housing market, especially in the existing home segment, continues to struggle with limited supply, which restrains sales and puts upward pressure on home prices. Both the FHFA and Case-Shiller indices rose by more than 6 percent year-over-year in September. Lastly, mortgage demand fell last week, driven by the largest drop in refinance applications since mid-September. Purchase applications ticked up last week, as well as in the month of November as a whole. Freddie Mac’s survey showed that mortgage rates declined this week, with the average yield on 30-year fixed-rate mortgages falling 2 basis points to 3.90 percent.

- **New single-family home sales** increased 6.2 percent to a 685,000 seasonally-adjusted annualized rate in October, according to the Census Bureau. Sales in the prior three months were revised downward by 36,000. Through the first ten months of the year, new home sales are 8.7 percent higher than the same period a year ago. The number of homes for sale (seasonally adjusted) increased 1.4 percent from September and 14.0 percent from a year ago. The months’ supply fell from 5.2 months in September to 4.9 months, compared with 5.2 months a year ago.

- **The National Association of REALTORS® (NAR) Pending Home Sales Index** rose 3.5 percent in October. From a year ago, pending sales fell 0.6 percent.

- **Private residential construction spending** increased 0.4 percent in October, thanks to the gain in home improvements, according to the Census Bureau. Spending on new multifamily construction was down 1.6 percent, outweighing a 0.3 percent rise in the single-family segment. From a year ago, single-family construction spending rose 9.1 percent, compared with a decline of 1.8 percent for multifamily, the first annual drop since June 2011.

- **The FHFA Purchase-Only House Price Index**, reported on a seasonally-adjusted basis, rose 0.3 percent in September. From a year ago, the index increased 6.4 percent, slowing from 6.7 percent in August. The S&P/Case-Schiller National Home Price Index (not seasonally adjusted) rose 6.2 percent from a year ago.

- **Mortgage applications** fell 3.1 percent for the week ending November 24, according to the Mortgage Bankers Association (MBA). Purchase applications rose 1.8 percent, while refinance applications fell 7.7 percent. The MBA survey’s average 30-year fixed mortgage rate remained unchanged at 4.20 percent.
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