Economics: Upbeat Businesses; Cautious Consumers

The highly anticipated fed funds rate hike finally occurred this week. The updated “dot plot,” which showed each Fed member’s projected fed funds rate in coming years, implies three rate increases next year compared with two in the September forecast. However, the Fed’s updated economic projections for 2017 were little changed, showing economic growth only one-tenth higher and the unemployment rate one-tenth lower than in September. Inflation news this week showed a pickup in the annual increase in headline CPI in November as a result of rising energy prices. However, the year-over-gain in core prices remained at 2.1 percent, at the low-end of the narrow range of 2.1 percent to 2.3 percent seen so far this year. Consumer spending seemed to lose steam in November, with core retail sales, an input used to estimate consumer spending on goods, posting a paltry gain. Following October’s 0.1 percent rise in real consumer spending, November retail sales point to a sizable slowdown in consumer spending growth this quarter. Industrial production showed the biggest drop in November since March, with mining output the only bright spot. On an upbeat note, small business sentiment improved significantly in November. The National Federation of Independent Business (NFIB) Optimism Index jumped to its best showing in nearly two years, driven by increased optimism in the economic outlook. Similar to the results from last week’s University of Michigan consumer sentiment survey, the election appeared to help boost confidence, as the NFIB noted a sharp increase in optimism in responses received after the election.

- **Retail sales** edged up 0.1 percent in November, according to the Census Bureau. Core retail sales, which excludes auto, gasoline, and building material sales, also rose 0.1 percent. Restaurant and furniture sales led the gain. Sales declined at sporting goods and hobby stores and department stores.
- The **Consumer Price Index (CPI)** rose 0.2 percent in November, boosted by the third straight rise in energy prices. Excluding food and energy items, core prices also rose 0.2 percent. Core goods fell 0.3 percent, while core services were up 0.3 percent, driven by shelter costs. Shelter costs rose 0.3 percent from October and 3.6 percent from a year ago, the fastest annual pace since 2007. From a year ago, overall CPI rose 1.7 percent, the biggest gain since October 2014. The **Producer Price Index (PPI)** for final demand of goods and services advanced 0.4 percent in November, driven by a 0.5 percent rebound in service prices. Annual growth accelerated to 1.3 percent, the biggest rise in two years. Core prices rose 0.4 percent from September and 1.6 percent from a year ago, the fastest pace since January 2015. (The Bureau of Labor Statistics produces both reports.)
- The **National Federation of Independent Business (NFIB) Small Business Optimism Index** jumped 3.5 points to 98.4 in November, marking the biggest monthly gain since April 2009 and sending the index to its highest level since December 2014. The net share of firms expecting the economy to improve surged to 12 percent, compared with negative 7 percent in the prior month. The share of firms with job positions they were unable to fill rose to the highest reading since April 2006. The net share of firms planning to increase employment reached its highest level this year.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, fell 0.4 percent in November, according to the Federal Reserve Board. A 4.4 percent decline in utilities, likely due to unseasonably warm weather, drove the drop. Manufacturing output edged down 0.1 percent, marking the first decrease in three months. Mining output rose 1.1 percent, largely reflecting increased oil and gas drilling and extraction.

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**Retail Sales Lose Steam**

![Retail Sales Lose Steam](source: Census Bureau)

**Small Business Confidence Improves Post-Election**

![Small Business Confidence Improves Post-Election](source: National Federation of Independent Business)
Housing: Builders Confident Even as Construction Slows

Housing data released this week saw the post-election surge of optimism seep into the home building sector, even as home construction slowed during November. Total housing starts reversed most of the gain in October, as both single-family and multifamily construction declined. Single-family building fell back from an expansion best, ending two months of solid gains. However the near-term outlook for single-family remains positive, as permits for the sector edged up to a nine-year high. In addition, on a year-to-date basis, single-family starts and permits are higher than the same period a year ago. Multifamily construction, on the other hand, is going through a period of volatility, as starts in the sector have swung back and forth wildly for the past three months, falling sharply this month to the lowest level since June 2013. In contrast to single-family, multifamily starts and permits are both down year-to-date. Home builders have an increasingly positive outlook for the single-family market, as the National Association of Home Builders (NAHB) Housing Market Index jumped in December to the highest level in over 11 years. The NAHB attributed the jump to the election results, noting that builders are hopeful that President-elect Trump will cut regulations, as pledged during the campaign. All three components of the index also hit new expansion highs. Of particular note, the level of foot traffic of prospective buyers was reported as “good” rather than “poor” for the first time in this expansion. A looming challenge for the housing market is that the recent run up in mortgage rates is dampening mortgage demand. Applications for refinancing and purchase mortgages both declined last week, and refinancing applications have not risen since the end of September. Mortgage rates rose another three basis points this week to 4.16 percent, marking the highest level in over two years, according to Freddie Mac’s survey.

- **Housing starts** fell 18.7 percent in November to 1.09 million annualized units, according to the Census Bureau. Single-family starts dropped 4.1 percent to 828,000, while multifamily starts declined 45.1 percent to 262,000. Through the first eleven months of the year, single-family starts are 9.6 percent higher than the same period a year ago, while multifamily starts are 3.8 percent lower. Housing permits decreased 4.7 percent to 1.20 million annualized units. Multifamily permits drove the decline, falling 13.0 percent to 423,000, while single-family permits edged up 0.5 percent to 778,000. On a year-to-date basis, single-family permits are 7.3 percent higher and multifamily permits are 11.7 percent lower compared to a year ago.

- **The National Association of Home Builders/Wells Fargo Housing Market Index** jumped seven points to 70 in December. A reading of 50 or higher indicates more builders view single-family market conditions as “good” rather than “poor”. The present sales component rose to 76, while sales expectations increased to 78. Traffic of prospective buyers hit 53, marking the first time that metric has climbed above the 50 threshold since October 2005.

- **Mortgage applications** fell 4.0 percent for the week ending December 9, according to the Mortgage Bankers Association. Purchase applications fell 3.3 percent after edging up 0.4 percent the prior week. Refinancing applications dropped 3.6 percent, marking the tenth straight fall. Applications for government and conventional loans dropped for both loan types. The average 30-year fixed mortgage rate edged up one basis point to 4.28 percent.

![Graph showing Home Builders' Confidence Reaches the Highest Level Since July 2005](source)

**Source:** Census Bureau

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