Economics: Manufacturing Continues to Face Headwinds

This week’s economic news suggests that the underlying health of the manufacturing sector continued to deteriorate at the end of the first quarter, even as the impacts of temporary factors—including the port strikes and the disruptive weather—likely have dissipated. The positive headline increase in March durable goods orders masks very weak details, with orders excluding transportation falling for the sixth consecutive month, a string unseen since the last recession. Softness in core capital goods shipments, a key input used to estimate business equipment spending in gross domestic product, adds downside risk to our estimate of first quarter economic growth of 1.3 percent annualized. In addition, core capital goods orders, a forward-looking indicator of business equipment spending, fell for the seventh consecutive month, hinting that business capital expenditures will remain soft in the current quarter, as the strength in the dollar continues to weigh on the factory sector. In addition, cutbacks in energy-related capital expenditures will likely continue even as crude prices stabilize. Regionally, the collapse in oil prices is taking its toll on employment in energy-dependent states. Even in Texas, which has diversified its economy significantly since the 1980s, employment dropped sharply in March by a magnitude not seen outside of national recessions since the collapse in oil prices in 1986. Detailed industry employment indicated that the impact of the reduction in rig counts in the state appears to have spilled over into non-energy related sectors.

- **Durable goods orders** rose 4.0 percent in March, driven by a surge in civilian aircraft orders and a jump in motor vehicle and parts orders, according to the Census Bureau. Excluding transportation, orders fell 0.2 percent. Shipments rebounded, rising 1.1 percent. Core capital goods shipments (nondefense, ex-aircraft) fell 0.4 percent and the increase in February was revised lower to 0.1 percent from 0.3 percent. Core capital goods orders fell 0.5 percent.

- **Regional and state employment** data from the Bureau of Labor Statistics showed that nonfarm payrolls fell in March in 31 states and the District of Columbia and rose in 18 states, with employment unchanged in Idaho. The largest month-to-month declines were in energy-dependent states, including a 0.8 percent drop in Oklahoma and 0.6 percent declines in Arkansas and North Dakota. Weaknesses in employment in those states reflected the spillover from oil/natural gas extraction and drilling into other industries including retail trade and service. The biggest oil-dependent state, Texas, saw a whopping 25,400 drop in payrolls (a 0.2 percent decline), marking the first job loss since September 2010. It points to a dramatic swing in the state’s hiring, which saw an average monthly gain of 33,950 in 2014, compared with only 1,230 during the first quarter of 2015.

- **Initial claims for unemployment insurance** ticked up 1,000 to 295,000 in the week ending April 18, according to the Department of Labor. The four-week moving average edged up slightly to 284,500, but remains below the 300,000-mark for the fourth consecutive week, signaling continued healthy labor market conditions.
Housing: Surging Existing Home Sales Trump Sagging New Home Sales

Housing data this week were dominated by the spike in March existing home sales, which had the largest monthly increase since December 2010. Continued tight inventory with respect to the sales pace, combined with ongoing declines in distressed sales, has helped put upward pressure on home prices. The year-over-year FHFA purchase-only house price index strengthened in February, consistent with an earlier report of the CoreLogic house price index. These pieces of positive news—a much-needed shot in the arm for the economy during the feeble first quarter—were in contrast to disappointing new home sales, which posted the largest drop in 20 months. However, the March plunge, only the second decrease in eight months, was from a seven-year high in February. Despite the pullback late in the quarter, the new home market is off to a great start this year, with total first quarter sales reaching the fastest pace since 2008. Recent trends in purchase mortgage applications point to an upward trajectory in home sales, as applications have reached their highest level since June 2013. Mortgage rates remain supportive to home buying activity: the Freddie Mac contract interest rate for 30-year fixed-rate mortgages dropped two basis points to 3.65 percent, the lowest level since early February. Low mortgage rates, combined with signs of improving income growth, are brightening the outlook for the spring and summer selling season, in line with our forecast.

- **Existing home sales** jumped 6.1 percent in March to 5.19 million annualized units, according to the National Association of REALTORS®. Through March, year-to-date sales are up 6.6 percent from a year ago. The number of homes available for sale, which is not seasonally adjusted, rose considerably from February, increasing 5.3 percent to 2.0 million units, the largest month-over-month increase since April 2014. The months’ supply, or inventory/sales ratio, edged down to 4.6 months, compared with 5 months in March 2014. The median sales price, which is not adjusted for the composition of sales, increased 7.8 percent from last year.

- **New single-family home sales** plummeted 11.4 percent in March to 481,000 annualized units, according to the Census Bureau. Year-to-date sales are up 20.6 percent from the same period in 2014. The number of homes available for sale (reported on a seasonally adjusted basis) increased 1.9 percent, reversing February’s fall. As a result, the months’ supply increased 0.7 months, the largest rise in nine months, to 5.3 months. The median sales price fell 1.7 percent from last March.

- **The FHFA purchase-only house price index**, reported on a seasonally adjusted basis, rose for the 15th consecutive month, increasing 0.7 percent in February. Over the past year, prices increased 5.4 percent. Regionally, the price gains were widespread, with eight of the nine Census divisions increasing month-over-month and all nine increasing year-over-year.

- **Mortgage applications** reversed most of the prior week’s losses, increasing 2.3 percent in the week ending April 17, according to the Mortgage Bankers Association. Purchase applications continued their strong start to the year driving the growth again this week, rising 5.0 percent, while refinance applications edged up just 0.6 percent. The contract interest rate for 30-year fixed-rate mortgages reported in the survey slipped four basis points to 3.83 percent, the lowest since late January.

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