Economics: Building Momentum

A strong rebound in core capital goods orders in March suggests that business capital spending growth will accelerate in the current quarter from a lackluster pace expected for Q1 2014. A measure of consumer sentiment for April showed consumers were the most optimistic since last summer, when sentiment reached a recovery high. The sharp rise in the index of leading indicators in March supports our view in the April forecast that economic growth will firm to nearly 3.0 percent in Q2 2014 from our estimate of 1.5 percent in Q1 2014. Overall, this week’s economic reports are consistent with recent economic data, including industrial production, retail sales, and labor market conditions, which showed strengthening economic activity at the end of Q1 2014 and a positive trajectory heading into the spring. However, the weakest link so far this year remains housing.

- **Durable goods orders** rose 2.6 percent in March. Core capital goods shipments (nondefense capital goods excluding aircraft)—an input used to estimate the business equipment spending component of GDP—rose 1.0 percent during the month. For Q1 2014, core capital goods shipments increased at a 1.7 percent annual rate, a marked slowdown from nearly 8 percent in Q4 2013, suggesting tepid growth of business equipment spending in Q1 2014. However, core capital goods orders—a leading indicator of business equipment spending—posted a solid gain, rising 2.2 percent and more than offsetting the 1.1 percent decline in the prior month.

- **The Conference Board index of leading indicators**—a gauge of economic activity over the next three to six months based on ten economic indicators—jumped 0.8 percent in March, the third consecutive monthly gain. The labor market and financial components were the biggest contributors while building permits were the largest drag.

- **The final Reuters/University of Michigan consumer sentiment index** rose 4.1 points in April from March to 84.1, just one point below the recovery high recorded in July 2013. Today’s report is the final reading for the month, which showed an upward revision from the preliminary figure of 82.6. The gain reflects increased optimism for both the current conditions and expectations components, with the former rising to a fresh recovery best. The share of consumers planning to buy durable goods, cars, and homes rose among households in the top third of the income distribution but fell among lower-income households.

![The Economy is Poised for a Pickup](image1)

![Consumer Sentiment Jumps](image2)

Source: Conference Board, Reuters/University of Michigan
Housing: From Bad to Worse

After sluggish housing starts and builder confidence data last week dashed hopes of a swift weather-induced rebound in residential construction, March home sales data released this week suggest the Q1 2014 slowdown in sales activity is due primarily to higher sales prices and mortgage rates rather than snowflakes. Existing home sales, measured by contract closings, held near a two-year low, supporting our revised April outlook, which calls for a small annual decline in resales this year from a modest increase in the prior forecast. New home sales, measured by contract signings, are prone to large revisions, meaning it will be prudent to wait for more data before overreacting. However, if the double-digit decline registered in March sticks, it may dim prospects for a strong spring selling season. All eyes turn to the pending home sales release (contract signings of existing homes) on Monday for a hint at whether the nearly year-old sales slump may end in April.

- **Total existing home sales** ticked down 0.2 percent in March to a seasonally adjusted annual rate of 4.59 million, according to the National Association of REALTORS®. The March sales pace was the slowest since July 2012 and down 7.5 percent from a year ago. Since existing sales reached a recovery-high (excluding the 2009 spike associated with the homebuyer tax credit) last July at 5.38 million units, they have declined in seven of the last eight months, dropping a cumulative 15 percent over that span. The inventory of existing properties for sale jumped 4.7 percent during March (not seasonally adjusted), pushing the months’ supply, or inventory/sales ratio, up two tenths to 5.2 months. Distressed sales (foreclosures and short sales) accounted for 14 percent of total resales in March, down from 16 percent in February and 21 percent a year ago. The all-cash and investor shares both ticked down in March to 33 percent and 17 percent, respectively, but were little changed from last year.

- **New single-family home sales** plunged 14.5 percent in March to a seasonally adjusted annual rate of 384K, according to the Census Bureau. The March sales pace was down 13 percent from a year ago. New homes available for sale rose 3.2 percent, pushing the seasonally adjusted months’ supply to 6.0 months, the highest level since October 2011. The median sales price, which is not adjusted for the composition of sales, jumped 11.2 percent in March—the largest monthly increase since record keeping began in 1963—and reached a new nominal record high of $290K. Over the past 12 months, the median sales price is up 12.6 percent.

- **The FHFA purchase-only home price index**, a repeat-transactions index, rose 0.6 percent in February on a seasonally adjusted basis. Over the past 12 months, home prices have increased 6.9 percent, down from the recent peak of 8.5 percent reached in mid-2013. All nine Census Divisions showed annual price appreciation ranging from 0.6 percent in New England to 14.3 percent in the Pacific.

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Orawin T. Velz and Brian Hughes-Cromwick  
Economic & Strategic Research Group  
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