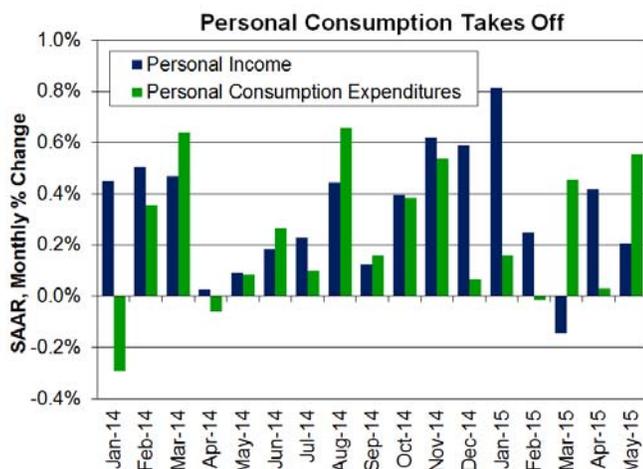


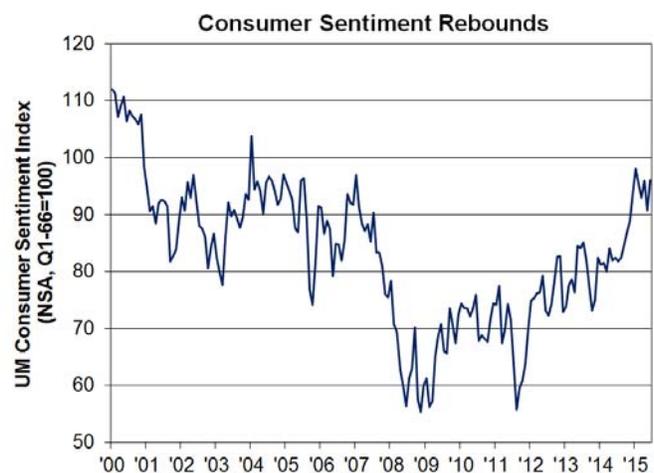
## Economics: Finally, the Boost Materializes as Consumers Spend Big in May

Economic data released this week gave concrete evidence of consumers flexing their economic muscle following substantial gains in employment and income. Personal consumption was revised upward in the third estimate of Q1 2015 gross domestic product (GDP), which, paired with an increase in inventory investment, drove an upgrade to GDP. More importantly, consumer spending surged in May (by 0.9 percent in nominal terms, the largest increase in almost six years), suggesting building consumer momentum in the current quarter. Their improving outlook toward the economy, as indicated by increasing consumer sentiment, will likely support continued strength in consumer activity going forward. Inflation pressure appears to be building, as the Fed's favored measure increased in May by the largest percentage in nearly two years, though annual inflation remains significantly below the 2.0 percent target. The manufacturing sector, a weak spot so far in 2015, showed signs of improvement even despite the eighth decline in durable goods orders in 10 months as core capital goods orders and shipments—indicators of business equipment investment—both grew in May.

- **Gross domestic product (GDP)**, adjusted for inflation, contracted at a 0.2 percent annual rate in Q1 2015, according to the third estimate from the Bureau of Economic Analysis (BEA)—a half percentage point improvement from the second estimate. The upward revision was broad-based among GDP categories. Consumer spending contributed 1.4 percentage points to GDP during the quarter, a 0.2 percentage point improvement from the previous estimate. The contribution from inventory investment also was revised upward to 0.5 percentage points. Nonresidential investment, residential fixed investment, and government consumption and gross investment also received modest upgrades.
- **Personal income**, adjusted for inflation, increased 0.2 percent in May and 4.2 percent from a year ago, according to the Bureau of Economic Analysis. Real personal consumption expenditures (PCE) jumped 0.6 percent—the biggest gain since last August—after holding steady in April. The personal saving rate fell 0.3 percentage points to 5.1 percent, reversing the gain in April. The PCE chain price index rose 0.3 percent from April. Annual inflation continues to lag, however, rising just 0.2 percent—a level last seen in 2009. Core PCE, which excludes food and energy, increased 0.1 percent during the month and 1.2 percent from a year ago.
- **Durable goods orders** fell for the second month running, dropping 1.8 percent in May, according to the Bureau of Labor Statistics. Transportation orders drove the decline, in large part due to a 35.3 percent fall in volatile civilian aircraft orders. Orders excluding transportation rose by 0.5 percent. New orders and shipments of core capital goods (which exclude defense and aircraft items) increased 0.4 and 0.3 percent, respectively. Core shipments, an input to estimate business equipment investment in GDP, have now increased for three consecutive months.
- **The Reuters/University of Michigan Consumer Sentiment Index** jumped 5.4 points to 96.1 in the final June reading, as both the present conditions (which had its largest increase since 2013) and expectations components rose.
- **Initial claims for unemployment insurance** increased by 3,000 to 271,000 in the week ending June 19, according to the Department of Labor. However, the four-week moving average decreased by 3,250 to 273,750.



Source: Bureau of Economic Analysis



Source: University of Michigan

## Housing: Home-Buying Approaches Eight-Year High

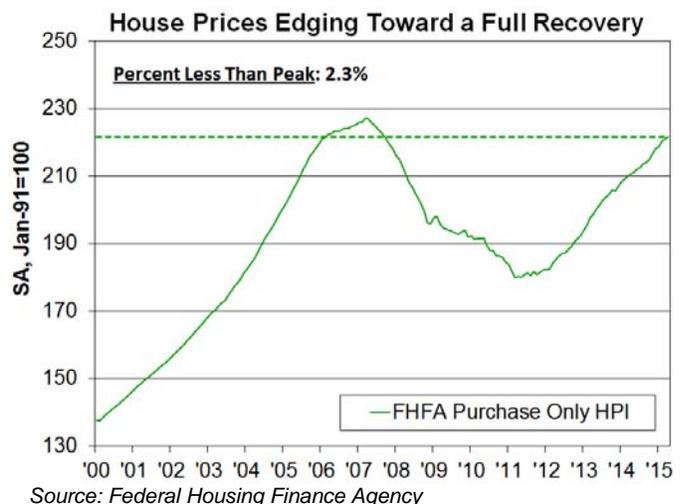
This week featured upbeat news on housing, particularly for home purchases in May. Existing home sales hit a pace last reached in November 2009, while new home sales reached a level last seen in February 2008. Combined, total annualized home sales of 5.90 million units in May was the strongest since June 2007. In addition, upward revisions to both existing and new home sales in April further indicate growing momentum for the housing market. Another source of good news was an increased share of first-time home buyers, which rose to 32 percent of existing home sales, the highest level since 2012. New home sales, however, may not be as strong as the headline rate suggests as a large part of the increase occurred in the Northeast, where the June expiration of a New York real estate development tax break could have inflated the May numbers. Inventory continues to tighten as the month's supply (inventory/sales ratio) dropped for both new and existing homes. Tight inventory conditions continue to support house price gains as the April FHFA purchase-only house price index rose to a level just 2.3 percent below its March 2007 peak. The 30-year fixed mortgage rate rose slightly this week to 4.02 percent, holding above 4.0 percent for three weeks running, according to Freddie Mac.

➤ **Existing home sales** jumped 5.1 percent in May to 5.35 million annualized units, according to the National Association of REALTORS®. Through May, year-to-date sales are up 6.3 percent from a year ago. The number of homes available for sale, which is not seasonally adjusted, increased 3.2 percent to 2.29 million units in May but just 1.8 percent from a year ago. The month's supply, or inventory/sales ratio, ticked down to 5.1 months. The median sales price, which is not adjusted for the composition of sales, rose 7.9 percent from a year ago.

➤ **New single-family home sales** rose 2.2 percent in May to 546,000 annualized units, according to the Census Bureau. Through the first five months of 2015, new home sales are up 22.8 percent from the same period a year ago, making it four consecutive months of year-to-date gains over 20 percent. The number of homes available for sale (reported on a seasonally adjusted basis) was unchanged from April—breaking a two-month stretch of gains—but increased 6.2 percent from a year ago. The month's supply edged down to 4.5 during the month, matching a low last seen in June 2013. The median sales price, which is not adjusted for the composition of sales, fell 1.0 percent from last May—the first decline since September 2014.

➤ **The FHFA purchase-only house price index**, reported on a seasonally adjusted basis, increased by 0.3 percent in April. Year-over-year price growth held steady at 5.3 percent growth for the second consecutive month. Regionally, all nine Census divisions increased year-over-year.

➤ **Mortgage applications** edged up 1.6 percent in the week ending June 19, according to the Mortgage Bankers Association, partially reversing the decline in the prior week. Purchase applications increased by 1.2 percent and remain just 3.0 percent below the two-year high reached two weeks ago. Refinancing applications also improved, rising 1.8 percent, as the survey's 30-year fixed mortgage rate dropped three basis points to 4.19 percent from an eight-month high in the prior week.



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