Economics: Second-Half Growth Outlook Remains Intact

This week’s June durable goods report supports our expectation that businesses’ capital investment rebounded in the second quarter after declining in the first quarter for the first time in more than a year. The strength in core capital goods orders—a leading indicator of business capital spending—suggests that businesses will continue to invest in the second half of the year, contributing to economic growth. Retail prices posted a solid gain in June, driven by a jump in gasoline prices. A relief may be forthcoming, as retail gasoline prices have declined so far this month. Ongoing geopolitical conflicts in the Middle East and Ukraine are a cause for concern, however, as they might increase volatility in energy prices and could impact the overall inflation rate. Jobless claims continued to fall last week, further supporting our view of a strengthening labor market.

- **Consumer Price Index (CPI)** rose for the eighth consecutive month in June, increasing 0.3 percent. The gain was driven by increases in gasoline prices as other energy prices declined, and food prices increased a moderate 0.1 percent from May. Compared to June 2013, the CPI was up 2.1 percent, marking the third straight month in which the year-over-year change was at or above 2.0 percent. Core CPI, which excludes volatile food and energy prices, increased 0.1 percent in May, driven higher by increases in the rent and owners’ equivalent rent indices. Year, over year, the core CPI was up 1.9 percent for the second straight month.

- **Durable goods orders** rose 0.7 percent in June after falling 1.0 percent in May. Excluding defense goods, new orders also increased 0.7 percent. Core capital goods orders (excluding defense capital goods and aircraft orders) increased 1.4 percent in June, partially offsetting the prior two months of declines, and were up 1.9 percent from June 2013.

- **Initial claims for unemployment insurance** slid for the second consecutive week, falling by 19,000 to 284,000 for the week ending July 19th. The four-week moving average decreased from 309,000 to 302,000, approaching the sub-300,000 level last seen in 2006.
Housing: Another Mixed Bag

This week featured mixed reports on home sales and further evidence of moderating home price appreciation. Existing home sales continued their recovery following the roughly 100 basis point jump in mortgage rates that began more than a year ago, reaching an annualized pace above 5 million units for the first time in eight months. On the other hand, a dismal June report on the new home sector showed that new single-family sales sank in June while revisions showed that Q2 activity was much worse than previously believed. The bleak trend in new sales combined with a 23.1 percent jump in inventories over the past 12 months (notable, though still low by historical standards) helps to explain homebuilder caution in the first half of 2014. In our recently published July outlook, we estimate that total home sales will decline approximately 2.0 percent this year. On the home price side, the FHFA purchase-only index continued to show healthy annual gains, but those gains have moderated from last year’s highs—in line with expectations. The interest rate on 30-year fixed-rate mortgages was unchanged for the week according to Freddie Mac, at 4.13 percent.

Total existing home sales rose 2.6 percent in June to a seasonally adjusted annual rate of 5.04 million units according to the National Association of REALTORS®—the third consecutive monthly increase in sales following declines in seven of the previous eight months. Through the first half of 2014, sales are running 5.3 percent below last year’s pace. The inventory of homes available for sale rose for the sixth consecutive month, keeping pace with improving sales, and leaving the months’ supply (inventory/sales ratio) unchanged at 5.5. Sales of distressed properties (foreclosures and short sales) accounted for 11.0 percent of total sales, down from 15.0 percent a year ago, while cash sales remained elevated at 32.0 percent of all transactions.

New single-family home sales fell 8.1 percent in June to a seasonally adjusted annual rate of 406,000 according to the Census Bureau, down from a May pace of 442,000, which was revised sharply lower from the originally reported 504,000. Cumulative sales through the first six months of 2014 are 4.3 percent below the same period last year. Meanwhile, the inventory of homes available for sale rose 3.0 percent, pushing the months’ supply up to the highest level since October 2011 at 5.8 months.

The Federal Housing Finance Agency (FHFA) purchase-only home price index rose 0.4 percent in May for the sixth consecutive monthly increase on a seasonally adjusted basis. Over the past 12 months, the FHFA index shows home prices are up 5.5 percent, with annual appreciation trending down since reaching a recovery-high of 8.5 percent last July. All nine Census divisions showed annual price gains, ranging from 2.5 percent in the Middle Atlantic to 9.6 percent in the Pacific. On a national basis, the FHFA index shows prices have increased a cumulative 17.7 percent since the May 2011 trough, but remain 6.5 percent below the 2007 peak.

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July 25, 2014

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