



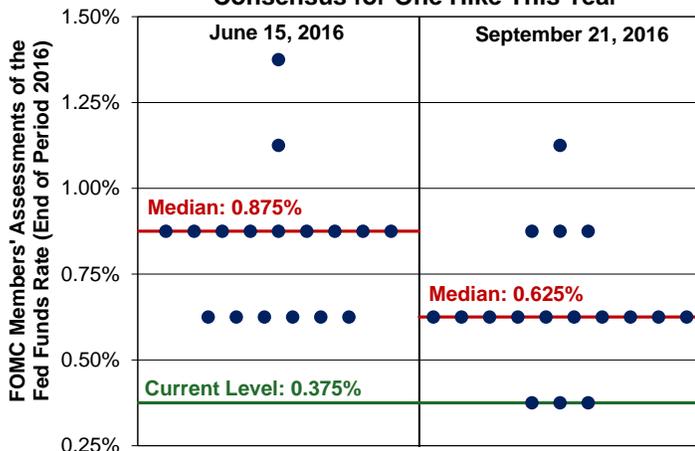
Weekly Note – September 23, 2016

Economics: A Divided Fed Huffs and Puffs But Doesn't Hike

The markets waited with bated breath for the outcome of the September Federal Open Market Committee (FOMC) meeting on Wednesday, and were relieved to hear the fed funds rate would be left unchanged. The [statement](#) following the meeting showed that the Fed judged that the case for an increase in the federal funds rate has strengthened but decided to wait for further evidence of continued progress toward its objectives after the September meeting. Three committee members of the FOMC dissented in favor of a hike, marking the first time three voters have dissented in the same direction since September 2011. However, some members opposed any hike this year, as the dot plot – which includes the views of both the FOMC and regional Federal Reserve Bank presidents who are not voting members this year – revealed three members believe rates should be left unchanged in 2016. In her press conference following the release of the statement, Chair Yellen said that standing pat in September did “not reflect a lack of confidence in the economy”, as the “the economy has a bit more running room” before a hike is warranted. However, given current economic conditions and important data to come between now and the December meeting, we continue to hold our call of no rate hike in 2016. The FOMC also released updated economic projections with the statement. Notably, the view on long term economic growth was lowered to 1.8 percent from 2.0 percent, which had been the committee’s view for the past year. In addition, the median projections for the fed funds rate showed one rate increase this year and two next year, down from two and three, respectively, in the June projections. The markets appear to be warming to the idea of a rate hike this year, as the odds of a hike by the end of the year has been above 50 percent since mid-August, and has now crept up to 59 percent according to the fed funds futures market. The other economic news this week was light. An index of leading indicators for economic growth dropped in August, after rising in the previous two months, as weakness in non-financial indicators more than offset improvements in financial indicators. Lastly, the largest drop in initial claims for unemployment insurance since early July brought the four-week moving average to the lowest level in eight weeks.

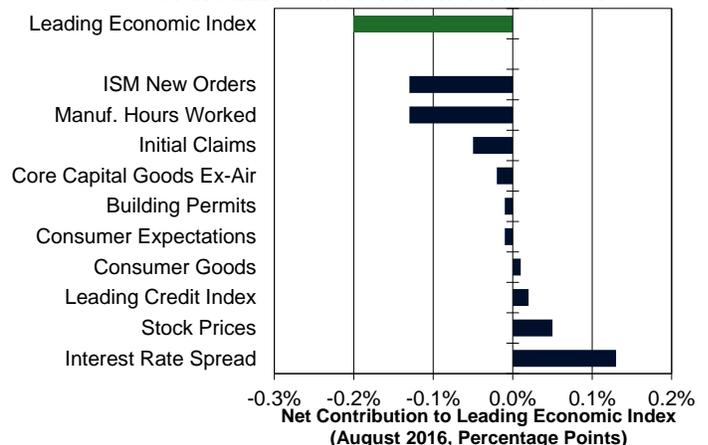
- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, declined 0.2 percent in August following a 0.5 percent increase in July and a 0.2 percent increase in June. Average weekly manufacturing hours and new orders detracted from the index, more than offsetting positive contributions from financial components.
- **Initial claims for unemployment insurance** decreased by 8,000 to 252,000 in the week ending September 17, marking the lowest level in two months, according to the Department of Labor. The four-week moving average decreased by 2,250 to 258,500.

Fed's September "Dot Plot" Reveals a Growing Consensus for One Hike This Year



Source: Federal Reserve Board

Leading Economic Index Pulls Back Because of Weakness in Nonfinancial Indicators



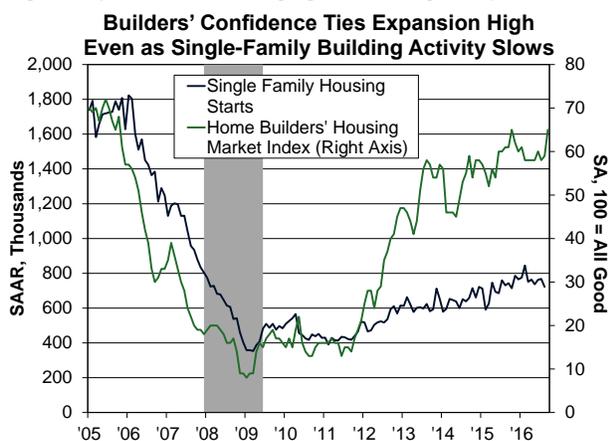
Source: Conference Board



Housing: Supply Remains the Bottleneck

Data released this week brought to the fore the ongoing issue of tight housing supply. Total housing starts posted the largest drop since March, as single-family starts fell to the lowest level since last October. Encouragingly, single-family permits posted the largest rise since June 2014, offering hope of a near term rebound in building. Home builders, however, remain positive, as an index of their confidence approached a ten-year best. Mirroring the recent strength in new home sales, the present sales component boosted the index. While new home sales keep improving despite constrained home building, the declining supply of existing homes for sale continues to frustrate the home sales market. The inventory of existing homes for sale has declined year-over-year for 15 straight months, and fell this month by the fastest pace since May 2013. Largely due to shrinking supply, sales fell for the second consecutive month after reaching an expansion high in June, marking the first back-to-back drop this year. Low supply amidst strong demand has pushed up prices, with the FHFA purchase-only home price index rising by almost 6.0 percent year-over-year, creating affordability concerns. Mortgage applications pulled back last week, as purchase applications gave back most of the strong gain from the previous week and refinance applications posted the largest drop since July. The average 30-year fixed mortgage rate slipped two basis points to 3.48 percent, marking the 12th time in the past 13 weeks that rates have averaged below 3.5 percent, according to Freddie Mac's survey.

- **Housing starts** fell 5.8 percent to 1.14 million annualized units in August, according to the Census Bureau. Single-family starts fell 6.0 percent to 722,000 units. Multifamily starts dropped 5.4 percent to 420,000 units. Through the first eight months of the year, single-family starts are 9.1 percent higher than the same period a year ago, and multifamily starts are 0.5 percent higher. New residential permits slipped 0.4 percent to 1.14 million units. Single-family permits rose 3.7 percent. Multifamily permits, on the other hand, declined 7.2 percent. On a year-to-date basis, single-family permits are up 7.9 percent, while multifamily permits are down 16.4 percent from one year ago.
- **Existing home sales** declined 0.9 percent to a seasonally adjusted annualized rate of 5.33 million in August, according to the National Association of REALTORS®. Year-to-date sales are 3.3 percent higher than last year. The inventory of homes for sale (not seasonally adjusted) declined 10.1 percent year-over-year. The months' supply of homes (inventory-to-sales ratio) edged down one-tenth to 4.6 months. The median home price, which is not adjusted for the mix of sales, increased 5.1 percent from one year ago.
- **The National Association of Home Builders / Wells Fargo Housing Market Index** jumped six points to 65 in September. A reading above 50 indicates more builders view the market as "good" rather than "poor". The present sales component rose to the highest level since October 2005. The other two components — sales expectations for the next six months and the traffic of prospective buyers — both posted new highs for 2016.
- **The FHFA purchase-only house price index**, reported on a seasonally adjusted basis, rose 0.5 percent in July, the largest increase since March. From one year ago, prices increased 5.9 percent, accelerating slightly from June.
- **Mortgage applications** decreased 7.3 percent for the week ending September 16, according to the Mortgage Bankers Association. Purchase and refinancing applications declined by 6.8 and 7.6 percent, respectively. The average 30-year fixed mortgage rate edged up three basis points to 3.70 percent, the highest level since June.



Source: Census Bureau, National Association of Home Builders



Source: National Association of REALTORS®

Frank Shaw
Economic and Strategic Research Group
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