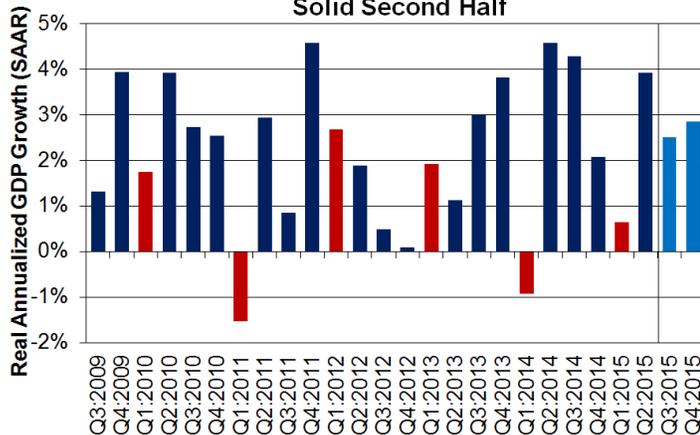


Economics: Second Quarter Growth Gets a Second Upgrade

Economic data released this week centered on the final estimate of second quarter economic growth, which provided a pleasantly surprising second upward revision. Although the data encompasses a time period that occurred prior to recent market volatility caused by international concerns, the second quarter bounce-back from a weak first quarter creates a platform for solid growth in the second half of the year, for which we forecast 2.5 percent growth in the third quarter and 2.9 percent growth in the fourth. Consumers have been the main driver of economic growth for five consecutive quarters. However, their outlook toward the economy might be faltering, as an index of consumer sentiment dropped to a new low this year after three months of decline. The improved growth in nonresidential fixed investment was another positive from the second quarter, as it made its largest contribution to growth in three quarters. Although core capital goods orders and shipments stumbled in August, the slight drop came after two solid consecutive gains. While economic growth proved strong in the second quarter, the Fed cited concerns in the statement following its meeting last week regarding “developments abroad” and the possible effects on the domestic economy and financial markets. Evidence that financial turmoil and global economic troubles are affecting the labor market has yet to materialize, as initial claims for unemployment insurance continued to trend downward this week. Next Friday’s September jobs report will likely shed some light on how events abroad are affecting specific sectors of the labor market.

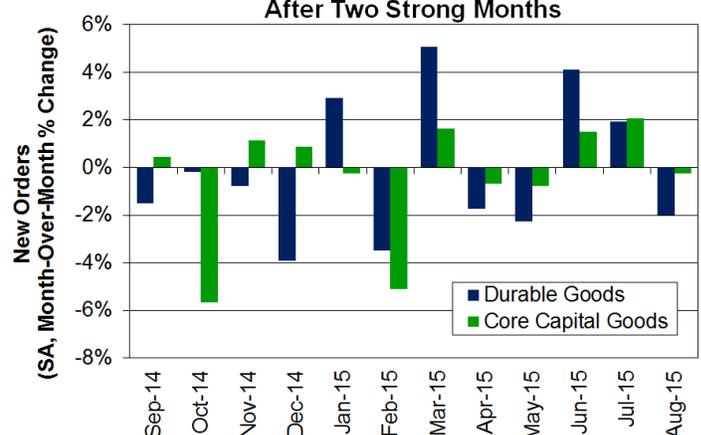
- **Gross domestic product (GDP)**, adjusted for inflation, expanded at a 3.9 percent annual rate in Q2 2015, according to the Bureau of Economic Analysis’ third estimate—a two-tenths percentage improvement from the second estimate. The upward revision was due mainly to increased contributions from personal consumption expenditures and nonresidential fixed investment, which added 2.4 percentage points and 0.5 percentage points to growth, respectively. Residential investment also was revised higher. Inventory investment was revised down slightly, a negative for second quarter growth but a positive for the current quarter.
- **Durable goods orders** fell 2.0 percent in August, according to the Census Bureau. Transportation orders, specifically civilian aircraft orders, drove the decline. Orders excluding transportation were unchanged from July. Core capital goods, which exclude defense and aircraft items and are a leading indicator of business equipment investment, took a breather in August, declining 0.2 percent. Core shipments (an input to estimate business equipment investment in GDP) also fell 0.2 percent.
- **The University of Michigan Consumer Sentiment Index** declined by the second largest amount this year, dropping 4.7 points to 87.2 in September’s final reading, which is the lowest reading in 11 months. Both the present conditions and the expectations component decreased for the third consecutive month, reaching new lows for 2015.
- **Initial claims for unemployment insurance** increased by 3,000 to 267,000 in the week ending September 19, 2015, according to the Department of Labor. The four-week moving average decreased by 750 to 271,750—its lowest level in five weeks.

Strong Q2 2015 Growth Rebound Points to a Solid Second Half



Source: Bureau of Economic Analysis (Historical), Fannie Mae (Forecast)

Core Capital Good Orders Take a Breather After Two Strong Months

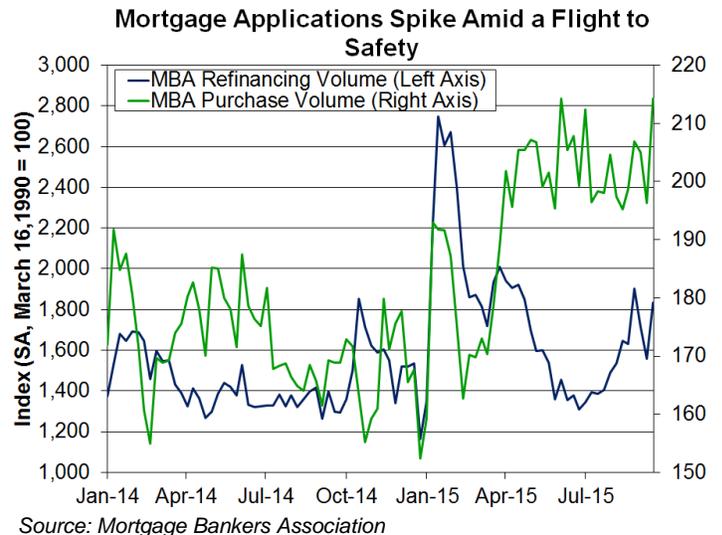
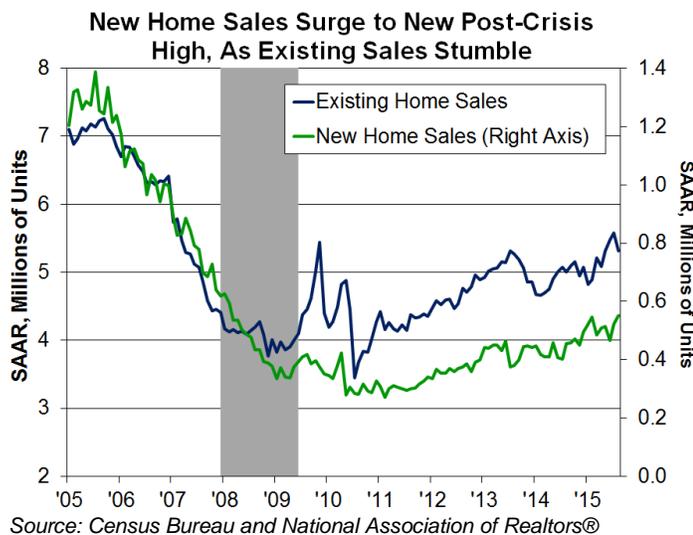


Source: Census Bureau

Housing: Two Steps Forward and One Step Back

Housing data released this week centered around new and existing home sales. New home sales provided the highlight of the week, reaching a new post-crisis high after two consecutive months of solid gains. The improvements were focused in the South, although the Northeast and West also contributed to outweigh a decline in the Midwest. Existing home sales, on the other hand, disappointed, posting the largest drop since January. The general trend in home sales so far in 2015 has been healthy, however. Through the first eight months of the year, total sales (combining new and existing sales) are 8.9 percent higher than the same period last year. Even though home sales have been improving in 2015, the number of new and existing homes available for sale has remained flat relative to last year. Lean inventories and declining distressed sales have helped home prices continue their march back toward their 2007 peak. Through July, the FHFA house price index has recovered 94.8 percent of its peak-to-trough fall from March 2007 to March 2011. Mortgage applications also grabbed headlines this week, recovering almost all of the ground lost during the past two weeks' decline. The prevailing risk-off environment is favorable for purchase and especially refinancing applications, as the 30-year fixed mortgage rate fell 5 basis points to 3.86 percent, according to Freddie Mac's survey.

- **New single-family home sales** rose 5.7 percent in August to 552,000 annualized units, according to the Census Bureau. Through August, year-to-date sales are up 19.8 percent from a year ago. The number of homes available for sale (reported on a seasonally adjusted basis) was flat for the second consecutive month. The months' supply (inventory/sales ratio) edged down two-tenths to 4.7, the lowest level in six months. The median sales price, which is not adjusted for the composition of sales, increased only 0.3 percent from August 2014.
- **Existing home sales** dropped 4.8 percent in August to 5.31 million annualized units, according to the National Association of REALTORS®. Through the first eight months of the year, sales are up 7.9 percent from the same period last year. The number of homes available for sale (reported on a non-seasonally adjusted basis) increased 1.3 percent in August, but decreased 1.7 percent from a year ago. The months' supply rose three-tenths to 5.2, tying the year's peak reached in April. The median sales price of existing homes, which is not adjusted for the composition of sales, increased 4.7 percent from a year ago, rising slightly from an 11-month low in July.
- **The FHFA purchase-only house price index**, reported on a seasonally adjusted basis, increased 0.6 percent in July and 5.8 percent from a year ago, marking the ninth straight month of annual appreciation over 5.0 percent. All nine Census divisions increased from a year ago.
- **Mortgage applications** jumped 13.9 percent in the week ending September 18, 2015, after falling the previous two weeks, according to the Mortgage Bankers Association. Purchase applications increased 9.1 percent, the largest increase since the first week of June and the third largest gain this year. Refinance applications also bounced back with their largest gain since January, rising 17.7 percent, even as the survey's 30-year fixed mortgage rate held flat at 4.09 percent.



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Economic and Strategic Research Group
September 25, 2015

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