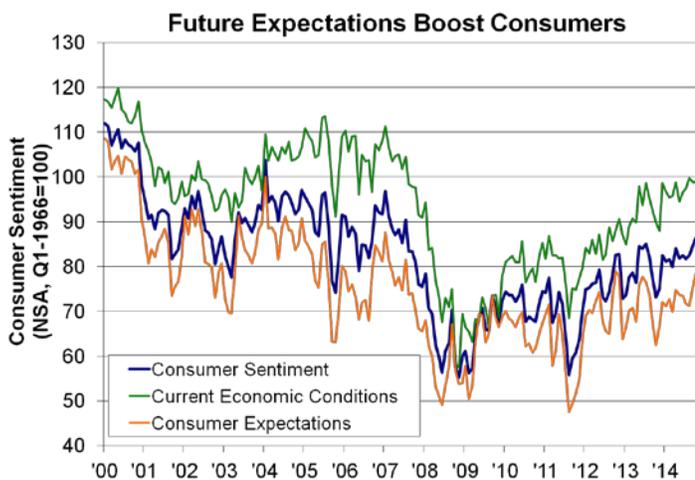


## Economics: A Roller-Coaster of a Week

Though financial market turmoil stole the headlines this week, featuring a sharp mid-week decline in equities, a dramatic flight-to-quality, and lower oil prices, economic data released this week also provided a bumpy ride. Data released through Wednesday gave some cause for concern, including a sharper-than-expected decline in September 2014 retail sales—despite the largest monthly gain in electronics and appliance store sales in over a year amid the release of the iPhone 6—and a pullback in small business confidence in September, particularly on the employment side. However, Thursday's reports tempered market jitters as initial jobless claims settled in at the lowest level since April 2000, and a rebound in industrial production in September more than reversed the August decline. More good news came Friday morning as a surprising gain in consumer sentiment in early October depicted consumers with the rosier outlook in more than seven years. While the sentiment reading does not reflect the recent equity market sell-off, equities had recovered most of this week's losses by Friday morning, and further declines in oil prices should help support confidence. Meanwhile, the 10-year Treasury yield rebounded to 2.20 percent after plummeting as low as 1.90 percent on Wednesday morning. Our 3.0 percent annualized economic growth outlook for the second half of 2014 remains intact, but we continue to see geopolitical turmoil including flagging global growth as the largest risk.

- **Retail sales** fell for the first time since January 2014, declining 0.3 percent in September according to the Census Bureau. Significant declines in vehicle, gasoline, clothing and accessories, and nonstore (including e-commerce) sales offset a 3.4 percent jump in sales at electronics and appliance stores, likely boosted by the newly released iPhone 6. Excluding building supplies and gasoline station sales, core retail sales were flat in September.
- **Industrial production**—which is a gauge of output in the manufacturing, utility, and mining sectors—jumped 1.0 percent in September, more than reversing a 0.2 percent decline in August, according to the Federal Reserve. The index was boosted by large gains in the mining and utilities sectors of 1.8 percent and 3.9 percent, respectively. Manufacturing production, which pulled down the headline index in August, rose 0.5 percent in September, matching its expansion high.
- **The Reuters/University of Michigan Consumer Sentiment Index** increased 1.8 points to 86.4 in the preliminary October reading, boosted by a 3.0 point gain in the consumer expectations component.
- **The National Federation of Independent Business small business optimism index** edged down 0.8 points in September to 95.3. Employment details were soft as fewer firms indicated plans to increase employment, and the share of firms with job openings fell to an 11-month low after tying a seven-year best in August. However, more firms indicated that now is a good time to expand the business than at any point since the recession started in December 2007.
- **Initial claims for unemployment insurance** declined 23,000 to 264,000 in the week ending October 11, according to the Department of Labor. The four-week moving average sank 4,250 to 283,500—the lowest in over 14 years.
- **The Producer Price Index (PPI)** declined 0.2 percent in September after a 0.4 percent drop in August, according to the Bureau of Labor Statistics. Over the past 12 months, the index has increased 2.1 percent. Excluding food and energy, core PPI increased 0.2 percent in September and 2.1 percent over the past year.



Source: Reuters/University of Michigan

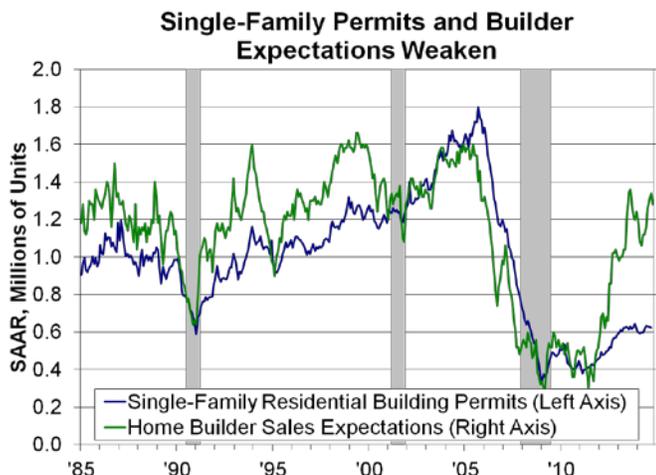


Source: Department of Labor

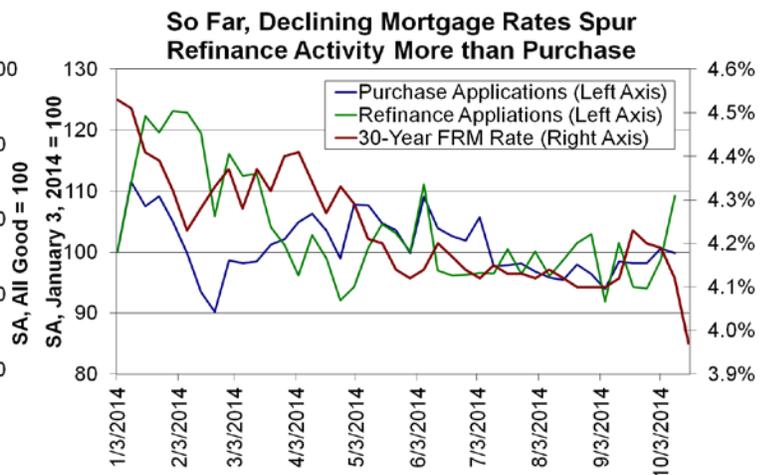
## Housing: Blasé Builders

Housing data released this week underscored the remarkably soft recovery in home building activity in the current economic expansion. The September rebound in housing starts recovered less than half of the August decline, with single-family starts showing little upward momentum. Near-term leading indicators were also lackluster as single-family building permits have moved sideways for the better part of two years, while builders' downgraded their assessment of the single-family housing market. However, there is some cause for optimism for mortgage demand amid recent turmoil in the financial markets. This week the 30-year fixed-rate mortgage yield plunged 15 basis points to 3.97 percent, the first sub-4.0 percent rate since June 2013, according to Freddie Mac. So far, while refinance activity has improved the most, purchase mortgage applications are also trending higher, with refinance and purchase applications up 13.6 and 4.2 percent, respectively, over the past two months.

- **Housing starts** increased 6.3 percent in September to 1.02 million seasonally adjusted annualized units, following a 12.8 percent plunge in August, according to the Census Bureau. Single-family starts edged up 1.1 percent compared to a 16.7 percent jump in multifamily starts. Through nine months so far this year, single-family and multifamily starts are up 3.8 percent and 21.7 percent, respectively, over the same period last year. Housing permits rose just 1.5 percent in September as a 4.8 percent rebound in multifamily building permits overcame the third consecutive monthly decline in single-family permits (0.5 percent drop). Year-to-date through September, single-family permits are down 0.6 percent from last year compared to a 10.6 percent gain for multifamily permits.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** declined 5.0 points in October to 54.0, off an eight-year best reached in the prior month (a reading above 50 indicates more builders view the market as good than poor). All three sub-indices—current sales, sales expectations, and buyer traffic—declined on the month.
- **Mortgage applications** rose 5.6 percent in the week ending October 10, according to the Mortgage Bankers Association. Refinance applications jumped 10.6 percent following a 5.0 percent increase in the prior week as the contract interest rate for 30-year fixed-rate mortgages dipped 10 basis points to 4.20 percent—a 16-month low. Purchase applications ticked down 0.7 percent from a three-month best reached last week.



Source: Census Bureau, National Association of Home Builders



Source: Mortgage Bankers Association, Freddie Mac

Brian Hughes-Cromwick  
Economic and Strategic Research Group  
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