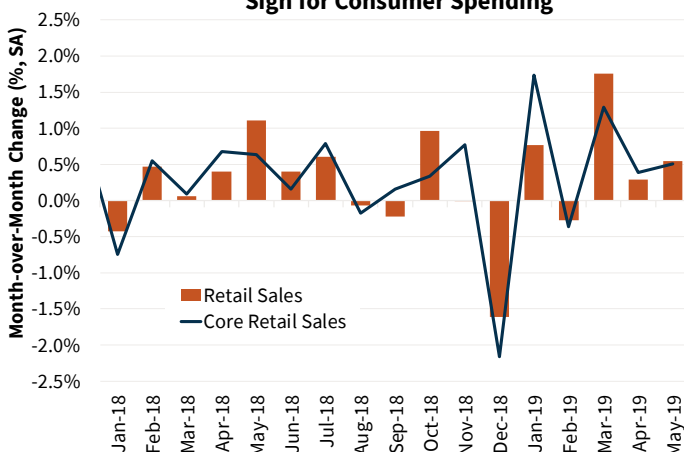


Economics: Consumer Spending Gets a Boost from Back-to-Back Gains in Retail Sales

A busy week of data releases shed additional light on consumers, businesses, and prices. Nominal retail sales rose in May, while April's initially reported decline was revised upward to a gain, marking the first period of consecutive monthly gains since last summer and allaying concerns about declining momentum in consumer spending this quarter. Headline growth was led by gains in sales at motor vehicle and parts dealers, electronics and appliance stores, and sporting goods, hobby, and music stores. Core sales, which exclude autos, building materials, and gasoline, also rose. Industrial production in May posted the first solid gain since last November with all components rising. Below-average temperatures spurred utilities output, and manufacturing output posted the first gain this year, though the small gain failed to reverse previous declines. Inflation softened in May. Most notably, growth in the headline Consumer Price Index (CPI) decelerated on a 12-month basis to the slowest pace in three months as energy prices fell for the fifth time in six months. Core CPI also slackened, tying the slowest pace in over a year. We expect that prices for consumer products and production inputs will likely rise further as additional tariffs on Chinese imports are implemented. Despite increased trade tensions, small businesses were more upbeat in May. The Small Business Optimism Index published by the National Federation of Independent Business (NFIB) rose to the highest level since last October, with the net share of respondents expecting the economy to improve jumping to the highest level this year. The single most important problem for businesses remained quality of labor, cited by 25 percent of respondents, a survey high. Confirming reduced slack in the labor market, data from the Job Openings and Labor Turnover Survey (JOLTS) showed that hires spiked, posting the largest monthly gain since February 2016, and job openings remained at historically high levels even after declining slightly in April. The quits rate remained at the expansion high, reflecting the abundance of job opportunities and the confidence of workers in their job prospects.

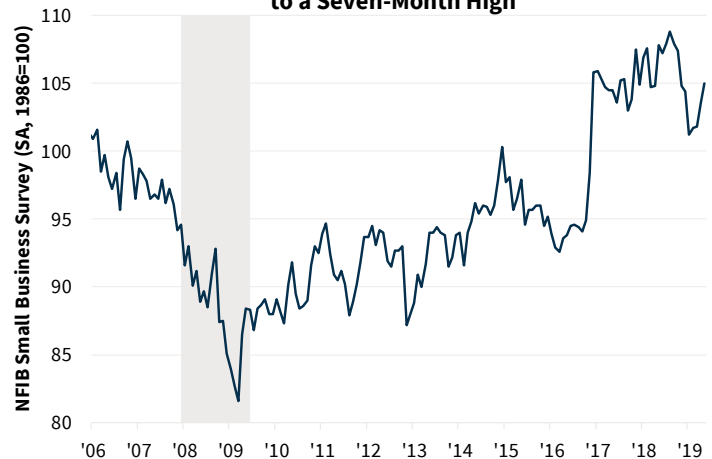
- **Retail sales** and core retail sales both rose 0.5 percent in May, according to the Census Bureau. April's initially reported 0.2 percent decline in headline sales was revised up to a 0.3 percent gain, and the originally reported flat core sales were revised up to a 0.4 percent gain. Annual growth in headline and core retail sales rose 3.2 percent and 3.4 percent, respectively.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, climbed 0.4 percent in May, according to the Federal Reserve Board. All components increased with utilities rising 2.1 percent, mining edging up 0.1 percent, and manufacturing increasing 0.2 percent.
- **The Consumer Price Index** grew 0.1 percent in May and rose 1.8 percent on an annual basis. Core prices edged up one-tenth from April and 2.0 percent from a year ago. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.1 percent in May. On an annual basis, headline PPI slowed to 1.8 percent, while core PPI accelerated to 2.3 percent. **Import prices** declined 0.3 percent in May and 1.5 percent annually. The Bureau of Labor Statistics produces each of these reports.
- **The National Federation of Independent Business Small Business Optimism Index** increased 1.5 points to 105.0 in May. The net share of small businesses reporting now is a good time to expand jumped 5.0 percentage points to 30 percent.
- **The Job Openings and Labor Turnover Survey** showed that job openings declined by 25,000 to 7.4 million in April, according to the Bureau of Labor Statistics. Hires rose 240,000 to 5.9 million. The job openings and quits rate were unchanged at 4.7 percent and 2.3 percent, respectively. The hires and layoffs rates both rose a tenth to 3.9 and 1.2 percent, respectively.

Retail Sales Post Another Solid Gain, A Positive Sign for Consumer Spending



Source: Census Bureau

Small Business Confidence Improves to a Seven-Month High



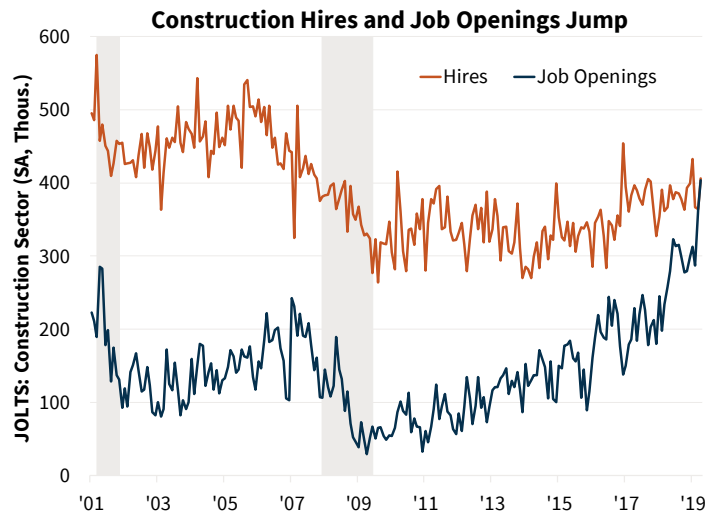
Source: National Federation of Independent Business



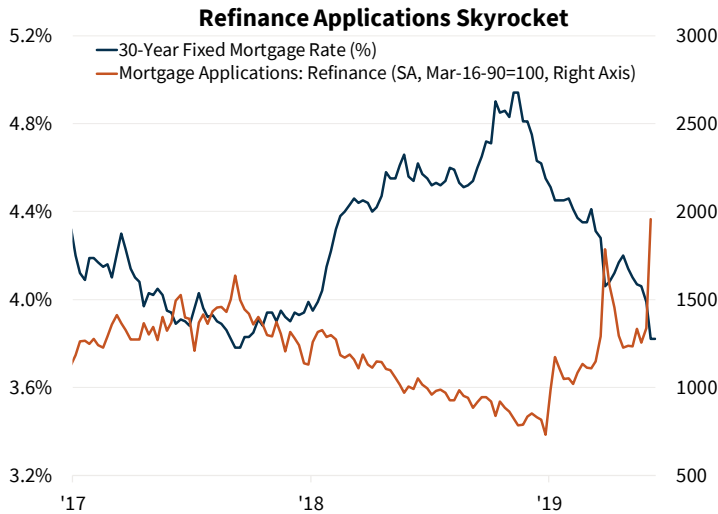
Housing: Mortgage Applications Surge

In a light but positive week for housing news, construction job openings and hires rose while mortgage applications surged. Construction job openings set a new survey high in April for the second month in a row. More importantly, construction hires also rose, adding the largest number of new workers since December 2016 and narrowing the gap between job openings and hires for only the second time since the survey began in 2000. The growth in the construction sector shown in the Job Openings and Labor Turnover Survey in April, along with the increase in residential construction employment shown in the establishment survey in May, indicate that homebuilders should be in a better position over the next few months to alleviate housing supply issues. In the mortgage market, total applications surged last week, posting the largest gain since the beginning of 2015 and rising to the highest level since September 2016. Refinance applications were particularly strong, posting the largest increase in more than four years. Purchase applications also saw a sharp increase, rising to just shy of April's nine-year best. The average yield on 30-year, fixed-rate mortgages this week was 3.82 percent, unchanged from last week, according to Freddie Mac. This left mortgage rates at the lowest level since September 2017 for the second week in a row. Though risks such as supply constraints, still-high home prices, and uncertainty regarding trade and weak economic data could constrain the responsiveness of homebuyers, plummeting mortgage rates seems to have drawn buyers off the fence. Given the response to last week's decline in rates, the stability in rates this week could lead to another strong surge of mortgage applications, which supports our expectations for moderate growth in home purchases over the next few months.

- **The Job Openings and Labor Turnover Survey** showed that construction job openings grew by 40,000 to 404,000 in April, according to the Bureau of Labor Statistics. Construction hires increased by 42,000 to 406,000. The jobs openings rate rose four-tenths to 5.1 percent, the hires rate rose one-half percent to 5.4 percent, and the separations rate rose three-tenths to 5.0 percent. The quits rate rose a tick to 2.1 percent.
- **Mortgage applications** shot up 26.8 percent for the week ending June 7, according to the Mortgage Bankers Association. Both refinance applications and purchase applications skyrocketed, rising 46.5 percent and 10.0 percent, respectively.



Source: Bureau of Labor Statistics



Source: Freddie Mac, Mortgage Bankers Association

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