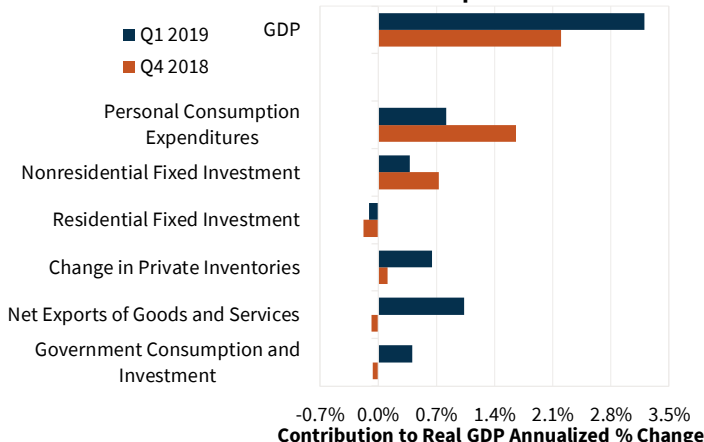


Economics: Growth Smashes Expectations

This week offered the first look at first quarter gross domestic product (GDP), which surprised to the upside, posting the strongest Q1 growth in four years. For the first time in this expansion, net exports were the largest contributor to GDP as exports rose for the eighth time in nine quarters and imports posted the largest decline of this cycle. The slowdown in imports could be a symptom of weakening domestic demand, which is a downside risk to our forecast. Business inventories increased at the fastest pace in nearly four years, adding to growth for the third straight quarter. We believe this trend is unsustainable and expect inventories to drag on growth during Q2. While trade and inventories exceeded our expectations, fixed investment disappointed. Contrary to our prediction of a gain in residential fixed investment, it declined for the fifth straight quarter and was the only main component to drag on growth. The modest gain in nonresidential fixed investment was driven almost entirely by investment in intellectual property products, as both structures and equipment spending were largely flat. While personal consumption expenditures (PCE) were the second largest contributor to growth, they grew at the slowest pace in a year. We expect PCE to bounce back this quarter as retail sales data showed a pickup in momentum toward the end of the quarter. Meanwhile, inflation pressure was muted, with the annual PCE deflator rising just 1.4 percent going into the Federal Open Market Committee meeting next week. In other news, consumer sentiment declined modestly in April but has essentially moved sideways at elevated levels since the presidential election. According to the press release from the University of Michigan, “the Sentiment Index has averaged 97.2 in the past 28 months, identical to the April reading.” Durable goods orders rose in March for the fourth time in five months and posted the largest gain in seven months, while shipments posted a modest rise for the second straight month. Core capital goods orders (nondefense excluding aircraft), a forward-looking indicator for business equipment spending, increased the most in eight months, pointing to a pickup in equipment spending this quarter. Finally, initial claims for unemployment insurance rose sharply last week, posting the largest weekly gain since September 2017. The gain, however, likely reflected difficulties in seasonal adjustments around Easter, Passover, and spring break.

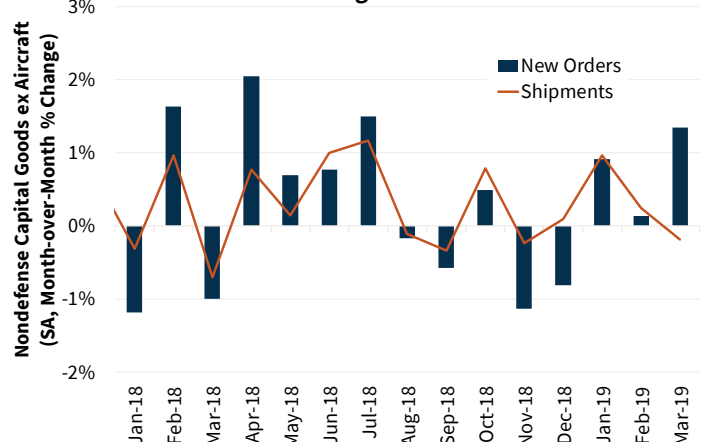
- **Gross domestic product**, adjusted for inflation, increased 3.2 percent annualized in Q1 2019, accelerating from 2.2 percent in Q4 2018, according to the advance estimate from the Bureau of Economic Analysis. Real consumer spending rose 1.2 percent and contributed 0.8 percentage points to growth. Nonresidential fixed investment increased 2.7 percent while residential fixed investment declined 2.8 percent. Government spending improved 2.4 percent. Inventories and net exports added 0.7 percentage points and 1.0 percentage point, respectively, to GDP growth.
- **Durable goods orders** increased 2.7 percent in March, while durable goods shipments edged up 0.3 percent, according to the Census Bureau. The February decline in durable goods orders was revised upward one-half percentage point to a 1.1 percent drop while the increase in shipments was revised up one-tenth to 0.3 percent. Core capital goods orders jumped 1.3 percent, while core shipments declined 0.2 percent.
- **The University of Michigan Consumer Sentiment Index** fell 1.2 points to 97.2 in the April final reading as both the current conditions and the expectations components declined. When asked about financial prospects for the year ahead, 44 percent of surveyed consumers anticipated improvements compared with just 8 percent who expected worsening finances, marking the best net improvement share since 2004.
- **Initial claims for unemployment insurance** spiked 37,000 to 230,000 in the week ending April 20, according to the Department of Labor. The four-week moving average rose by 4,500 to 206,000.

Net Exports Are the Largest Contributor to Growth for the First Time of the Expansion



Source: Bureau of Economic Analysis

Core Capital Goods Orders Post Largest Gain in Eight Months



Source: Census Bureau

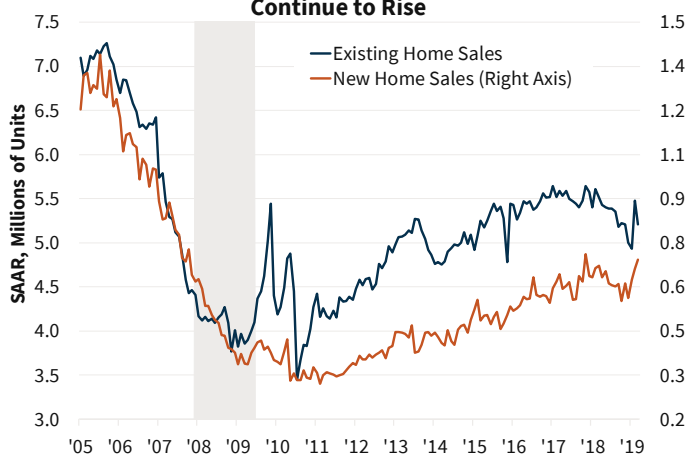


Housing: Home Sales Rise in the First Quarter

In a busy week for housing releases, new single-family home sales improved, existing home sales retreated, and house price growth continued to slow. New single-family home sales hit a 16-month high, and 50 percent of new homes sold were priced below \$300,000, the largest share in two years. This is consistent with the recent trend of building comparatively smaller homes and is further evidence that builders are increasingly responding to a shortage of affordable homes for sale. In the first quarter, new home sales rose at the fastest pace since Q1 2013 despite new construction data not following suit. The disparity suggests that the faster pace of sales was accommodated by drawing down inventories of previously built new homes. While existing home sales fell in March, they, too, rose over the first quarter, the first increase since Q4 2017. Despite the rise in total sales, the homeownership rate fell over the first quarter, the first drop in two years. From a year ago, the homeownership rate was unchanged, ending eight consecutive quarters of annual increases. Regarding home prices, the FHFA House Price Index grew in February at the slowest pace in four years, continuing a recent trend of decelerating price appreciation. Also benefitting affordability, the average yield on 30-year, fixed-rate mortgages fell 13 basis points in April to 4.14 percent, the fifth consecutive monthly decline, according to Freddie Mac. This was 33 basis points below year-ago levels. More recently, mortgage rates have increased after hitting a recent floor at the end of March, and we expect rates to stabilize around 4.2 percent this year. Finally, mortgage applications fell for the third straight week last week, driven by drops in both refinance and purchase applications. So far in April, refinance applications have declined every week but purchase applications have continued to rebound strongly from their February lows. Strong purchase applications and the lagged effect from previous declines in mortgage rates should help sales activity over the next few months.

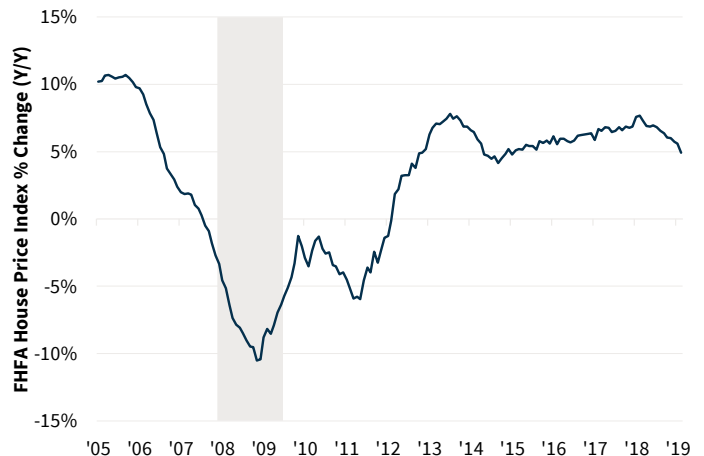
- **New single-family home sales** rose 4.5 percent in March, according to the Census Bureau, to a seasonally-adjusted annual rate (SAAR) of 692,000. This is the third straight monthly increase. The months' supply of inventory for sale was 6.0 at the current sales pace, down from 7.4 months in December. Over Q1 2019, new home sales rose 14.7 percent from the prior quarter and 1.8 percent from a year earlier.
- **Existing home sales** fell 4.9 percent in March to 5.21 million (SAAR), according to the National Association of REALTORS®. Sales were down 5.4 percent on an annual basis. In Q1 2019, total existing home sales rose 1.2 percent as a 1.8 percent gain in single-family home sales outweighed a 2.9 percent decline in condo/co-op sales. Annually, the months' supply in March rose three-tenths to 3.9 months and inventories rose 2.4 percent. The median home price was \$259,400, up 3.8 percent annually.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally-adjusted basis, grew 0.3 percent in February. The index was up 4.9 percent from a year ago.
- **The Housing Vacancy Survey** for Q1 2019 showed that the homeownership rate (not seasonally adjusted) fell sixth-tenths to 64.2 percent, according to the Census Bureau. The homeowner vacancy rate fell a tick from the year prior to 1.4 percent, the lowest rate since 1994, while the rental vacancy rate was unchanged from a year earlier at 7.0 percent.
- **Mortgage applications** fell 7.3 percent for the week ending April 19, according to the Mortgage Bankers Association. Refinance and purchase applications fell 11.0 percent and 4.1 percent, respectively.

Existing Home Sales Fall as New Home Sales Continue to Rise



Source: Census Bureau, National Association of REALTORS®

Home Price Growth Continues to Decelerate



Source: Federal Housing Finance Agency

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Economic and Strategic Research Group
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