



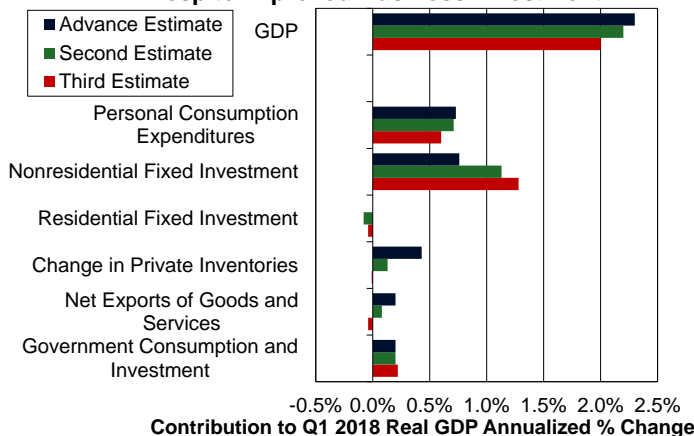
Weekly Note – June 29, 2018

### Economics: Growth Revised Down, Inflation Accelerates

It was a busy week of economic data releases. In the final estimate, first quarter growth was revised down again as real consumer spending growth was downgraded to 0.9 percent annualized, making the smallest contribution to growth since the second quarter of 2013 of just 0.6 percentage points. The volatile components of net exports and the change in inventories were also revised downward. The positive from the report was business fixed investment, which was revised upward after each component—structures, equipment and intellectual property—improved in the final estimate. Corporate profits were revised from a decline to a gain, helped by profits of both financial and nonfinancial domestic firms. Shifting to the current quarter, real consumer spending growth is still on pace to pick up to nearly 3.0 percent annualized, despite flat real consumer spending in May and a downward revision for the prior month. Consumer confidence, however, was muddled in June as two measures moved in opposite directions. The outlook for business investment in equipment this quarter has dampened, as durable goods orders fell for the second consecutive month in May, while shipments slipped for the first time in 10 months. Core capital goods shipments, which exclude defense and aircraft orders and are an input for business equipment investment, fell for the second time in three months. However, while core orders, the leading indicator, also declined in May, the April gain was more than doubled upon revision to the largest rise of 2018. On the inflation front, the personal consumption expenditures (PCE) deflator, the Fed’s preferred measure, rose 0.2 percent in May for the second consecutive month, pushing the annual growth rate above the Fed’s two-percent target for the first time since February 2017. The core deflator, excluding food and energy prices, also accelerated year-over-year to hit the target for the first time since April 2012. At the May Federal Open Market Committee meeting, the Fed described its inflation objective as “symmetric,” suggesting it will tolerate inflation overshooting the target in the medium term.

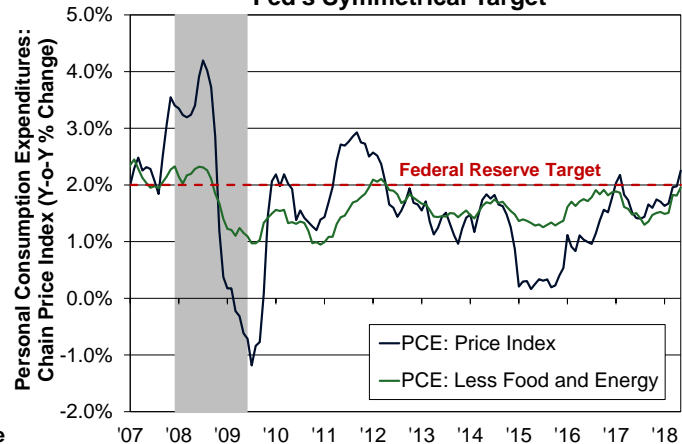
- **Gross domestic product**, adjusted for inflation, expanded 2.0 percent annualized in Q1 2018, according to the final estimate from the Bureau of Economic Analysis. Downward revisions in PCE, the change in inventories, and net exports outweighed upward revisions to business and residential fixed investment, and government spending. Corporate profits were revised from a small drop to a 1.8 percent rise (not annualized).
- **Personal income**, adjusted for inflation, rose 0.1 percent in May, according to the Bureau of Economic Analysis. Real disposable income increased 0.2 percent. Real PCE was flat during the month. The saving rate ticked up two-tenths to 3.2 percent. The PCE deflator rose 0.2 percent during the month and 2.3 percent from a year ago. The core deflator increased 0.2 percent on a monthly basis and 2.0 percent annually.
- **Durable goods orders** fell 0.6 percent in May, according to the Census Bureau. Durable goods shipments ticked down 0.1 percent. Core capital goods orders fell 0.2 percent, while core shipments slipped 0.1 percent. The April gains in core orders and shipments were revised up by 1.3 percentage points and 0.2 percentage points, respectively.
- **The Conference Board Consumer Confidence Index** fell 2.4 points in June to 126.4. The present situation component ticked down one-tenth, while the expectation component fell 4.0 points. **The University of Michigan Consumer Sentiment Index** ticked up 0.2 points to 98.2 in the June final reading.
- **Initial claims for unemployment insurance** increased by 9,000 to 227,000 in the week ending June 23, according to the Department of Labor. The four-week moving average increased by 1,000 to 222,000.

First Quarter Growth Is Revised Downward Despite Improved Business Investment



Source: Bureau of Economic Analysis

Headline Inflation Rises Above the Fed's Symmetrical Target



Source: Bureau of Economic Analysis

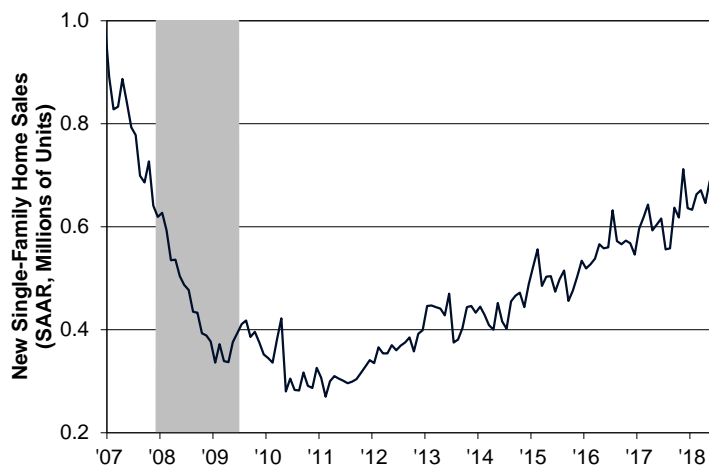


# Housing: Contract Signings Send Mixed Signals

The housing market was a mixed bag this week as new home sales, which record contract signings of new homes, rose amid bearish pending home sales, which record contract signings of existing homes. After April's large decline, new home sales rebounded in May, marking the third rise in four months and the largest gain in six months. Sizable downward revisions of sales in the prior three months tempered the good news, however. Year-to-date new home sales through May were 8.9 percent higher than sales during the same period in 2017. The increase in May was driven entirely by sales in the South, where activity rose to the highest level in almost 11 years. New homes available for sale improved in May, rising to just shy of February's expansion high. On an annual basis, new home inventory has increased for over five straight years. The near-term outlook for existing home sales is bleak according to the National Association of REALTORS® (NAR) Pending Home Sales Index, which typically leads closings of existing homes by one to two months. Pending sales fell in May for the second straight month and declined on an annual basis for the fifth consecutive month. A large decline in contract activity in the South offset gains in the Northeast, Midwest, and West. According to the NAR, inventory shortages are impeding sales, but demand appears to be strong as homes are selling fast, with properties typically staying on the market in both April and May for only 26 days, the shortest duration since the series began in 2011. Tight inventory continues to boost prices in the presence of strong demand. The S&P CoreLogic Case-Shiller National Home Price Index rose to a fresh all-time high in April. The annual increase remained strong, coming in slightly under March's near four-year best. Mortgage demand fell last week, posting the largest weekly decline since February, as both purchase and refinance applications fell significantly. Finally, the average 30-year fixed mortgage rate slipped 2 basis points this week to 4.55 percent, marking the fourth decline in five weeks, according to Freddie Mac.

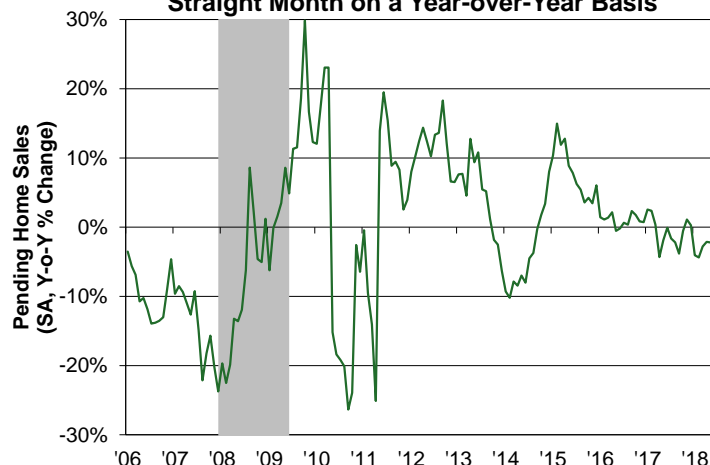
- **New single-family home sales** rose 6.7 percent in May to a seasonally-adjusted annualized rate of 689,000, according to the Census Bureau. Sales in the prior three months were revised lower by 43,000, on net. Sales dropped in the Northeast and the West while sales in the Midwest were flat. On an annual basis, new home sales increased 14.1 percent. The number of new homes for sale (seasonally adjusted) rose 1.0 percent from April and 10.3 percent from a year ago. The months' supply fell three-tenths to 5.2 months.
- **The National Association of REALTORS® Pending Home Sales Index** fell 0.5 percent in May. The index declined 2.2 percent from a year ago.
- **S&P CoreLogic Case-Shiller National Home Price Index** (not seasonally adjusted) increased 6.4 percent year-over-year in April, slowing a tenth from the March gain.
- **Mortgage applications** declined 4.9 percent for the week ending June 22, according to the Mortgage Bankers Association. Purchase and refinance applications fell 5.9 percent and 3.5 percent, respectively. The MBA's average 30-year fixed mortgage rate ticked up 1 basis point to 4.84 percent.

**New Home Sales Rebound**



Source: Census Bureau

**Pending Home Sales Decline For the Fifth Straight Month on a Year-over-Year Basis**



Source: The National Association of REALTORS®

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June 29, 2018

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