Fannie Mae

Economic and Strategic Research

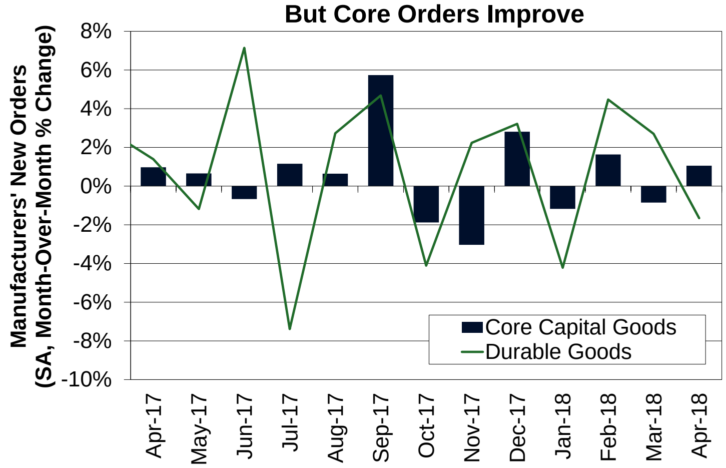
Weekly Note – May 25, 2018

Economics: After Likely June Hike, Uncertainty Abounds

A quiet week of economic data allowed the minutes from the May Federal Open Market Committee (FOMC) meeting to take center stage. In the near-term, Committee members appeared prepared to raise the fed funds rate at the next meeting in June, as most participants judged that "if incoming information broadly confirmed their current economic outlook, it would likely soon be appropriate for the Committee to take another step in removing policy accommodation." While the Committee was more certain about near-term monetary policy, there was debate over the long-term path. Some members noted it might soon be "appropriate to revise the forward-guidance language in the statement" release immediately following each meeting, as the fed funds rate may reach their estimates of the longer-run level of the fed funds rate if the rate hikes continue. A few members even suggested the neutral level of the fed funds rate might be lower than their estimates of its longer-run level. There was also debate over the importance of the slope of the yield curve and the contribution of the rising fed funds rate to the flattening of the curve. A few participants noted that the Federal Reserve's still-large balance sheet could be putting downward pressure on term premiums, making the slope of the yield curve a less reliable signal of future economic activity. Other members emphasized that historically an inverted yield curve has indicated an increased risk of recession. Inflation was another key topic of discussion, following the addition of the word "symmetric" to the statement following the May meeting. The word "symmetric," which came up 11 times in the minutes, suggests the committee is comfortable allowing annual inflation to temporarily rise above the 2-percent target in the short-term. Members discussed how fiscal and trade policies are adding uncertainty to the economic outlook. Several participants continued to note the challenge of assessing the timing and magnitude of the effects of recent fiscal policy changes on household and business spending and on labor supply over the next several years. Meanwhile, a number of participants saw a wide range of possible outcomes for economic activity and inflation due to uncertainty surrounding trade policy. In the economic data released this week, durable goods orders and shipments slipped in April. The drop in orders was the first in three months, while the fall in shipments was the first in nine months. Core capital goods shipments, which excludes defense and aircraft orders and is a proxy for business equipment investment, rose for the second time in three months, as did core orders, its leading indicator. Consumer sentiment slipped for the second straight month in May, according to the University of Michigan, as consumers' view of current economic conditions also declined for a second time. Finally, initial jobless claims rose for the second consecutive week last week to reach the highest level since the end of March but remain historically low.

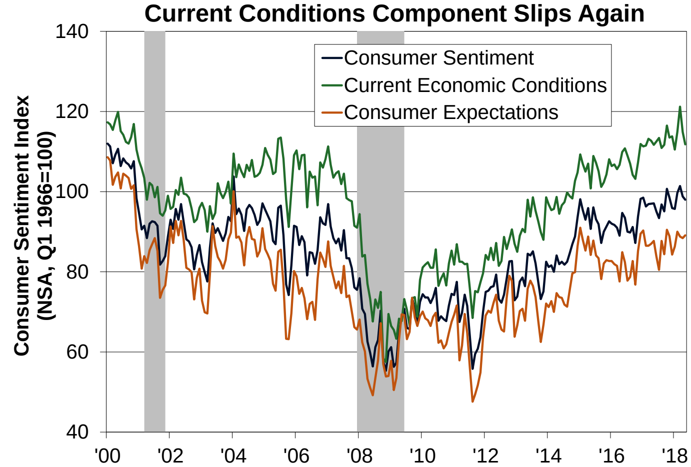
- **Durable goods orders** fell 1.7 percent in April, according to the Census Bureau. Durable goods shipments slipped 0.1 percent. The March gain in durable goods shipments was revised upward by three-tenths. Core capital goods orders increased 1.0 percent in April, while core shipments improved 0.8 percent.
- **The University of Michigan Consumer Sentiment Index** slipped 0.8 points to 98.0 in the May final reading. A decline in the current conditions component outweighed a gain in the expectations component. The index is 0.9 points higher than its level a year ago.
- **Initial claims for unemployment insurance** increased by 11,000 to 234,000 in the week ending May 19, according to the Department of Labor. The four-week moving average increased by 6,250 to 219,750.

Durable Goods Orders Decline, But Core Orders Improve



Source: Census Bureau

Consumer Sentiment Falls Further, as the Current Conditions Component Slips Again



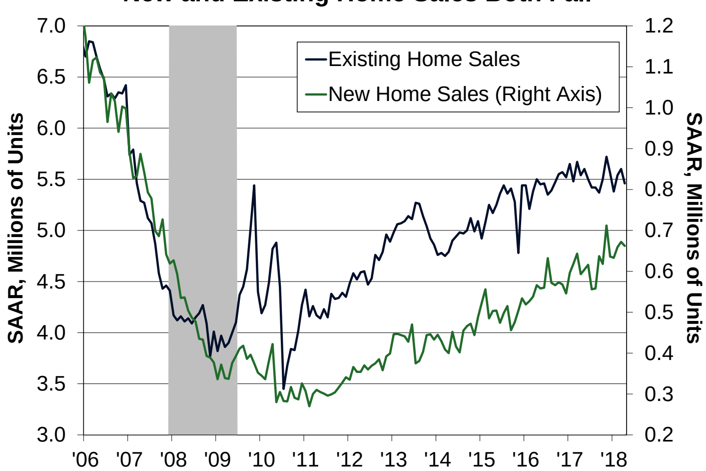
Source: University of Michigan

Housing: Home Sales Tumble

A bleak week for housing featured declining home sales and mortgage demand amid rising mortgage rates. Existing home sales, which account for nearly 90 percent of total home sales, fell in April after increasing the prior two months. Single-family home sales drove the decline, as condo/coop sales increased for the third time in four months. On an annual basis, sales fell for the third time this year, the worst start to a year since 2014. Regionally, sales declined in the Northeast, South, and West, while sales in the Midwest were unchanged from March. Sales in the Northeast have been hit particularly hard, declining for the fourth time in five months in April and posting the largest annual decline in almost seven years. The number of existing homes for sale continues to decline, falling on an annual basis unabated for 35 consecutive months. Homes were selling fast, as properties typically stayed on the market for only 26 days in April, the lowest duration since the series began in 2011. New home sales were also downbeat, falling in April along with large downward revisions to the prior three months. New home inventory is improving, however, increasing on an annual basis every month for five years, though it remains below historical norms seen during expansions. Inventory shortages are impeding sales and increasing mortgage rates are adding to affordability challenges. Mortgage rates rose this week for the second consecutive week, with the average 30-year fixed mortgage rate rising 5 basis points to 4.66 percent, the highest level in seven years, according to the survey by Freddie Mac. Home prices have also restrained affordability, with the FHFA Purchase-Only House Price Index continuing to show strong annual appreciation in March, albeit slowing from the pace earlier this year. Finally, mortgage demand fell this week for the fifth consecutive week, dragged down by both purchase and refinance applications, the latter of which hit the lowest level since December 2000.

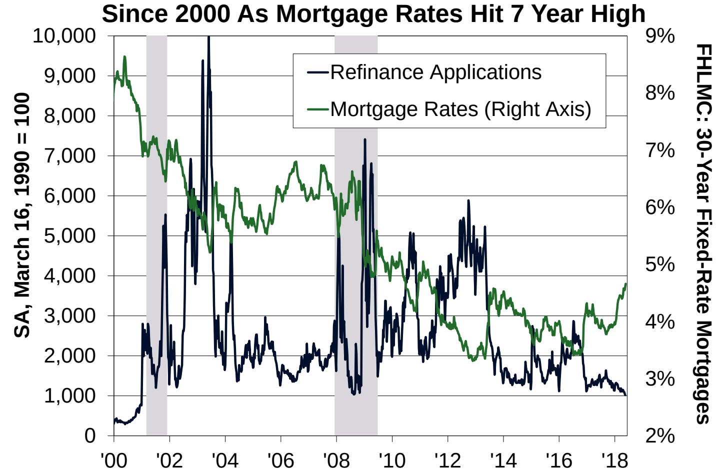
- **Existing home sales** fell 2.5 percent in April to a seasonally-adjusted annualized rate (SAAR) of 5.46 million units, according to the National Association of REALTORS®. Single-family sales fell 3.0 percent to 4.84 million units, while condo/coop sales increased 1.6 percent to 620,000 units. From a year ago, total existing home sales declined 1.4 percent. The number of homes for sale (not seasonally adjusted) fell 6.3 percent year over year. The months' supply was 4.0 months, two-tenths lower than in April 2017. The median sales price rose 5.3 percent on an annual basis.
- **New single-family home sales** fell 1.5 percent in April to 662,000 units (SAAR), according to the Census Bureau. Sales in each of the first three months of the year were revised lower by a total of 41,000 units, resulting in flat quarterly sales between 2017Q4 and 2018Q1. On an annual basis, new home sales in April were up 11.6 percent. The number of new homes for sale rose 12.2 percent from a year ago. The months' supply (seasonally adjusted) rose one-tenth to 5.4 months. The median sales price edged up 0.4 percent annually.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally-adjusted basis, rose 0.1 percent in March. On an annual basis, the index rose 6.7 percent, decelerating seven-tenths from the increase in February.
- **Mortgage applications** fell 2.6 percent for the week ending May 18, according to the Mortgage Bankers Association. Purchase and refinance applications fell 2.0 percent and 3.7 percent, respectively. The MBA survey's average 30-year fixed mortgage rate increased 9 basis points to 4.86 percent.

New and Existing Home Sales Both Fall



Source: National Association of REALTORS®, Census Bureau

Refinance Applications Fall To Lowest Level Since 2000 As Mortgage Rates Hit 7 Year High



Source: Mortgage Bankers Association, Freddie Mac

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