



Weekly Note – June 22, 2018

### Economics: Solid Growth Outlook for the Rest of 2018

Within this week’s dearth of economic news was a mostly positive near-term outlook for growth from the Conference Board Leading Economic Index (LEI). The LEI is a composite average of several individual leading indicators designed to signal peaks and troughs in the business cycle. The LEI reveals common turning point patterns in economic data in a clearer manner than any individual component, primarily because it smooths out some of the volatility of individual components. In May, the index increased for the eighth consecutive month; however, the gain in May was the smallest of that stretch. The rise pushed the index to a new all-time high, dating back to 1959, suggesting solid growth will continue over the next six months. However, the moderating trend suggests that growth is unlikely to accelerate from the current quarter’s pace, which we expect to be nearly 4 percent annualized. Seven of the ten indicators that make up the LEI increased during the month. The positive contributors in order of importance were the Institute for Supply Management (ISM) new orders index, the interest rate spread, average consumer expectations for business conditions, stock prices, the Leading Credit Index, manufacturers’ new orders for consumer goods and materials, and manufacturers’ new orders for nondefense capital goods excluding aircraft. The negative contributors ranked from largest to smallest were building permits, average weekly manufacturing hours, and average weekly initial claims for unemployment insurance. After rising slightly on average in May, initial claims for unemployment insurance have declined every week so far in June. Claims now sit only 9,000 above the 48-year low hit at the end of April. The downward trend in unemployment insurance claims has been steady in this expansion, as slack in the labor market has diminished.

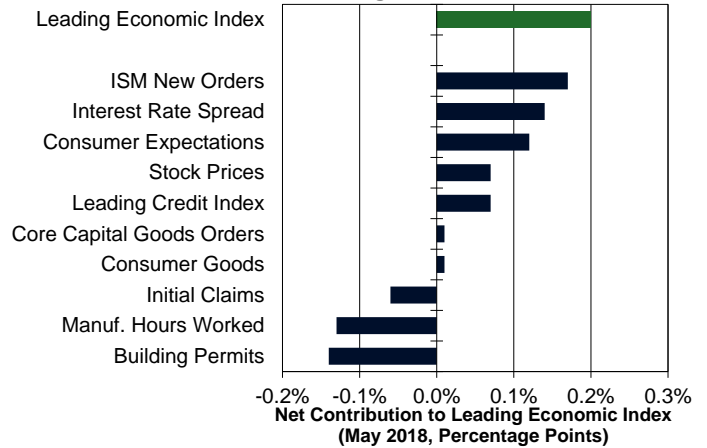
- **The Conference Board Leading Economic Index**, a gauge of the economic outlook over the next three to six months, increased 0.2 percent in May, following 0.4 percent increases in April and March. In the six-month period ending in May 2018, the index increased 3.0 percent, the same rate of growth as in the prior six months.
- **Initial claims for unemployment insurance** decreased by 3,000 to 218,000 in the week ending June 16, according to the Department of Labor. The four-week moving average decreased by 4,000 to 221,000.

The Leading Economic Index Climbs to a New All-Time High



Source: Conference Board

Seven of Ten Components Contribute to the Rise in the Leading Economic Index



Source: Conference Board

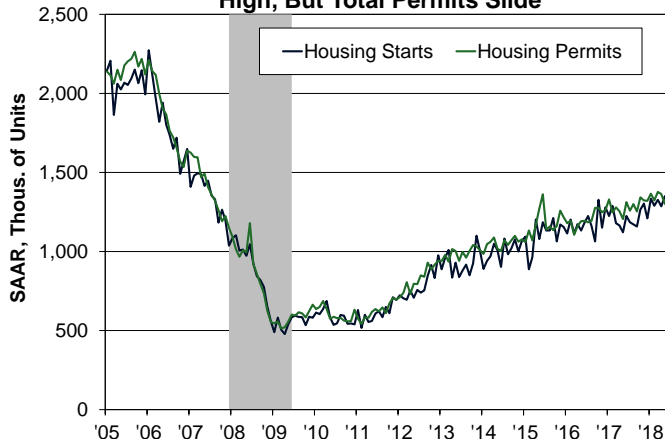


# Housing: Home Building Scores a Goal, While Sales Flop

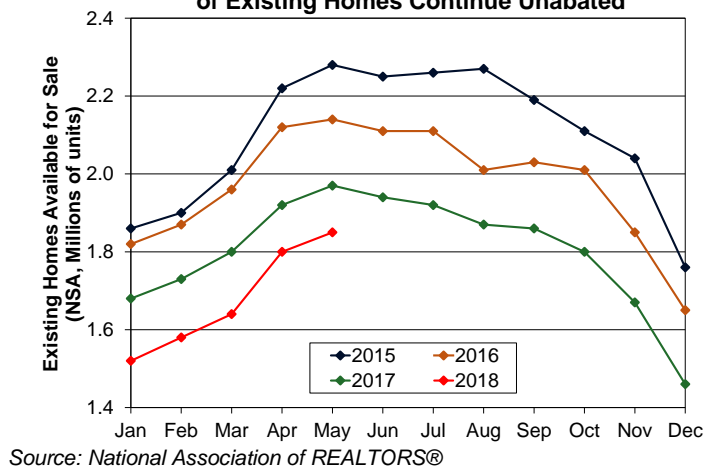
Housing news this week was mixed, with bullish housing starts but bearish existing home sales. New home construction bounced back in May, approaching an 11-year high as single-family starts rose for the second straight month and multifamily starts partially recovered from a large drop in April. Tempering the good news was the largest monthly decline in total permits in over a year to the lowest level in eight months. A measure of home builders' confidence fell in June, continuing a declining trend since confidence hit an 18-year high last December. The National Association of Home Builders reported that tariffs are pushing up prices for lumber and other construction materials, causing shortages and constraining activity. Existing home sales fell for the second consecutive month in May, dragged down by every region except the Northeast. On an annual basis, sales have fallen for three straight months, constrained by ongoing supply shortages as for-sale inventories have fallen annually for 36 consecutive months. The National Association of REALTORS® also noted that a "combination of higher prices and mortgage rates are pinching the budgets of prospective buyers." Home prices continued to rise in April, with the FHFA Purchase-Only House Price Index showing strong annual appreciation, albeit decelerating to the slowest pace in over a year. The Freddie Mac average 30-year fixed mortgage rate fell 5 basis points this week to 4.57 percent, but remains 62 basis points higher than it was at the start of the year. Finally, mortgage demand improved last week as both purchase and refinance applications rose.

- **Housing starts** rose 5.0 percent to 1.35 million annualized units in May, according to the Census Bureau. Both single-family and multifamily starts drove the increase, rising 3.9 percent to 936,000 units and 7.5 percent to 414,000 units, respectively. However, single-family permits declined 2.2 percent and multifamily permits fell 8.8 percent. On an annual basis, total housing starts rose 17.8 percent and permits were up 8.3 percent.
- **Existing home sales** edged down 0.4 percent in May to a seasonally-adjusted annualized rate (SAAR) of 5.43 million units, according to the National Association of REALTORS®. The single-family sector dragged on sales as it declined 0.6 percent to 4.81 million units, while condo/coop sales increased 1.6 percent to 620,000 units. From a year ago, total existing home sales declined 3.0 percent. The number of homes for sale (not seasonally adjusted) fell 6.1 percent year over year, and the months' supply ticked down a tenth from May 2017 to 4.1 months. The median sales price rose 4.9 percent on an annual basis
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally-adjusted basis, rose 0.1 in April. On an annual basis, the index rose 6.4 percent, decelerating by seven-tenths from March's increase.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** fell 2 points to 68 in June. A reading above 50 indicated that more builders view the single-family market as "good" rather than "poor." Both the present sales and sales in the next six months components fell by 1 point to 75 and 76, respectively. The traffic of prospective buyers component also declined by 1 point to 50.
- **Mortgage applications** increased 5.1 percent for the week ending June 15, according to the Mortgage Bankers Association. Purchase and refinance applications rose 4.3 percent and 6.1 percent, respectively. The MBA survey's average 30-year fixed mortgage rate was unchanged at 4.83 percent.

**Total Home Building Rises to Near 11-Year High, But Total Permits Slide**



**Year-over-Year Declines in For-Sale Inventories of Existing Homes Continue Unabated**



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