



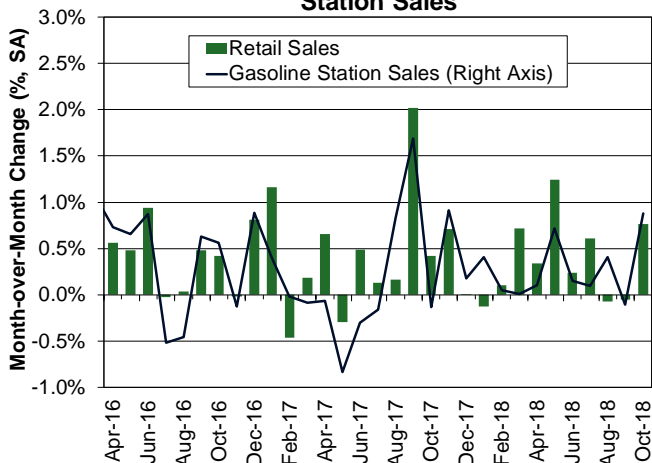
Weekly Note – November 16, 2018

Economics: Retail Sales and Inflation Push Upward

This week's reports reflected the impact of a jump in gasoline prices in early October and underscored the importance of labor on businesses. October retail sales posted the biggest monthly gain since May, boosted by gasoline station sales. Building supply store sales also increased the most since May, likely a result of rebuilding efforts following the hurricanes. Core retail sales, which are an input to estimate consumer spending on goods, rose more modestly. Overall, the report is consistent with our October forecast of a marked deceleration in real consumer spending growth from 4.0 percent annualized last quarter to 2.6 percent this quarter. The October headline Consumer Price Index (CPI) posted the biggest month-to-month gain since January, driven in part by the jump in gasoline prices. Core prices posted the largest gain in three months, with the price of used cars and trucks recording the largest monthly rise since December 2009. However, while the annual gain in overall CPI picked up for the first time in four months, the core CPI showed the smallest rise since April, indicating contained retail inflation. Small business sentiment edged down in October but remained near the record high. More than half of the firms continued to report few or no qualified applicants for job openings. The net share of firms planning to raise compensation was near an expansion high while the net share planning to increase prices jumped to an expansion high. The single most important issue remained the quality of labor, cited by 23 percent of firms, two percentage points below a record high reached in August; however, cost of labor has become increasingly important, cited by 9 percent of businesses, tying a record high. Growth of industrial production edged up modestly in October, marking its fifth consecutive gain, though September growth was revised down. Manufacturing production growth remained steady but utilities and mining production both dragged on the index. Total capacity utilization fell a tick, declining for the first time in five months.

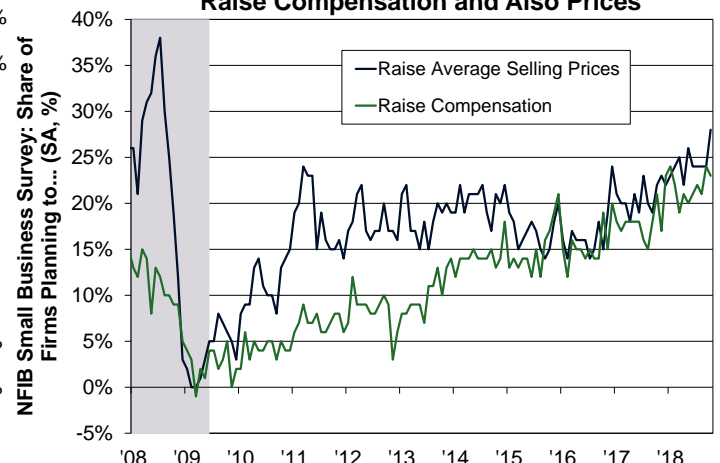
- **Retail sales** increased 0.8 percent in October, the first rise in three months, according to the Census Bureau. Sales at motor vehicle and parts stores rose strongly, presaged by an earlier report of an increase in auto sales. Core sales (excluding autos, gasolines, and building material sales) rose 0.3 percent. The gain for core sales in September was revised lower two-tenths to 0.3 percent while the flat reading for August was revised to show a 0.2-percent drop.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** edged down 0.5 points to 107.4 in October. The net share of small businesses planning to raise worker compensation ticked down to 23 percent, while the net share expecting to raise prices jumped 4 percentage points to 28 percent.
- **The Consumer Price Index** rose 0.3 percent in October, driven by a surge in gasoline prices. Core prices (excluding food and energy items) increased 0.2 percent, boosted by a 2.6 percent rise in the price of used cars and trucks. The annual gain in the CPI accelerated two-tenths to 2.5 percent, while the core CPI annual gain moderated one-tenth to 2.1 percent. **Import prices** were up 0.5 percent in October, the biggest gain since May, thanks to a jump in petroleum prices. However, nonpetroleum prices increased for the first time in five months, rising 0.2 percent. From a year ago, import prices increased 3.5 percent. The Bureau of Labor Statistics produces each of these reports.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, edged up 0.1 percent in October, according to the Federal Reserve Board. Manufacturing growth was unchanged at 0.3 percent. Utilities and mining growth both declined for the second straight month, however, falling 0.5 percent and 0.3 percent, respectively.

Retail Sales Growth Driven by Strong Gasoline Station Sales



Source: Census Bureau

Large Shares of Small Businesses Plan to Raise Compensation and Also Prices



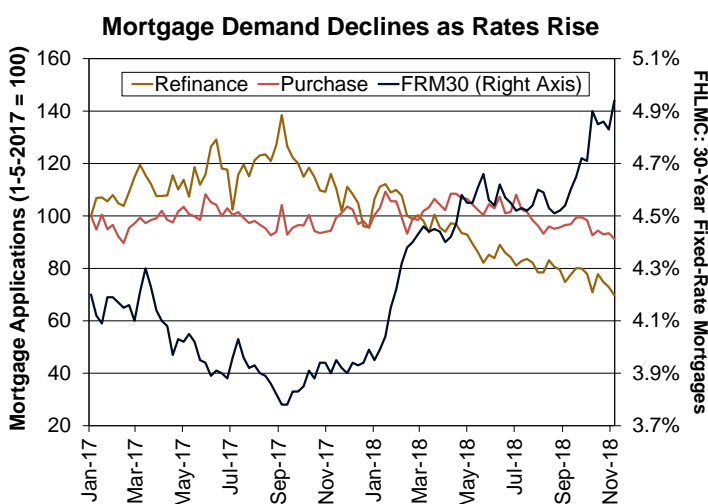
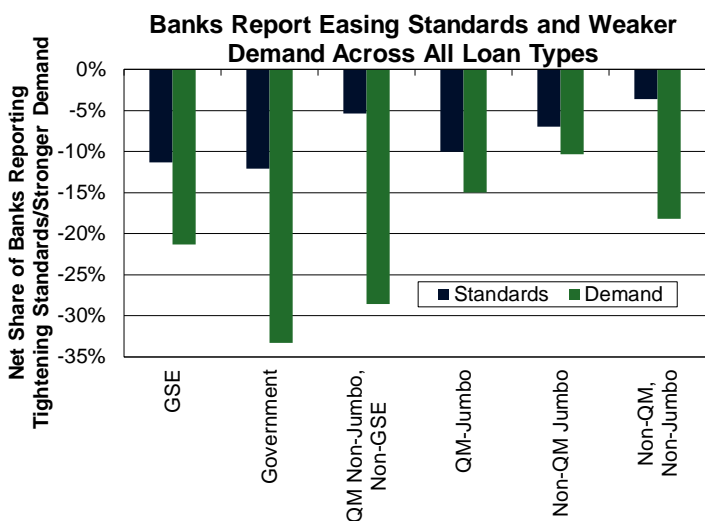
Source: National Federation of Independent Business



Housing: Mortgage Demand Weakens Amid Easing Lending Standards and Higher Mortgage Rates

This week's housing releases shed light on mortgage market conditions. According to Freddie Mac, mortgage rates held steady this week at 4.94 percent, its highest level since 2011, following an increase of 11 basis points last week. A survey released by the Federal Reserve Board's Senior Loan Officer Opinion Survey (SLOOS) indicated that banks eased lending standards on net across most mortgage products over the three months ending in October. Standards on residential mortgage loans have eased for over four years now, marking the longest stretch of easing since the survey began in 1990. Mortgage lending standards are generally considered to include the non-interest rate features of a mortgage loan. Meanwhile, demand for mortgages declined sharply with the largest net share of banks reporting falling demand since the beginning of 2014. Demand declined for the fifth straight quarter and fell across all types of residential mortgages likely due to rising mortgage rates. The trend of easing standards amid declining demand held true for all mortgage product types, except subprime loans, which did not report data this quarter due to fewer than four banks providing information. Applications for purchase mortgages, a timelier metric of mortgage demand, fell last week and has declined 8.0 percent since the end of September, suggesting that purchase mortgage demand weakness has extended into the third quarter. Applications for refinance mortgages also fell last week, decreasing for the third consecutive week and hitting a fresh 17-year low.

- **The Federal Reserve Board Senior Loan Officer Opinion Survey** in the three months ending in October showed net easing in lending standards for all residential mortgage loans used to purchase homes for which information was available. Banks reported weaker purchase demand on net across all residential loans for which information was available. Lending standards on construction and development loans as well as multifamily residential loans (not multifamily construction) tightened on net while demand for both of these loan types weakened on net.
- **Mortgage applications** fell 3.2 percent for the week ending November 9, according to the Mortgage Bankers Association. Applications for purchase mortgages declined by 2.3 percent. Applications for conventional purchase mortgages dropped 3.2 percent, but applications for government purchase mortgages rose 0.2 percent. Applications for refinance mortgages fell 4.3 percent. Applications for conventional refinance mortgages declined by 4.9 percent and applications for government refinance mortgages decreased by 1.1 percent.



Source: Federal Reserve

Source: Mortgage Bankers Association, Freddie Mac

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