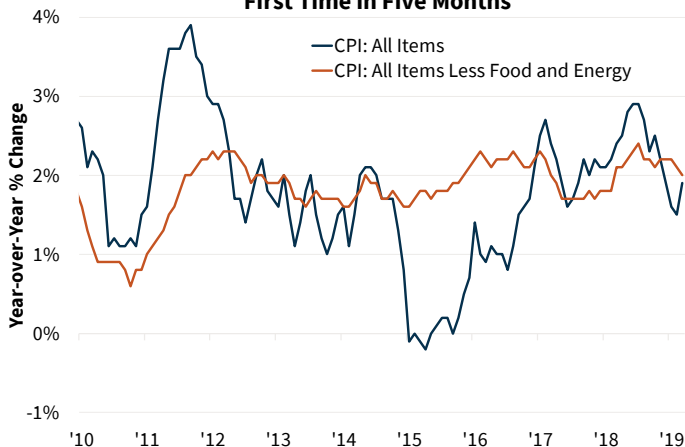


Economics: Fed Reaffirms Patient Stance

The spotlight this week fell on the release of the Federal Open Market Committee (FOMC) March meeting [minutes](#). The minutes reaffirmed the Fed’s patient stance, stating that most FOMC members expected “the evolution of the economic outlook and risks to the outlook [to] likely warrant leaving the target range unchanged for the remainder of the year.” Members noted monetary policy decisions “remain dependent on the evolution of the outlook as informed by incoming data” and many in the FOMC believe weak economic growth in the first quarter was temporary. Through statements such as “most participants indicated that they did not expect the recent weakness in spending to persist beyond the first quarter” or “participants observed that much of the recent softness likely reflected temporary factors,” the Fed left the door open for a future rate hike. On inflation, the minutes noted that “the latest readings on overall inflation had been somewhat softer than expected” likely due to declines in oil prices, but that core inflation remained near 2 percent. Supporting the Fed’s view, the annual gain in the March Consumer Price Index (CPI), a measure of inflation, accelerated for the first time in five months driven by a large increase in energy prices. However, core inflation, excluding food and energy prices, slowed to 2.0 percent, the smallest annual gain in over a year but at the Fed’s 2-percent target. Core CPI appears to have peaked at 2.4 percent last July, which, if it stands, would be the lowest peak in the core inflation rate for any post-WWII cycle. In other news, factory orders posted the fourth decline in five months in February and decelerated to the slowest annual pace since November 2016. Nondurable goods orders and factory shipments fared better, increasing for the first time in four and five months, respectively. Consumer and small business sentiment remained cautious. In April, consumer sentiment declined for the first time in three months due to dampened expectations. Also notable were short-term inflation expectations, which fell to 2.4 percent, the lowest level since October 2017. As for small businesses, an optimism survey was essentially flat in March, as was the net share of respondents expecting the economy to improve. Businesses were concerned about excess inventories due to weaker sales. The net share of businesses planning to add to inventories turned negative for the first time since December 2017 and the share reporting poor sales as their single most important problem jumped to the highest level in a year. Finally, job openings had a rough February, posting the largest monthly decline in over three years and falling to the lowest level in almost a year. Job openings remained higher than the number of unemployed persons for the twelfth straight month but narrowed to the smallest margin in ten months.

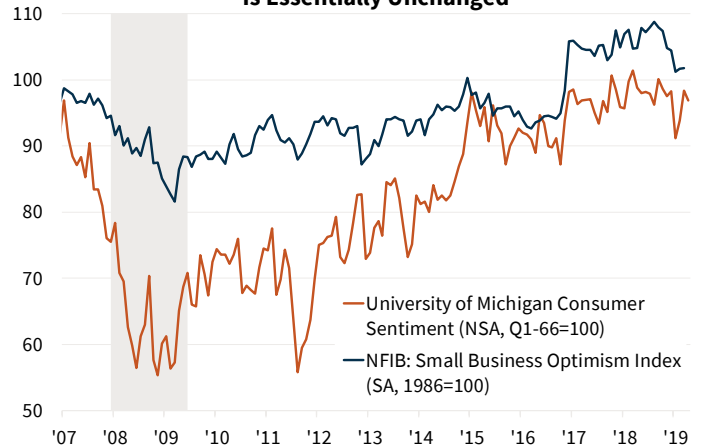
- **The Consumer Price Index** rose 0.4 percent in March driven by a 3.5 percent rise in energy prices. Core prices edged up 0.1 percent. Annually, headline CPI rose 1.9 percent. **The Producer Price Index (PPI)** for final demand of goods and services increased 0.6 percent in March and 2.2 percent annually. Excluding food and energy, core prices rose 0.2 percent from the prior month and 2.0 percent from a year ago. **Import prices** rose 0.6 percent in March but were flat annually. All of these reports are produced by the Bureau of Labor Statistics.
- **Factory orders** fell 0.5 percent in February, while factory shipments rose 0.4 percent, according to the Census Bureau. Nondurable goods orders, the new piece of data from the report, gained 0.6 percent.
- **The University of Michigan Consumer Sentiment Index** fell 1.5 points to 96.9 in the preliminary April reading. A 3.0-point drop in consumer expectations outweighed a 0.9-point increase in the current economic conditions component.
- **The National Federation of Independent Business Small Business Optimism Index** rose a tick to 101.8 in March.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings decreased 538,000 to 7.1 million in February, according to the Bureau of Labor Statistics. The job openings rate fell three-tenths to 4.5 percent. The hires, quits, and layoffs rates were little changed at 3.8 percent, 2.3 percent, and 1.2 percent, respectively.

Headline Consumer Inflation Accelerates for the First Time in Five Months



Source: Bureau of Labor Statistics

Consumer Sentiment Falls and Business Sentiment Is Essentially Unchanged



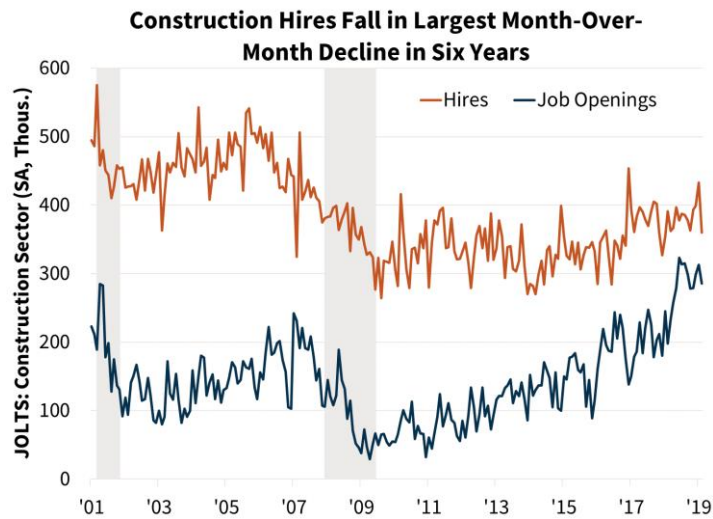
Source: University of Michigan, NFIB



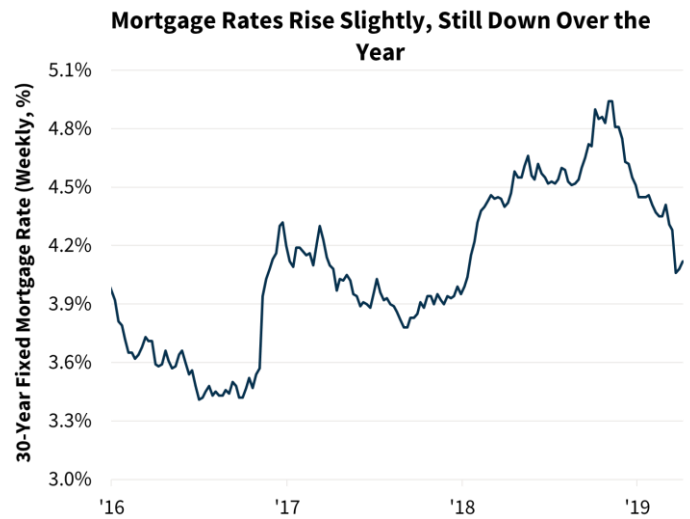
Housing: Construction Hires Take a Hit

In a quiet week for housing news, construction job openings and hires fell while purchase mortgage applications rose slightly. According to JOLTS, construction job openings fell for the first time in four months in February but have increased from year-ago levels every month since October 2017. Construction hires posted the largest monthly decline since January 2011, though this was likely an anomaly explained by the postponement of construction due to below-average temperatures in February. We expect to see a pickup in March, presaged by the March employment report released last week, which showed a respectable increase in construction payrolls. The only other report released this week showed mortgage demand softening last week for the first time in five weeks, as refinance applications pulled back from the largest gain in over four years posted the prior week. Purchase applications rose for the fifth consecutive week and are up 22.1 percent from last November, when mortgage rates hit 4.94 percent, a seven-year high. Since then, mortgage rates have fallen precipitously, hitting what we believe to be a floor two weeks ago at 4.06 percent. This week, the average yield on 30-year fixed-rate mortgages rose 4 basis points to 4.12 percent, according to Freddie Mac, but remained 30 basis points below year-ago levels. Given the continued rise in purchase mortgage applications, mortgage rates being near 15-month lows, and the decline in construction hires being attributed to bad weather in February, we continue to believe that home sales will bounce back this spring selling season.

- **The Job Openings and Labor Turnover Survey** showed that construction job openings fell by 27,000 in February to 286,000, according to the Bureau of Labor Statistics. The job openings rate fell by 0.3 percentage points to 3.7 percent. The hires rate fell by 1.0 percentage point to 4.8 percent with total hires tumbling 73,000 to 360,000. The separations rate dropped by 0.3 percentage points to 4.9 percent. The quits rate held steady at 2.5 percent, while the layoffs and discharge rates fell a tick to 2.3 percent.
- **Mortgage applications** dropped 5.6 percent for the week ending April 5, according to the Mortgage Bankers Association. Refinance applications decreased 11.4 percent as a 14.6 percent decline in conventional refinance applications outweighed a 6.8 percent increase in government refinance applications. Purchase applications rose 0.5 percent driven entirely by conventional applications, which rose 0.8 percent. The survey’s average 30-year fixed mortgage rate rose 4 basis points to 4.40 percent.



Source: Bureau of Labor Statistics



Source: Freddie Mac

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