



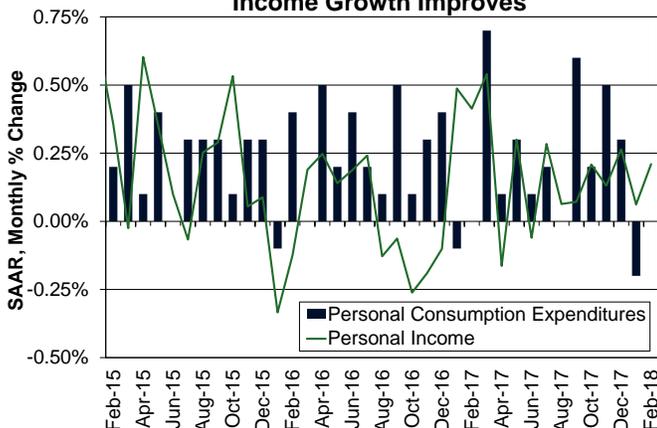
Weekly Note – March 30, 2018

Economics: Consumers Are In the Money, But Out of Stores

Consumers took center stage in this week’s economic data. Looking in the rearview mirror, fourth quarter real GDP growth received an upgrade of four-tenths of a percentage point, to 2.9 percent annualized. For all of 2017, the economy expanded by 2.6 percent, the fastest growth in three years. Real personal consumption expenditures (PCE) growth was revised up from 3.8 percent annualized to 4.0 percent, also the best showing in three years. In addition, the decline in business inventories was revised to show a smaller drop, reducing the drag on GDP growth from 0.7 percentage points to 0.5 percentage points. Shifting to the current quarter, flat February real PCE following January’s 0.2 percent decline (a markdown from the previous estimate of a 0.1 percent drop) points to a drastic slowdown in real PCE growth to just around 1.0 percent annualized for the quarter. Meanwhile, the nominal disposable personal income gain outpaced the nominal PCE increase for the second consecutive month, pushing the saving rate up two-tenths to 3.4 percent, a six-month high. The Fed’s preferred measure of inflation, the PCE deflator, showed a moderating increase from the prior month. However, the year-over-year gain accelerated after stagnating for three consecutive months, but was still two-tenths below the Fed’s 2.0 percent target. After holding steady for four straight months, annual growth in the core PCE deflator (excluding food and energy) ticked up one-tenth of a percentage point to 1.6 percent, boosted by health care service prices, which jumped 0.4 percent from January and 2.2 percent from a year ago, the biggest annual gain since 2010. Consumer fundamentals have remained positive, suggesting the spending lull is likely temporary. Main measures of consumer confidence remained at historically elevated levels in March. The University of Michigan’s Consumer Sentiment Index reached the highest level since 2004 as the current economic conditions component rose to an all-time high, though the expectations component soured a little. The Conference Board’s Consumer Confidence Index fell slightly from February’s 17-year high as both the present conditions and expectations components ticked down. Finally, labor market conditions continue to improve, with initial unemployment claims falling last week to a new 45-year low.

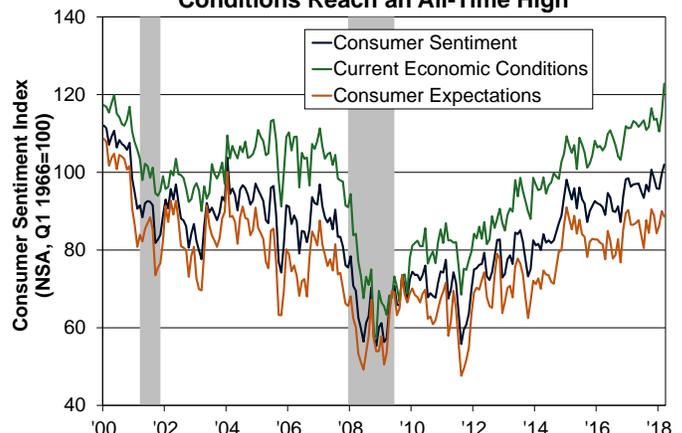
- **Gross domestic product (GDP)**, adjusted for inflation, grew 2.9 percent annualized in Q4 2017, according to the third estimate from the Bureau of Economic Analysis. Upward revisions to consumer spending, business investment, inventories, and government spending outweighed downward revisions to residential fixed investment and net exports. Corporate profits, the new piece of data in the report, ticked down 0.1 percent (not annualized) from the prior quarter. Declines in domestic financial corporate profits and foreign profits outweighed a rise in profits for domestic nonfinancial corporations. On an annual basis, total corporate profits rose 2.7 percent.
- **Personal income**, adjusted for inflation, rose 0.2 percent in February and real disposable income grew by the same amount, according to the Bureau of Economic Analysis. The PCE deflator also rose 0.2 percent from January and 1.8 percent from last year. The core deflator increased 0.2 percent during the month and 1.6 percent year-over-year.
- **The Conference Board Consumer Confidence Index** fell 2.3 points in March to 127.7. **The University of Michigan Consumer Sentiment Index** rose 1.7 points to 101.4 in the final March reading.
- **Initial claims for unemployment insurance** decreased by 12,000 to 215,000 in the week ending March 24, according to the Department of Labor. The four-week moving average fell by 500 to 224,500.

Consumers Hold Back on Spending Even as Income Growth Improves



Source: The Bureau of Economic Analysis

Consumer Sentiment Rises, as Current Conditions Reach an All-Time High



Source: University of Michigan

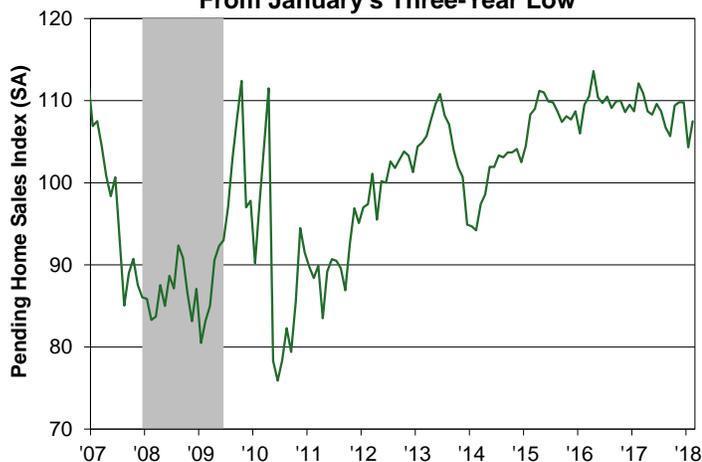


Housing: Pending Home Sales Recover

Housing data released this week featured updates on the existing home sales market, home price growth, and mortgage demand. First, pending home sales, which are contract signings of existing homes and typically lead closings by one to two months, rebounded from a sharp drop in January. Despite the sizable monthly gain, pending sales fell by at least 4.0 percent year over year for the second consecutive month. Sales improved on a monthly basis in all four Census regions for the first time since June of last year. Pending sales in the Northeast recovered in February following January's weather-related decline; however, multiple winter storms in March likely dampened contract signings once again. Annual home price appreciation slowed slightly in January, according to the S&P CoreLogic Case-Shiller National Home Price Index. However, the index has posted at least 6.0 percent year-over-year growth for five consecutive months. Mortgage demand increased last week by the largest amount in almost three months. Refinance applications rose from an expansion low the prior week, while purchase applications improved for the third consecutive week to reach the highest level since the middle of January. Finally, the average 30-year fixed mortgage rate ticked down one basis point to 4.44 percent, according to Freddie Mac. Mortgage rates have stabilized over the past three weeks, after rising 51 basis points from the first week of January to a four-year high of 4.46 percent in first week of March.

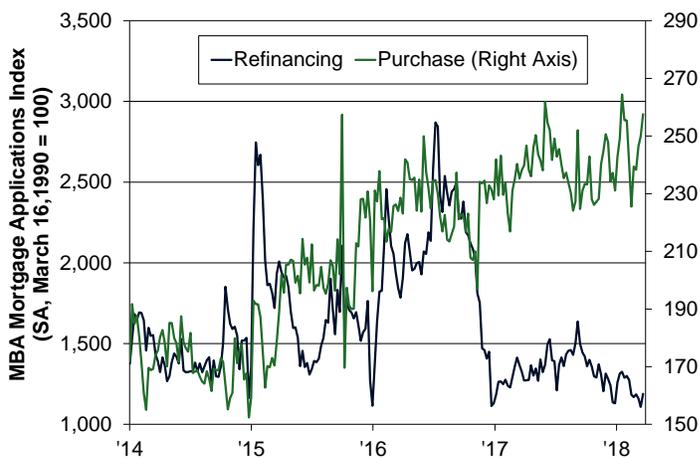
- **The National Association of REALTORS® Pending Home Sales Index** rose 3.1 percent in February. The index was revised downward slightly in January. From February 2017, pending sales dropped 4.1 percent. Regionally, sales jumped 10.3 percent in the Northeast and rose 3.0 percent in the South. Pending sales in the Midwest and West improved slightly by 0.7 percent and 0.4 percent, respectively.
- **The S&P CoreLogic Case-Shiller National Home Price Index** (not seasonally adjusted) was unchanged in the three months ending in January. On an annual basis, the index rose 6.2 percent, slowing a tenth from the December gain.
- **Mortgage applications** rose 4.8 percent for the week ending March 23, according to the Mortgage Bankers Association (MBA). Purchase mortgage applications improved 3.1 percent as conventional purchase applications increased 3.3 percent and government applications rose 2.5 percent. Refinance applications were 7.3 percent higher during the week. A 9.2 percent rise in conventional refinance applications outweighed a 3.1 percent drop in government applications. The MBA survey's average 30-year fixed mortgage rate ticked up one basis point to 4.69 percent to tie a four-year high.

**Pending Home Sales Improve in February
From January's Three-Year Low**



Source: National Association of REALTORS®

Purchase and Refinance Applications Improve



Source: Mortgage Bankers Association

Frank Shaw and Rebecca Meeker
Economic and Strategic Research Group
March 30, 2018

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