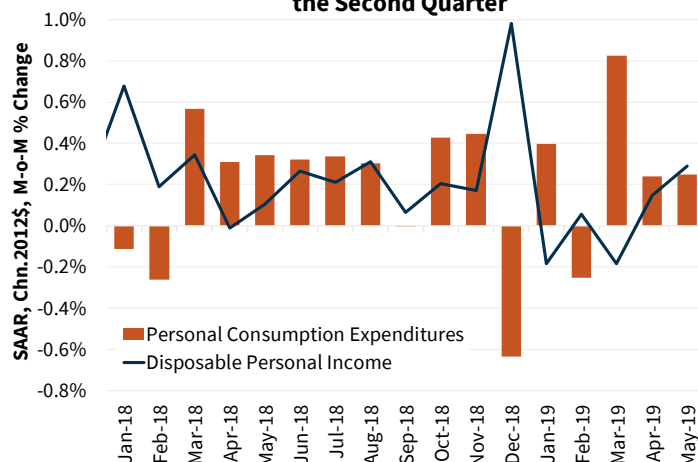


# Economics: Consumer Spending Appears Ready for a Pickup, but Inflation Remains Stagnant

It was a busy week for economic data releases. The final estimate of first quarter gross domestic product (GDP) was unrevised at 3.1 percent annualized, with a three-tenths downgrade to personal consumption expenditures' (PCE) contribution to GDP offset by the same amount of upward revision to business fixed investment's contribution. Second quarter real consumer spending growth is likely to pick up strongly from the first quarter's anemic pace as consumer spending in May posted a solid gain and April's previously reported flat consumer spending was revised upward two-tenths. This strength in consumer spending poses an upside risk to our current forecast of 2.4 percent annualized; however, falling consumer confidence may weigh on spending as two measures of sentiment declined in June. The Conference Board's Consumer Confidence Index was hit particularly hard, falling by the largest amount in nearly seven years to reach the lowest level since September 2017. Meanwhile, the outlook for business investment in equipment this quarter dampened as durable goods orders fell for the second consecutive month in May and shipments edged up only slightly after posting the largest decline in three years in April. However, core capital goods shipments, which exclude the more volatile defense and aircraft orders and are an input into business equipment investment, have risen for four of the past five months and may provide some relief. Core orders, the leading indicator, increased in May but failed to reverse April's large decline. On the inflation front, the PCE deflator, the Fed's preferred measure, increased for the fourth straight month in May, but decelerated on an annual basis to 1.5 percent, down one-tenth from April's gain. The core deflator, excluding food and energy prices, was unchanged on a year-over-year basis at 1.6 percent. Both headline and core inflation remain well below the Fed's 2.0-percent target, and many Fed officials have warned that low inflation is now a persistent problem.

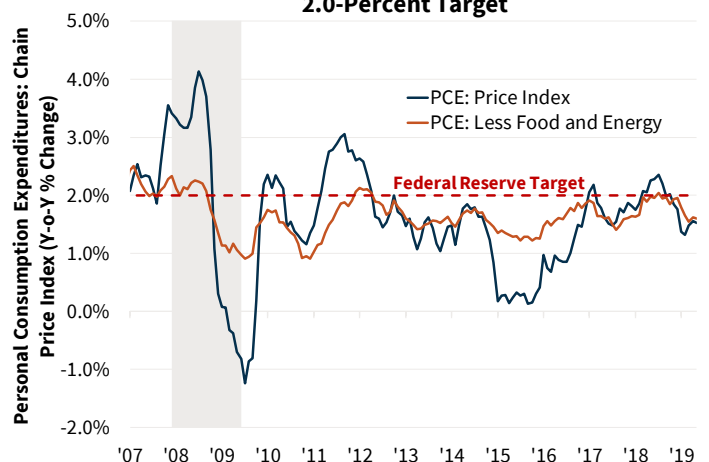
- **Gross domestic product**, adjusted for inflation, expanded 3.1 percent annualized in Q1 2019, according to the final estimate from the Bureau of Economic Analysis. Downward revisions in PCE and net exports were offset by upward revisions to nonresidential fixed investment and government expenditures. The decline in corporate profits was revised upward two-tenths to -2.6 percent (not annualized).
- **Personal income**, adjusted for inflation, rose 0.3 percent in May, according to the Bureau of Economic Analysis. Real disposable income increased 0.3 percent. Real PCE rose 0.2 percent, while the saving rate was flat at 6.1 percent. The PCE deflator rose 0.2 percent during the month and 1.5 percent from a year ago. The core deflator also rose 0.2 percent on a monthly basis and 1.6 percent on a year-over-year basis.
- **Durable goods orders** fell 1.3 percent in May, according to the Census Bureau. Durable goods shipments edged up 0.4 percent. Core capital goods orders also rose four-tenths, and core shipments increased 0.7 percent. While the April decline in core orders was unrevised, core shipments in April were revised upward from flat to a 0.4 percent gain.
- **The Conference Board Consumer Confidence Index** fell 9.8 points in June to 121.5. The present situation component declined 8.1 points, and the expectations component plummeted 10.9 points. **The University of Michigan Consumer Sentiment Index** fell 1.8 points to 98.2 in the final June reading as a 4.2 point decline in consumer expectations outweighed a 1.9 point increase in the current economic conditions component.

Consumer Spending Poised to Pick Up Strongly in the Second Quarter



Source: Bureau of Economic Analysis

Inflation Languishes Well Below the Fed's 2.0-Percent Target



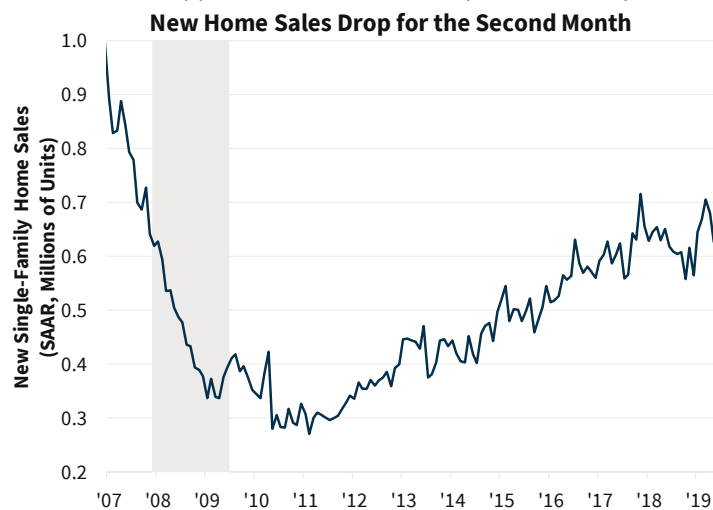
Source: Bureau of Economic Analysis



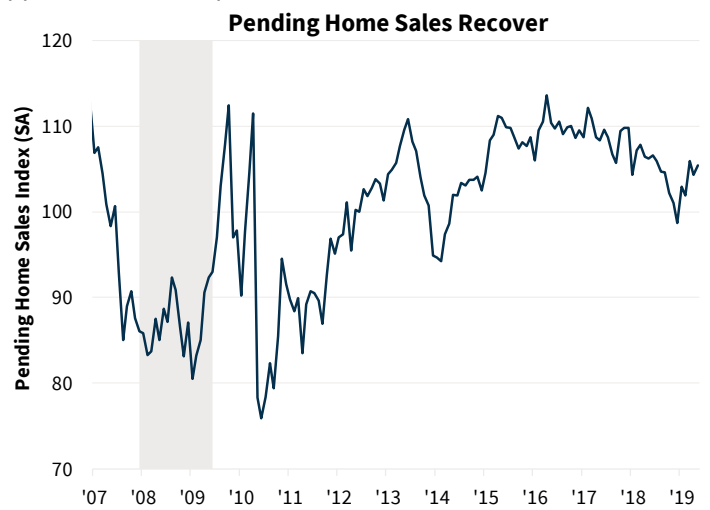
# Housing: Pending Home Sales Rise, New Sales Fall

Housing news was mixed this week as new home sales turned bearish but pending home sales rose. New single-family home sales fell in May by the largest number since the end of 2017. New home inventories improved in May, and we expect continued improvement as the April increase in single-family permits eventually leads to more single-family homes becoming available. Sales were revised upward slightly in April, but the March number was revised downward from what was an expansion high by 18,000 units. On a brighter note for sales, pending home sales, a leading indicator of existing home sales activity, increased in May, almost erasing the decline seen in April. Despite the increase, growth in pending home sales was negative year-over-year for the 17<sup>th</sup> month in a row. Though the decline in new single-family sales was sharper than expected, it supports our outlook of a moderation in new sales during the second quarter, while the increase in pending home sales supports our outlook of an increase in existing home sales during the latter half of the year. Low mortgage rates are another upside to our forecast. The average yield on 30-year, fixed-rate mortgages fell 11 basis points this week to 3.73 percent, according to Freddie Mac, more than offsetting the slight uptick from last week and leaving mortgage rates at the lowest level since November 2016. For the month of June, mortgage rates averaged 3.80 percent, slowing for the seventh straight month and are now 107 basis points below the most recent peak in November. Consumers appear to be responding to declining mortgage rates, as shown by the increase in mortgage applications last week, driven entirely by an increase in refinance applications. Despite these positives, home prices remain a concern. The annual gain in the FHFA Purchase-Only House Price Index accelerated in April, ending nine straight months of price growth deceleration. In contrast, the S&P Case-Shiller National Home Price Index continued to decelerate on a year-ago basis, slowing for the 12<sup>th</sup> consecutive month to the slowest pace since September 2012. While we expect low mortgage rates to encourage some buyers into the market, supply constraints, along with uncertainty regarding trade conflicts and the overall economy, may weigh on consumers' overall responsiveness.

- **New single-family home sales** dropped 7.8 percent in May to a seasonally-adjusted annual rate of 626,000, according to the Census Bureau. While sales in the West posted the largest decline in nine years, new home sales in the South reached the highest level since July 2007. From a year ago, new single-family home sales were down 3.2 percent. The months' supply at the current sales rate rose five-tenths to 6.4 months. The number of new homes available for sale rose 0.3 percent during the month and 11.0 percent from a year ago. The median sales price for new single-family homes was \$308,000, not seasonally adjusted, down 2.7 percent from a year ago.
- **The National Association of REALTORS® Pending Home Sales Index**, which records contract signings of existing homes and typically leads closings by one to two months, rose 1.1 percent in May. The index was down 0.7 percent from a year ago. Pending sales rose in every region except the West, where sales fell 1.8 percent.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally adjusted basis, rose 0.4 percent in April and 5.3 percent on a year-ago basis. **The S&P CoreLogic Case-Shiller National Home Price Index** (not seasonally adjusted) rose 0.9 percent in April and 3.5 percent from a year ago.
- **Mortgage applications** rose 1.3 percent in the week ending June 21, according to the Mortgage Bankers Association. Refinance applications increased 3.2 percent while purchase applications fell 0.9 percent.



Source: Census Bureau



Source: National Association of REALTORS®

Ricky Goyette and Rebecca Meeker  
 Economic and Strategic Research Group  
 June 28, 2019



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