



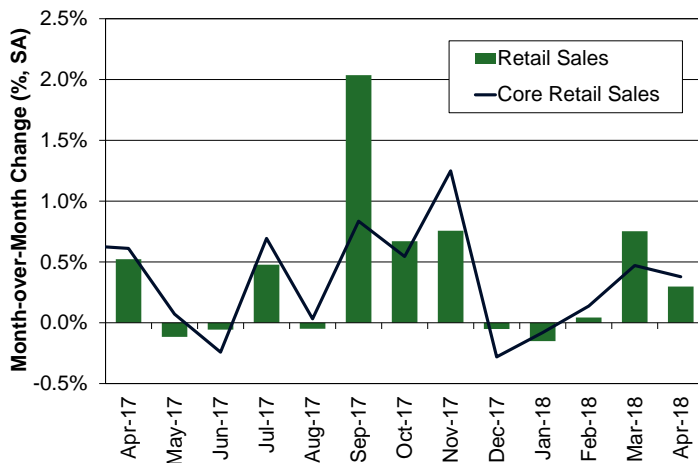
Weekly Note – May 18, 2018

### Economics: Retail Sales and Industrial Production Rise

Economic data released this week provided welcome news on consumer spending and industrial production. Retail sales rose again in April, despite smaller than normal increases in motor vehicle and parts sales and gasoline station sales. Building material sales, a gauge for home improvement spending, increased for the second time in three months. Core retail sales, which exclude auto, gasoline, and building material sales and are an input for the consumer goods spending component of gross domestic product, increased for a third straight month. Sales at clothing stores posted the largest monthly rise in over a year, while food and beverage sales posted the best gain since last October. The positive April retail sales report supports our view that consumer spending will pick up this quarter after a sluggish first quarter. Industrial production climbed to a new record-high in April after posting the third consecutive monthly increase. Output in all three components, manufacturing, mining, and utilities, improved during the month for the first time since last November. Manufacturing output rose to a new expansion high, while mining output hit the highest level since January 2015, as further gains in the oil and gas sector were tempered by a drop in coal mining. The rise in utilities output was due to a 10 percent rise in gas utilities output, thanks to cooler temperatures during the month sparking demand for heating. Capacity utilization—a measure of slack in the industrial sector—rose to the highest level in three years, though it remains below the long-term average. The near-term outlook for economic growth is positive according to the Conference Board Leading Economic Index, which rose for the seventh straight month in April. Positive contributions to the index from the yield spread, weekly hours in manufacturing, the ISM® new orders index, initial claims for unemployment insurance, and consumer expectations for business conditions outweighed negative contributions from stock prices and building permits.

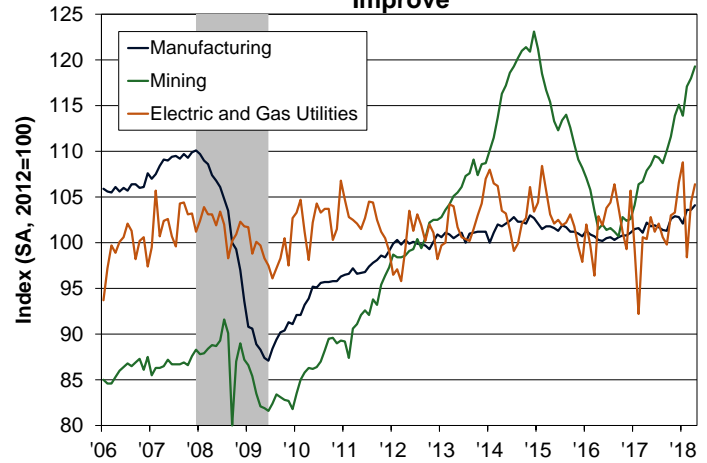
- **Retail sales** rose 0.3 percent in April, according to the Census Bureau. Core retail sales increased 0.4 percent. The March gains in headline and core retail sales both saw upward revisions. Annual growth in headline and core retail sales decelerated by two-tenths to 4.7 percent and 3.9 percent, respectively.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, rose 0.7 percent in April, according to the Federal Reserve Board. Manufacturing output improved 0.5 percent, while mining and utilities output increased 1.1 percent and 1.9 percent, respectively. Capacity utilization rose four-tenths to 78.0 percent.
- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months that dates back to 1959, rose 0.4 percent in April to reach a new all-time high.
- **Initial claims for unemployment insurance** increased by 11,000 to 222,000 in the week ending May 12, according to the Department of Labor. The four-week moving average decreased by 2,750 to 213,250.

Retail Sales Increase Again in April



Source: Census Bureau

All Three Components of Industrial Production Improve



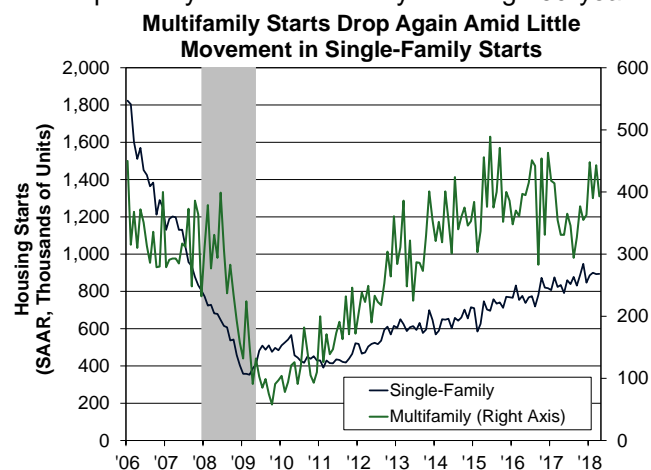
Source: Federal Reserve Board



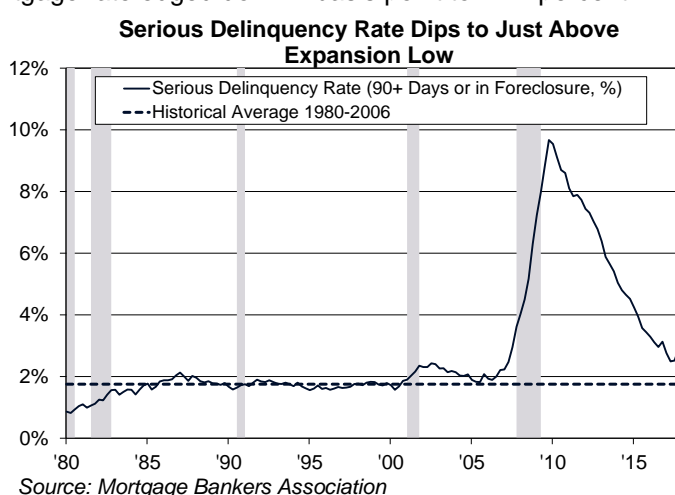
## Housing: Home Building Muddles Along

This week's housing data featured updates on home building and mortgage performance. Total housing starts fell for the second time in three months in April, as a decline in multifamily starts outweighed a miniscule increase in single-family starts. Revisions to the first three months of 2018 added 7,000 units to total housing starts as an upward revision of 13,000 single-family units outweighed a downward revision of 6,000 multifamily units, on net. Total permits fell in April but continued to grind forward on the upward trend that began back in 2011. Multifamily permits fell from last month's 14-month high, as single-family permits bounced back from March's largest monthly decline since December 2013. Despite the continuously sluggish growth of single-family housing starts, home builders' confidence in the single-family market rose in May for the first time in five months according to the National Association of Home Builders/Wells Fargo Housing Market Index. Builders continue to report that record-high lumber prices hurt their bottom lines and are making it difficult to meet strong housing demand. In other news, the Mortgage Bankers Association (MBA) reported that the overall market delinquency rate fell in the first quarter, after back-to-back increases in the third and fourth quarters of 2017. The foreclosure starts rate ticked up slightly in the first quarter, marking the first increase in a year. The overall market serious delinquency rate fell in the first quarter and has fallen on an annual basis every quarter since the third quarter of 2010. Mortgage demand decreased for the fourth consecutive week, dragged down by both purchase and refinance applications, with the latter falling to the lowest level since August 2008. Finally, mortgage rates rose to the highest level in seven years this week, with the average 30-year fixed mortgage rate increasing 6 basis points to 4.61 percent, according to Freddie Mac.

- **Housing starts** fell 3.7 percent in April to 1.29 million annualized units, according to the Census Bureau. Multifamily starts drove the decline, falling 11.3 percent to 393,000 units, while single-family starts were virtually unchanged, edging up 0.1 percent to 894,000 units. Multifamily permits declined 6.3 percent to 493,000, as single-family permits increased 0.9 percent to 859,000 units. On an annual basis, total housing starts were up 11.8 percent and permits rose 13 percent.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** rose 2 points to 70 in May. A reading above 50 indicates that more builders view the single-family market as "good" rather than "poor." The present sales component ticked up 2 points to 76, while the sales in the next six months component was flat at 77. The traffic of prospective buyers component was unchanged at 51 for the third consecutive month.
- **The Mortgage Bankers Association National Delinquency Survey** for Q1 2018 showed that the delinquency rate for mortgage loans on one-to-four unit residential properties decreased 54 basis points to a seasonally-adjusted rate of 4.63 percent of all loans outstanding. The percentage of loans on which foreclosure actions were started ticked up 4 basis points to 0.28 percent. The survey showed that the serious delinquency rate (the percent of loans that are 90 days or more past due or in the process of foreclosure, not seasonally adjusted) fell 30 basis points from the prior quarter to 2.61 percent, 15 basis points below the rate a year ago.
- **Mortgage applications** decreased 2.7 percent for the week ending May 11, according to the Mortgage Bankers Association. Both purchase and refinance applications contributed to the decline, falling 2.1 percent and 3.8 percent, respectively. The MBA survey's average 30-year fixed mortgage rate edged down 1 basis point to 4.77 percent.



Source: Census Bureau



Source: Mortgage Bankers Association

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