

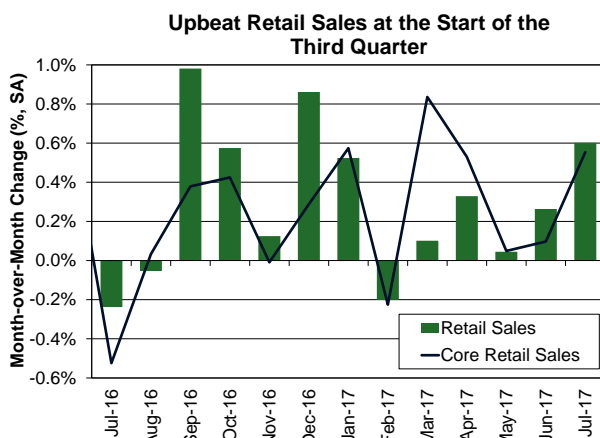


Weekly Note – August 18, 2017

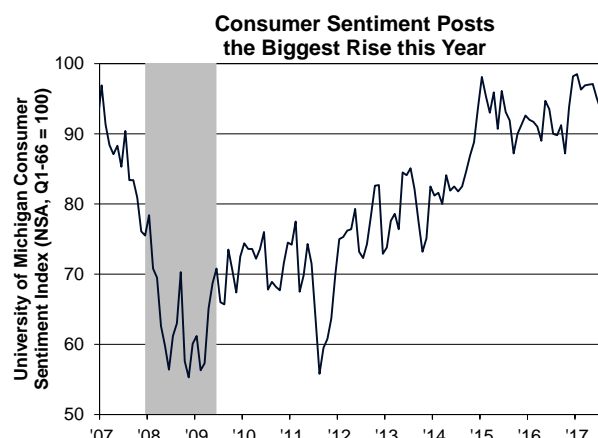
Economics: Don't Bet Against Consumers

This week's reports featured upbeat news for consumer spending. Retail sales jumped in July, with broad-based gains. Nonstore retailers saw the biggest monthly rise in sales this year, likely reflecting the boost from Amazon Prime day; however, sales at brick-and-mortar retailers also posted a solid increase. Core sales, which are used to estimate consumer spending for the goods component in gross domestic product, registered the biggest gain since March. Furthermore, June data were upgraded from a decrease to an increase, erasing the notion that consumer spending weakened momentum going into the third quarter by ending the second quarter on a weak note. The retail sales report is consistent with our August forecast view that that real consumer spending growth will likely slow only modestly this quarter from the 2.8 percent annualized pace in the second quarter. A couple pieces of good news on the consumer front included a strong rise in consumer sentiment in early August to the best showing since January and a sharp drop in initial jobless claims in the latest week. The economic expansion should continue, according to the Conference Board Leading Economic Index, a gauge of the economic outlook over the next three to six months, which rose in July for the eleventh straight month. The report on industrial production was mixed. The headline increased slightly in July, boosted by the gains in utility and mining output. However, manufacturing output retreated as motor vehicle and parts production fell for the third straight month. It also declined year-over-year for the second consecutive month, the first such occurrence since late 2009, likely reflecting the inventory overhang in the auto sector. Inflation remains subdued. While import prices rose in July for the first time in three months, the annual gain remains modest. Last but not least, the [minutes](#) from the July Federal Open Market Committee meeting showed that the Committee expressed concerns about recent declines in inflation trends and saw downside risk to its near-term outlook. Our call for the next rate hike in December could push into next year if inflation fails to firm. However, the minutes suggested that an announcement on balance sheet tapering for September appears on track.

- **Retail sales** rose 0.6 percent in July, according to the Census Bureau. Nonstore retailers rose 1.3 percent. Core retail sales, which exclude auto, building material, and gasoline station sales, also increased 0.6 percent. June core sales data were revised up to show a 0.1 percent gain instead of a 0.1 percent drop.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, edged up 0.2 percent in July, according to the Federal Reserve Board. Manufacturing output ticked down 0.1 percent, largely due to the 3.6 percent decline in motor vehicles and parts production. Excluding autos, manufacturing output rose 0.2 percent. Mining output inched up 0.5 percent, marking the fourth consecutive rise, while utilities output increased 1.6 percent.
- **The Conference Board Leading Economic Index (LEI)** advanced 0.3 percent in July. Of its ten components, the interest rate spread—10-year Treasury bonds less federal funds—and the Institute for Supply Management new orders provided the largest contributions. Building permits were the only drag.
- **The University of Michigan Consumer Sentiment Index** jumped 4.2 points to 97.6 in the August preliminary reading, as an increase in the expectations component outweighed a drop in the current conditions component.
- **Import prices** inched up 0.1 percent in July, driven by an increase in petroleum prices, according to the Bureau of Labor Statistics. On a year-over-year basis, import prices rose 1.5 percent, the same as in the prior month.
- **Initial claims for unemployment insurance** dropped 12,000 to 232,000 in the week ending August 12, according to the Department of Labor. The four-week moving average fell 500 to 240,500.



Source: Census Bureau



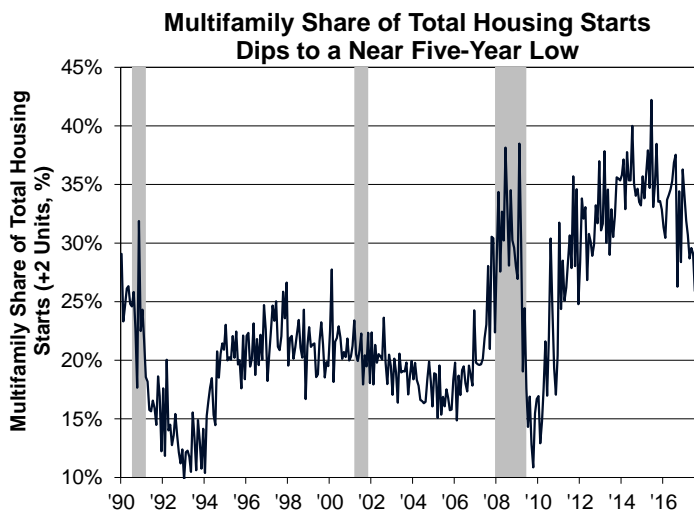
Source: University of Michigan



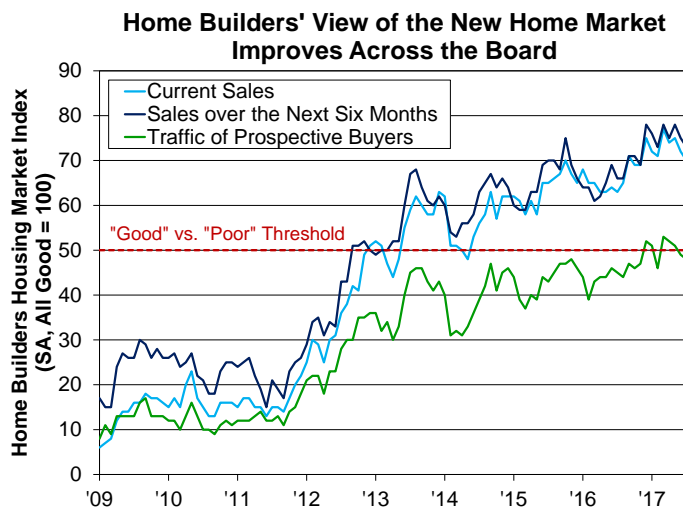
Housing: Home Building Remains Lackluster

Housing data released this week left much to be desired for home building and mortgage demand. Total housing starts fell in July for the fourth time in five months, weighed down by the largest drop in multifamily starts this year to the lowest level since September 2016. Multifamily building has trended down from its peak in June 2015, when multifamily starts made up 42 percent of all new home building. In July, the multifamily share of total housing starts dipped to 26 percent, a near five-year low. Single-family construction fell slightly in July after a sizable jump in June, marking the fourth decline since hitting an expansion high in February. Year-to-date, single-family starts are almost 9 percent higher than during the same period last year, compared with about a 10 percent decline in year-to-date multifamily starts. Single-family permits were flat and have risen only once over the past five months, while multifamily permits fell for the second time in three months. Homebuilders remain confident in the single-family market, as the National Association of Home Builders Housing Market Index jumped in August, almost reversing the declines from the prior two months. In addition, builders' expectations for new home sales over the next six months increased to tie an expansion best. Mortgage demand was little changed last week as a decline in purchase applications cancelled out a rise in refinance applications. Purchase applications have declined in three of the past four weeks to the lowest level since mid-February. Refinance applications, in contrast, edged up further to the highest level in two months. Finally, the average 30-year fixed mortgage rate slipped 2 basis points to 3.89 percent this week, according to Freddie Mac.

- **Housing starts** fell 4.8 percent to a 1.16 million seasonally-adjusted annualized rate in July, according to the Census Bureau. Single-family starts slipped 0.5 percent to 856,000 units, and multifamily starts declined 15.3 percent to 299,000 units. New residential permits fell 4.1 percent to 1.22 million annualized units. Single-family permits were flat at 811,000 units, as multifamily permits fell 11.2 percent to 412,000 units. On a year-to-date basis, single-family permits are up 9.9 percent, and multifamily permits are down 2.1 percent.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** rose 4 points to 68 in August. A reading above 50 indicates more builders view the single-family market as "good" rather than "poor." All three components—present sales, sales expectations over the next six months, and foot traffic of prospective buyers—improved.
- **Mortgage applications** edged up 0.1 percent for the week ending August 11, according to the Mortgage Bankers Association. Refinance applications rose 1.6 percent, outweighing a 1.5 percent drop in purchase applications. The survey's 30-year fixed mortgage rate slipped another 2 basis points to 4.12 percent, marking the lowest level since mid-November 2016.



Source: Census Bureau



Source: National Association of Home Builders

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