



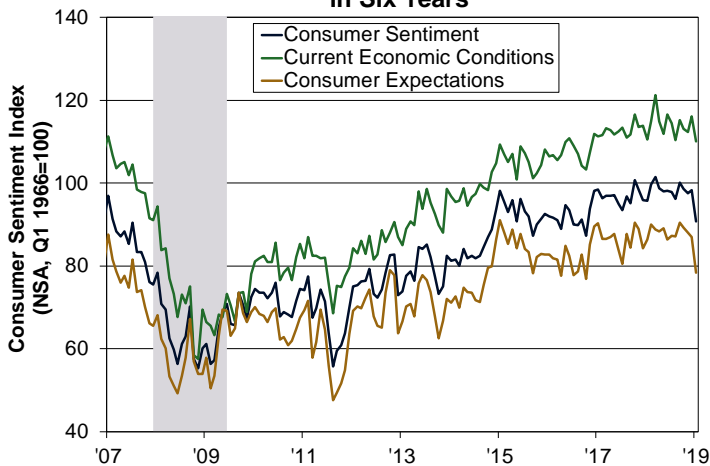
Weekly Note – January 18, 2019

Economics: Consumers Feel Blue at the Start of the Year

This week featured a glimpse of consumer moods in early January, and it wasn't a pretty sight. The University of Michigan Consumer Sentiment Index dropped sharply. This marks the third decline in four months and the largest decrease since December 2012, sending the index to the lowest level since October 2016. The University of Michigan press release attributed the decline to a combination of factors including concerns about the ongoing government shutdown, the impact of tariffs, instabilities in financial markets, the global economic slowdown, and the lack of clarity about monetary policies. Higher-income households saw a more pronounced decline in sentiment than lower-income households. The week's other news fared better, however, as industrial production rose in December, thanks to the biggest gain in manufacturing output since last February. Meanwhile, both wholesale and import prices remained contained in December. Lastly, initial unemployment claims dropped last week for the second consecutive week. These data exclude claims filed by federal employees, however. The separate initial claims filed by federal workers spiked in late December and early January.

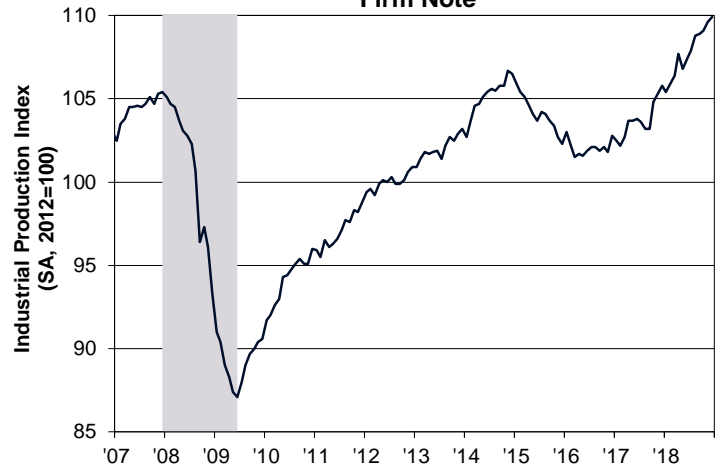
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, rose 0.3 percent in December, according to the Federal Reserve Board. Manufacturing output increased 1.1 percent, boosted by motor vehicles and parts and business equipment production. Mining output advanced 1.5 percent, while utility output dropped 6.3 percent, reflecting the swing from unusually cold weather in November to unseasonably warm weather in December.
- **The Producer Price Index (PPI)** for final demand for goods and services fell 0.2 percent in December. The PPI for final demand for goods fell 0.4 percent, driven by a large drop in energy prices. Prices for final demand for services edged down 0.1 percent, the first drop in four months. On a year-ago basis, the overall PPI for final demand was up 2.5 percent, compared with 1.7 percent for final goods and 2.8 percent for final demand services. **Import prices** decreased 1.0 percent in December, thanks to a sharp drop in petroleum prices. Nonfuel import prices were unchanged. From a year ago, import prices were down 0.6 percent, the first decline since October 2016, and nonfuel import prices rose 0.5 percent. The Bureau of Labor Statistics produces both reports.
- **The University of Michigan Consumer Sentiment Index** fell 7.6 points to 90.7 in the January preliminary reading. The current economic conditions component dropped 6.1 points to 110.0, and the expectations component decreased 8.7 points to 78.3. Sentiment of households earning more than \$75,000 a year fell 9.8 points, while that among households earning less than \$75,000 declined by 5.9 points.
- **Initial claims for unemployment insurance** decreased 3,000 to 213,000 in the week ending January 12, according to the Department of Labor. The four-week moving average fell 1,000 to 220,750. Separately, applications for federal employees rose more than 10,000 in the week ending January 5 following an increase of about 5,000 claims the prior week – spikes that were well above the usual level of applications of around 1,000 to 2,000 per week.

Headline Consumer Sentiment Drops the Most in Six Years



Source: University of Michigan

Industrial Production Ends the Year on a Firm Note



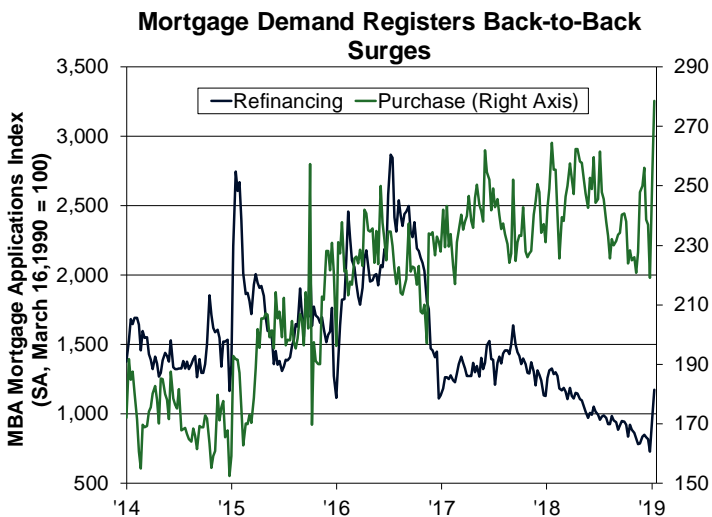
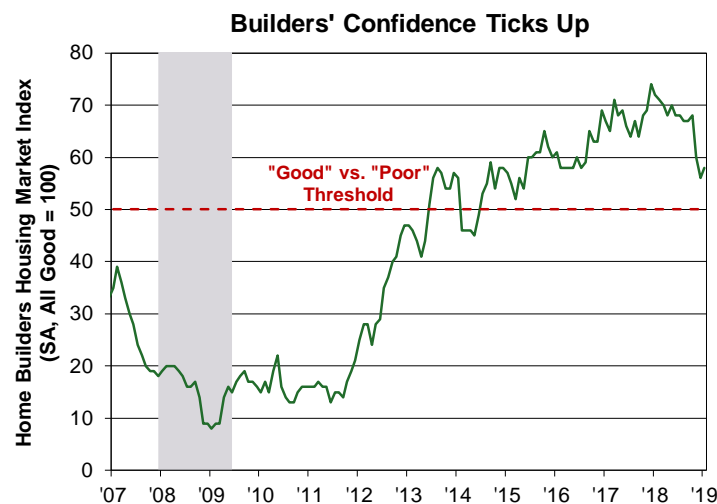
Source: Federal Reserve Board



Housing: Declining Mortgage Rates Boost Builders' Confidence and Mortgage Demand

Declining mortgage rates since mid-November helped to buoy housing indicators in January. A gauge of home builders' confidence increased for the first time in three months. While the improvement was encouraging, the gain only slightly reversed the sharp drop recorded during the last two months of 2018. The downtrend in mortgage rates also spurred both purchase and refinance applications, with the former rising to the highest level since the end of April 2010 and the latter climbing to the highest reading since last March. Freddie Mac's survey showed that rates held steady this week, with the average yield on 30-year fixed-rate mortgages remaining at 4.45 percent after falling nearly 50 basis points from its recent peak in November.

- **The National Association of Home Builders/Wells Fargo Housing Market Index** rose 2 points to 58 in January. All three components of the index gained. The index measuring current sales conditions rose 2 points to 63, the component gauging expectations in the next six months increased 3 points to 64, and the gauge measuring buyer traffic ticked up 1 point to 44.
- **Mortgage applications** increased 13.5 percent for the week ending January 11, according to the Mortgage Bankers Association. Purchase applications rose 9.1 percent after a 16.5 percent rise in the prior week. Refinance applications gained 18.7 percent following a 35.3 percent surge in the previous week. The survey's average 30-year fixed mortgage rate held steady at 4.74 percent.



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