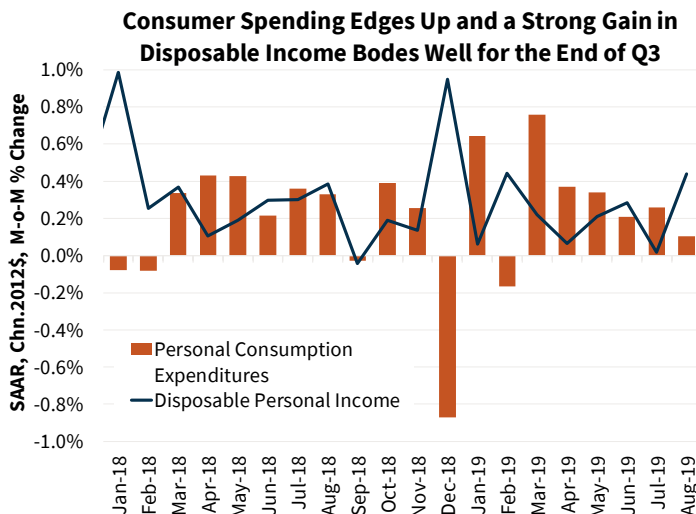


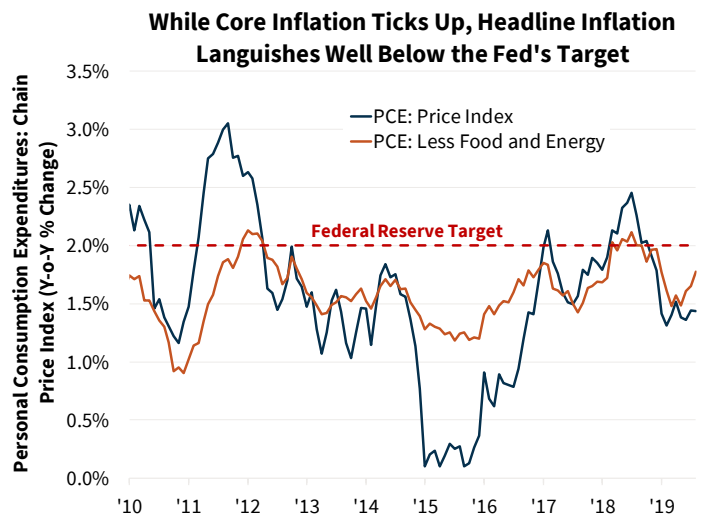
Economics: Consumer Spending Likely to Slow in Q3

August real consumer spending registered the smallest monthly gain since February, and a downward revision to July's number likely confirms that real personal consumption expenditures (PCE) growth will slow dramatically in the third quarter from the second quarter's impressive 4.6 percent annualized pace. Real spending on services turned negative for the first time this year. Encouragingly, however, real disposable personal income posted the largest gain in six months, suggesting continued buying power at the end of the third quarter. The annual rise in the PCE deflator, the Fed's favored measure of inflation, remained stuck for the fourth consecutive month at 1.4 percent in August, continuing to undershoot the Fed's 2.0-percent target; though the annual rate of core inflation (excluding food and energy) accelerated for the third straight month to 1.8 percent, the fastest pace since the beginning of the year. Two measures of consumer confidence were mixed in September with the Conference Board's measure recording the largest monthly decline this year, while the University of Michigan Index posted the largest gain in six months. We expect sentiment will remain highly volatile as consumers experience healthy income gains and a strong economy but continue to be buffeted by news of political and trade tensions. On the business front, details in the durable goods orders report were gloomy: Defense aircraft and parts was the only component to experience significant gains, while durable goods orders excluding defense declined by 0.6 percent. One bright spot was core capital goods shipments, a key input used to estimate the business equipment investment component of GDP, which rose for the first time in three months, though not enough to recover from the prior months' losses. Core capital goods orders, a forward-looking indicator, failed to improve for the second straight month, suggesting a continued lack of momentum for business equipment investment heading into the final quarter of the year. Lastly, second quarter real GDP growth was unrevised in the third estimate.

- **Personal income** and disposable income, adjusted for inflation, both increased 0.4 percent in August, according to the Bureau of Economic Analysis. Real PCE rose 0.1 percent from July and 2.3 percent from a year ago. The PCE deflator was flat, while the core PCE index ticked up 0.1 percent.
- **Durable goods orders** edged up 0.2 percent in August, according to the Census Bureau. Shipments of durable goods ticked up 0.1 percent after falling 1.2 percent last month. Core capital goods shipments (nondefense excluding aircraft) rose 0.4 percent, while core orders fell 0.2 percent.
- **The Conference Board Consumer Confidence Index** decreased 9.1 points to 125.1 in September, driven by declines in both the expectations and present situation components, which fell 10.6 points and 7.0 points, respectively. **The University of Michigan Consumer Sentiment Index** rose 3.4 points to 93.2 in the final September reading, as both the current economic conditions and expectations components increased.
- **Gross domestic product**, adjusted for inflation, grew 2.0 percent annualized in Q2 2019, according to the third estimate from the Bureau of Economic Analysis. Government investment was revised upward amid downward revisions in personal consumption expenditures and business fixed investment.
- **Initial claims for unemployment insurance** rose 3,000 to 213,000 in the week ending September 21, according to the Department of Labor. The four-week moving average edged down 750 to 212,000.



Source: Bureau of Economic Analysis



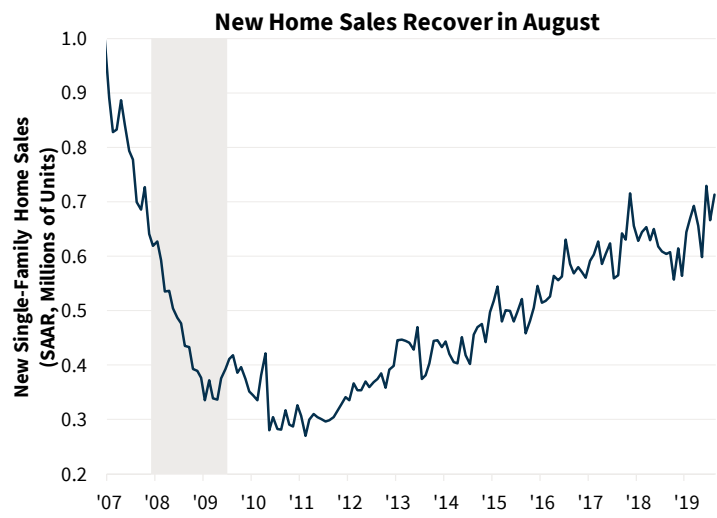
Source: Bureau of Economic Analysis



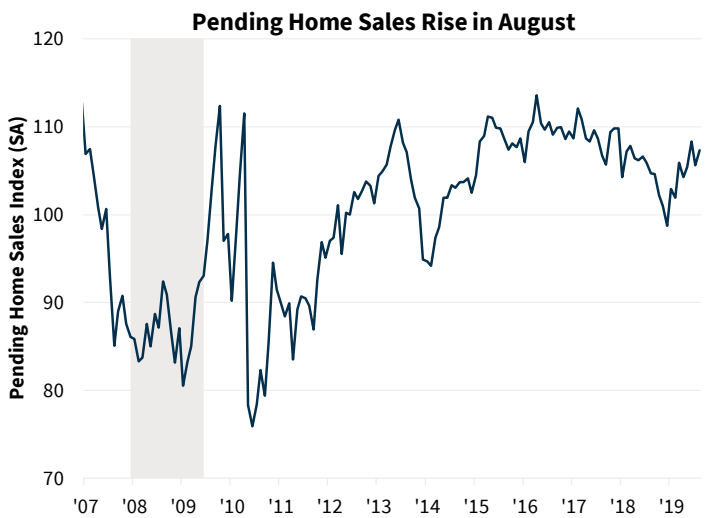
Housing: New Home Sales Jump

The increases in new single-family home sales and pending home sales continue to suggest a strong rebound in residential fixed investment in the third quarter. New single-family home sales recovered in August from a sharp drop in July and rose to the second highest annualized number of units for the year, while sales in July were revised upward. The strong pace of new home sales in August is an upside risk to our quarterly sales forecast, though the number of new homes for sale continues to drift downward as homebuilders sell off their previously accumulated inventories, suggesting upward momentum in sales could be limited. Pending home sales rose in August as well, implying an increase in existing home sales in the coming months, though low inventories and a decline in purchase applications still point to a potential pullback in September sales. Mortgage rates declined again this week, as the average rate on 30-year, fixed-rate mortgages fell 9 basis points to 3.64 percent, according to Freddie Mac, more than a full percentage point below year-ago levels. While lower mortgage rates help affordability, the shortage of inventory has bolstered home price growth. The FHFA Purchase-Only House Price Index showed that home price appreciation accelerated on an annual basis in July, while the S&P CoreLogic Case-Shiller National Home Price Index ended fifteen straight months of deceleration. Mortgage applications fell last week as both refinance and purchase applications declined. The drop in refinance applications was the largest since December 2016 but was likely a reversion to mean following spikes in early August; similarly, the decline in purchase applications followed three weeks of strong gains.

- **New single-family home sales** rose 7.1 percent in August to a seasonally adjusted annualized rate (SAAR) of 713,000, according to the Census Bureau. Sales in the prior three months were revised upward by a net total of 28,000. The months' supply fell four-tenths to 5.5 as the number of new homes for sale fell 1.2 percent to 326,000 units. The median sales price rose 2.2 percent year over year to \$328,400. Year to date, new single-family home sales in August were 6.1 percent higher than during the same period 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, increased 1.6 percent in August. From a year ago, pending sales rose 2.5 percent. Sales rose in all four Census regions.
- **S&P CoreLogic Case-Shiller National Home Price Index** (not seasonally adjusted) rose 0.4 percent in July. From a year ago, the index rose 3.2 percent, unchanged from June. **The FHFA Purchase-Only House Price Index**, reported on a seasonally adjusted basis, rose 0.4 percent in July and 5.0 percent from a year ago.
- **Mortgage applications** slumped 10.1 percent in the week ending September 20, according to the Mortgage Bankers Association. Refinance and purchase applications fell by 15.2 percent and 3.1 percent, respectively.



Source: Census Bureau



Source: National Association of REALTORS®

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Economic and Strategic Research Group
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