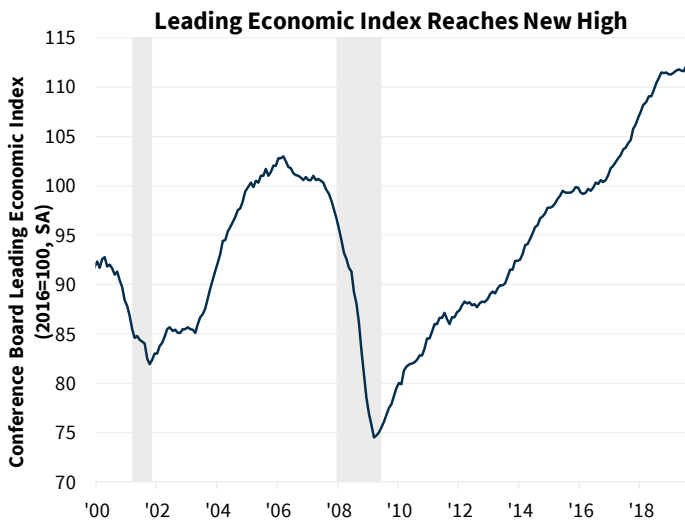


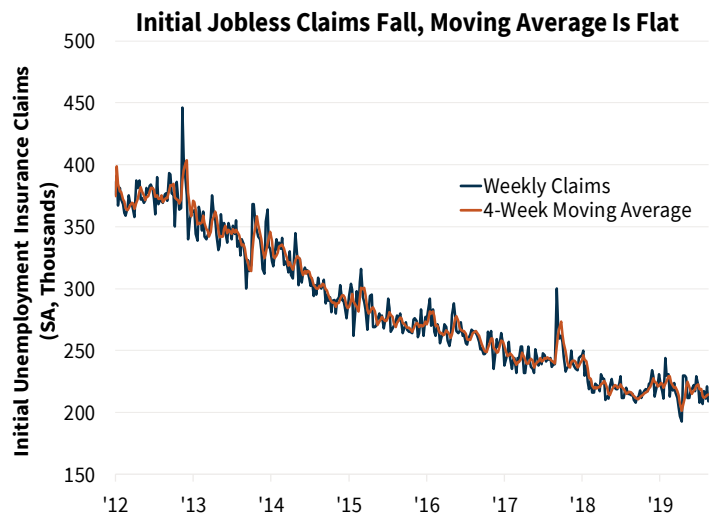
Economics: Fed Minutes Minutiae Support Further Cuts

The focus of this week’s economic news was the release of the [minutes](#) from the July 30-31 meeting of the Federal Open Market Committee (FOMC) meeting, at which the members voted to cut the federal funds rate by 25 basis points for the first time since 2008. We regard the minutes as supporting our current expectation that the Fed will implement two more 25 basis-point cuts, in September and December. While highlighting members’ diverging views, the minutes offered three “broad categories of reasons” for the July rate cut: (1) to “better position the overall stance of policy” to counter trade tensions and a slowdown in global growth, along with softness in business investment and manufacturing; (2) to insure against further downside risks; and (3) to boost inflation more rapidly toward the Fed’s symmetric two percent target. While not included in the official reasoning, FOMC participants also mentioned that low borrowing rates and high stock prices “appeared to be premised importantly on expectations that the Federal Reserve would ease policy to help offset the drag on economic growth,” an indication that the committee is factoring in investor reactions to its policy decisions. In the weeks since the meeting, while the views of FOMC hawks received support from continued strength in retail sales and an increase in nonfarm business productivity, the concerns of FOMC doves—explicit and implicit—were confirmed by an escalation of US-China trade tensions, once again increasing the downside risks to economic activity, and by a brief inversion of the 10-year/2-year Treasury yields that led to the largest single-day equities drop in 2019. Non-FOMC releases this week were slightly on the positive side but, like the FOMC minutes, did not cause us to rethink our forecast. The Conference Board Leading Economic Index increased in July by the largest amount since last September, more than offsetting back-to-back drops in May and June and suggesting a slightly rosier picture for the remainder of the year. Initial unemployment claims fell for the week, but the 4-week moving average rose ever so slightly and has increased modestly every week of August, consistent with our expectation of a gradual weakening of labor market conditions.

- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, rose 0.5 percent in July, though the June reading was revised downward from a 0.3 percent gain to a 0.1 percent drop. The main drivers of the increase were housing permits, unemployment insurance claims, and stock prices.
- **Initial claims for unemployment insurance** fell by 12,000 to 209,000 in the week ending August 17, according to the Department of Labor. The four-week moving average edged up by 500 to 214,500.



Source: Conference Board



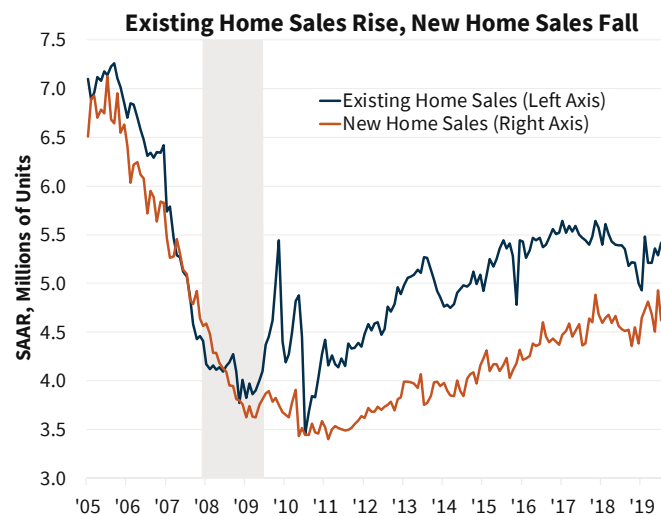
Source: Department of Labor



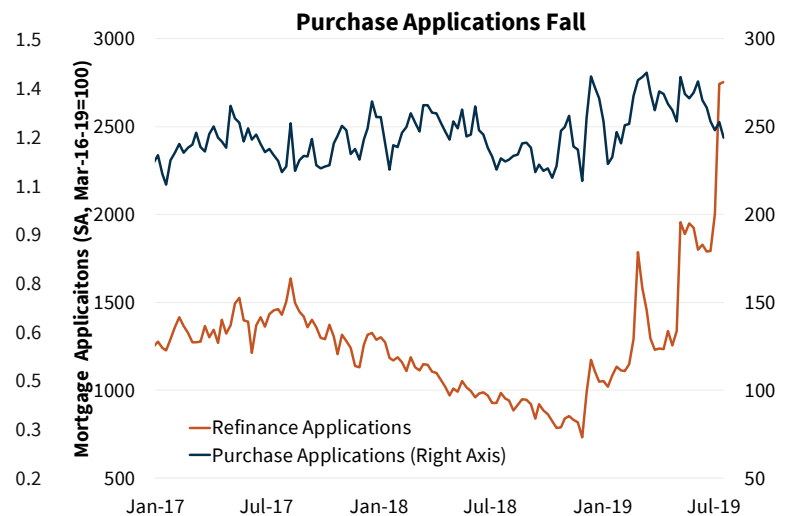
Housing: Existing Home Sales Rise, New Home Sales Fall

Housing news this week was entirely focused on home sales. New single-family home sales fell in July, posting the largest monthly decline in six years; however, part of this sharp decrease was due to a significant 82,000 upward revision to the prior month's sales, bringing June's seasonally adjusted annual number to 728,000, the highest level since July 2007. Therefore, we believe the decline in July to be more mean reversion than driven by fundamental changes in the market. Given June's newly revised number, we may need to adjust downward our expectations for new home sales for the remainder of the year, since inventories now appear to be lower than we anticipated. While new home sales saw a correction in July, existing home sales rose, increasing on an annual basis for the first time in 17 months. Existing home sales increased in August, matching our forecast for the third quarter, but should be relatively flat in the coming months as inventories of existing homes for sale remain extremely slim. Low mortgage rates and decelerating home price appreciation are tempting buyers back into the market, though affordable supply constraints continue to dampen transaction activity regardless of developments in affordability. The average rate on 30-year, fixed-rate mortgages fell 5 basis points this week to 3.55 percent, according to Freddie Mac, pushing mortgage rates almost a full percentage point below year-ago levels and to the lowest level since the beginning of November 2016. While lower mortgage rates helped push refinance applications to the highest level in more than three years last week, purchase applications have been trending down since June. This pull-back in purchase applications could be attributed to limited supply or increased homebuyer uncertainty stemming from macroeconomic factors that have led prospective buyers to favor a "wait-and-see" approach.

- **New single-family home sales** fell 12.8 percent in July to a seasonally adjusted annualized rate (SAAR) of 635,000, according to the Census Bureau. The months' supply rose nine-tenths to 6.4, while the number of new single-family homes for sale rose 1.2 percent to 337,000. The median sales price of new houses sold was down 4.5 percent year over year to \$312,800, not seasonally adjusted. Year to date, new single-family home sales are 4.0 percent higher than during the same period the prior year.
- **Existing home sales** rose 2.5 percent in July to 5.42 million (SAAR), according to the National Association of REALTORS®. Sales rose in every region except the Northeast. The months' supply for total existing home sales fell two-tenths to 4.2 months. The median existing home price increased 4.3 percent from a year ago to \$280,800, not seasonally adjusted. On an annual basis, the total number of existing homes for sale fell 1.6 percent, the second straight decline after nearly a year of increases to for-sale inventories. Year-to-date existing home sales are 2.9 percent lower than over the same period from a year ago.
- **Mortgage applications** fell 0.9 percent in the week ending August 16, according to the Mortgage Bankers Association. Refinance applications rose 0.4 percent, while purchase applications decreased by 3.5 percent.



Source: Census Bureau, National Association of REALTORS®



Source: Mortgage Bankers Association

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