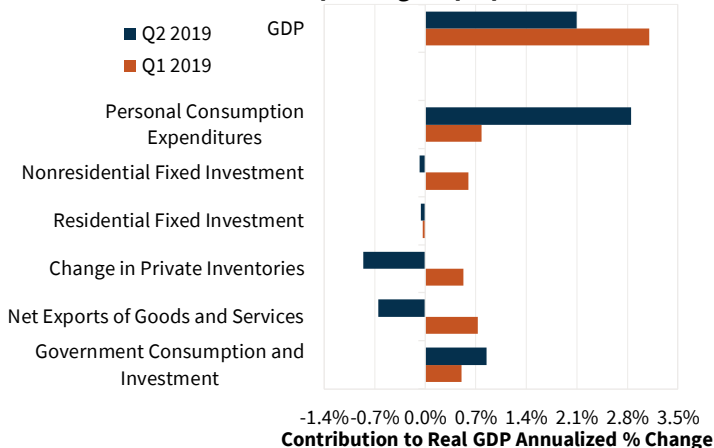


Economics: Consumer Spending Surges, Investment Sags

All eyes this week were on the release of the advance estimate of gross domestic product (GDP) for the second quarter of 2019. GDP in the second quarter slowed from the strong growth seen in Q1, though Q2's number was noticeably stronger than we had expected. The biggest surprise from this release was the explosive growth of personal consumption expenditures (PCE), which posted both its strongest quarter of annualized growth and its largest contribution to GDP since Q4 2017, driven by large increases in spending on durable goods and services. Moreover, the personal saving rate was revised up to 8.5 percent from 6.7 percent in the first quarter and remained strong at 8.1 percent in the second quarter; such a high saving rate suggests that we should expect robust consumer spending to persist through the rest of the year. Another surprisingly strong positive component was government spending, which posted its largest contribution to growth since Q2 2009. Whereas Q1 government spending was concentrated at the state level, during Q2 state-level spending remained essentially unchanged at 3.2 percent but federal spending jumped by 7.9 percent. The largest negative contributions to growth in Q2 were business inventories and net exports: business inventories fell in Q2, ending three consecutive quarters of positive contributions to growth, and net exports subtracted from growth as gross exports fell by 5.2 percent while imports rose 0.1 percent. Nonresidential fixed investment also dragged on growth in Q2, a reversal from Q1, driven by a 10.5 percent decrease in spending on structures and a slower pace of investment on intellectual property. Residential fixed investment subtracted from growth for the sixth consecutive quarter, contrary to our expectation of a slight increase. Despite the strong showing from consumers in the second quarter, we maintain our expectation that the Fed will cut rates by 25 basis points at its July meeting, especially given the weakness shown in fixed investment and persistently muted inflation: On a year-ago basis the PCE deflator was unchanged in Q2 at 1.4 percent, well below the Fed's two-percent symmetric target. In other news, durable goods orders rose sharply in June, posting the largest gain in ten months. Shipments of durable goods rose by the largest gain since November 2017. Core capital goods orders (nondefense excluding aircraft), a forward-looking indicator for business equipment spending, increased the most in four months, though for the second quarter core capital goods orders only rose 0.1 percent. Finally, initial claims for unemployment insurance fell last week, highlighting the continued robustness of the labor market.

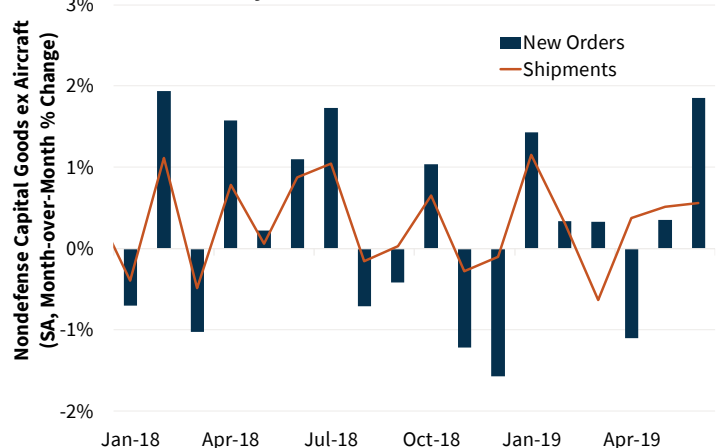
- **Gross domestic product**, adjusted for inflation, increased 2.1 percent annualized in Q2 2019, decelerating from 3.1 percent in the first quarter, according to the advance estimate from the Bureau of Economic Analysis. Real consumer spending jumped 4.3 percent, contributing 2.9 percentage points to growth. Government spending surged 5.0 percent, contributing 0.9 percentage points to growth. Nonresidential and residential fixed investment fell 0.6 percent and 1.6 percent, respectively. Both inventories and net exports dragged on growth, subtracting 0.9 and 0.7 percentage points, respectively.
- **Durable goods orders** rose 2.0 percent in June, according to the Census Bureau. Durable goods shipments increased 1.4 percent, while durable goods inventories edged up 0.3 percent. Core capital goods orders rose 1.9 percent, and core shipments increased 0.6 percent. The May decline in durable goods orders was revised a full percentage point further downward to a 2.3 percent decline. May core capital goods orders were revised downward a tenth to a 0.3 percent increase, while May core capital goods shipments were revised downward two-tenths to a 0.5 percent increase.
- **Initial claims for unemployment insurance** fell by 10,000 to 206,000 in the week ending with July 20, according to the Department of Labor. The four-week moving average dropped by 5,750 to 213,000.

Personal Consumption Expenditures and Government Spending Prop Up GDP Growth



Source: Bureau of Economic Analysis

Core Capital Goods Orders Jump, May Orders Revised Downward



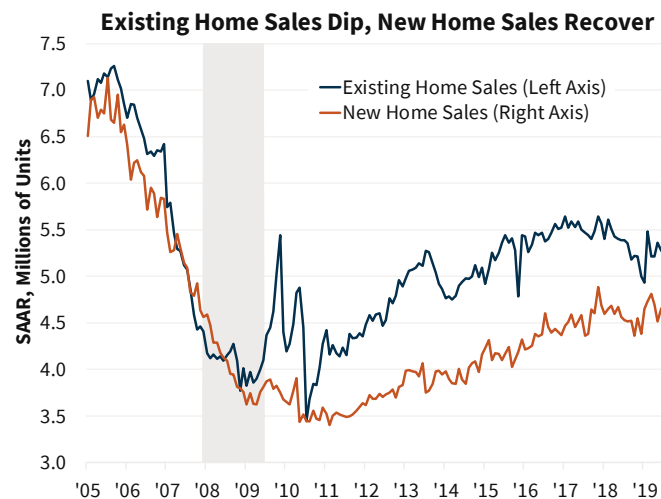
Source: Census Bureau



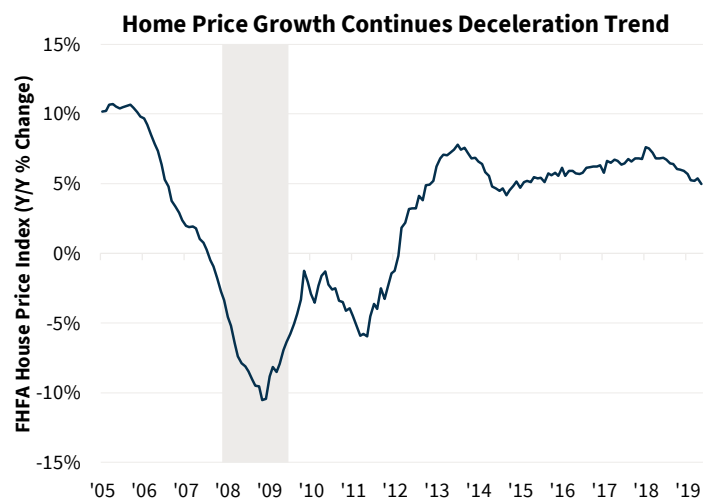
Housing: Home Sales Mixed Despite Low Mortgage Rates

In a busy week for housing news, sales of new single-family homes rose, existing home sales fell, a measure of home price growth decelerated, homeownership dipped, and mortgage applications declined. Single-family new home sales jumped in June by 42,000 units, the largest number since January, driven by a sharp increase in the West. Despite this surge, sales from March to May were revised downward by a combined total of 51,000 units, causing the quarterly average for Q2 to fall for the fifth time in six quarters. Existing home sales fell in June and declined on an annual basis for the sixth straight quarter. The number of homes for sale rose slightly in June but months' inventory fell. The average rate on 30-year, fixed-rate mortgages fell 6 basis points this week to 3.75 percent, according to Freddie Mac, offsetting the uptick from last week and leaving mortgage rates at the lowest level since November 2016. For the month of July, mortgage rates averaged 3.77 percent, slowing for the eighth straight month. In another plus for affordability, an index of home price appreciation decelerated in May to the slowest pace of growth since October 2012, reversing the rise seen in April. The quarterly median sales price rose to the highest ever in June, reinforcing concerns about affordability, but 35 percent of sales went to first-time buyers, suggesting that those currently on the fence are taking advantage of low mortgage rates while they can. Despite these encouraging signs, the homeownership rate fell one-tenth in the second quarter while also declining from a year ago, the first annual decrease in ten quarters. Finally, mortgage applications fell last week as supply constraints and economic uncertainty continue to limit the responsiveness of buyers to improvements in affordability.

- **New single-family home sales** jumped 7.0 percent in June to a seasonally adjusted annualized rate (SAAR) of 646,000, according to the Census Bureau. The months' supply in June fell four-tenths to 6.3 months, while the number of new homes for sale rose 0.6 percent to 338,000. The median sales price of new houses sold in June was \$310,400, not seasonally adjusted. From a year ago, new single-family home sales rose 1.8 percent (not seasonally adjusted). New home sales for Q2 2019 fell 4.9 percent to 636,000.
- **Existing home sales** fell 1.7 percent in June to 5.27 million units (SAAR) according to the National Association of REALTORS®. The months' supply for total existing home sales rose a tenth to 4.4 months. On a quarterly basis, total existing home sales rose 1.4 percent in Q2 2019 to 5.28 million (SAAR). From a year ago, sales in Q2 were down 2.3 percent. The median sales price for Q2 2019 rose 9.7 percent to \$279,633.
- **The Housing Vacancy Survey (HVS)** for Q2 2019 (not seasonally adjusted) showed that the homeownership rate fell one-tenth to 64.1 percent, according to the Census Bureau. The homeownership rate also fell two-tenths from a year ago. The homeowner vacancy rate fell two-tenths from the year prior to 1.3 percent, the lowest rate since 1981, while the rental vacancy rate was unchanged from a year earlier at 6.8 percent.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally adjusted basis, rose 0.1 percent in May. From a year ago, the index rose 5.0 percent.
- **Mortgage applications** fell 1.9 percent in the week ending with July 19, according to the Mortgage Bankers Association. Refinance applications and purchase applications fell 2.1 percent and 1.6 percent, respectively.



Source: Census Bureau, National Association of REALTORS®



Source: Federal Housing Finance Agency

Ricky Goyette
Economic and Strategic Research Group
July 26, 2019



Opinions, analyses, estimates, forecasts and other views of Fannie Mae's Economic and Strategic Research (ESR) Group included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the ESR group bases its opinions, analyses, estimates, forecasts and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts and other views published by the ESR group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.