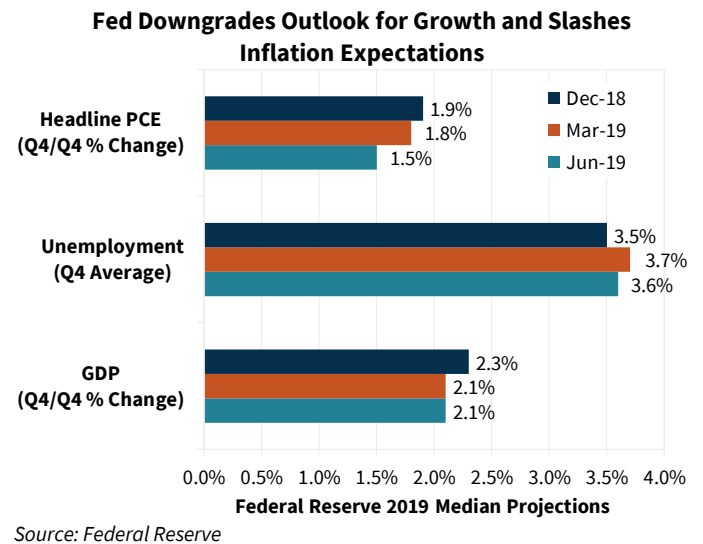
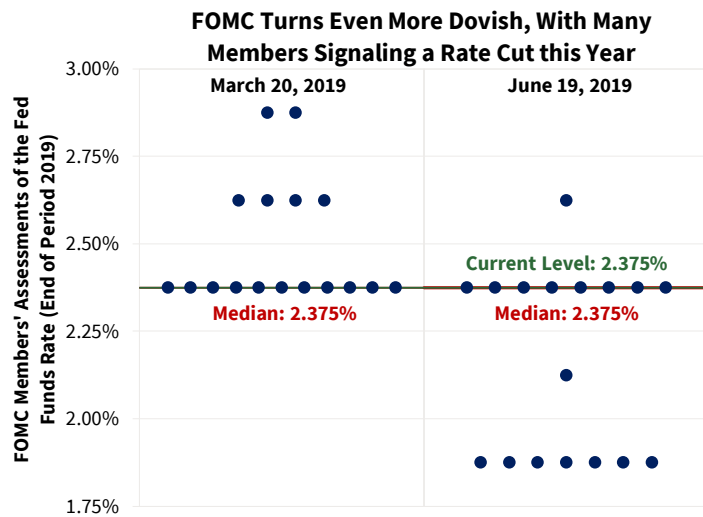


Economics: The Fed Loses Its “Patience”

All eyes were on the Federal Open Market Committee (FOMC) meeting this week to see if the Fed would shift to align more closely to a market that is now predicting a near certainty of at least one rate cut by the end of 2019. In its [statement](#) released Wednesday the FOMC announced its decision to maintain the current federal funds target rate of 2.25 to 2.50 percent, while promising to “act as appropriate to sustain the expansion,” a shift away from remaining “patient.” The statement noted increased uncertainties around the FOMC’s economic outlook, with Chairman Powell citing muted inflation, weak manufacturing production, and “cross-currents, including trade developments and global growth” during his press conference. When asked whether a trade deal with China would take a rate cut off the table, Powell reiterated that the FOMC is focused on a broad range of issues and expects to react to “developments and trends that are sustained” rather than to “datapoints or just to changes in sentiment.” Perhaps the most significant shift in tone was the downgrading of the FOMC’s 2019 inflation projections, with the headline index for personal consumption expenditures being reduced from 1.8 percent in March to 1.5 percent. Until now, the Fed has maintained that weakness in inflation was attributable to “transitory” factors, but this meeting’s economic outlooks show that the Fed no longer expects inflation to reach what the statement noted is a “symmetric” two percent target until 2021, a noticeable change in the Fed’s messaging. The sentiment of the board has shifted sharply in the direction of a rate cut from the March meeting, highlighted by St. Louis Fed President James Bullard’s vote in favor of an immediate reduction, the first dissent during Powell’s tenure as Chairman. Additionally, eight of the seventeen participants expect to see a lower federal funds rate by the end of 2019; seven of those members expect the rate at the end of the year to be 50 basis points lower than the current rate. The dovish shift in the FOMC statement and dot plot supports our expectation of a 25 basis point cut in September, in conjunction with the end of the Fed’s balance sheet runoff. In other news, a forward-looking index showed no change in the economic outlook in May, ending three months of consecutive increases. Finally, initial unemployment claims fell last week, the first decline in a month.

- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, was unchanged in May, as increases in the indices for financial conditions and consumer outlook offset decreases in the stock price index and manufacturing index.
- **Initial claims for unemployment insurance** fell by 6,000 to 216,000 in the week ending with June 15, according to the Department of Labor. The four-week moving average rose by 1,000 to 218,750.

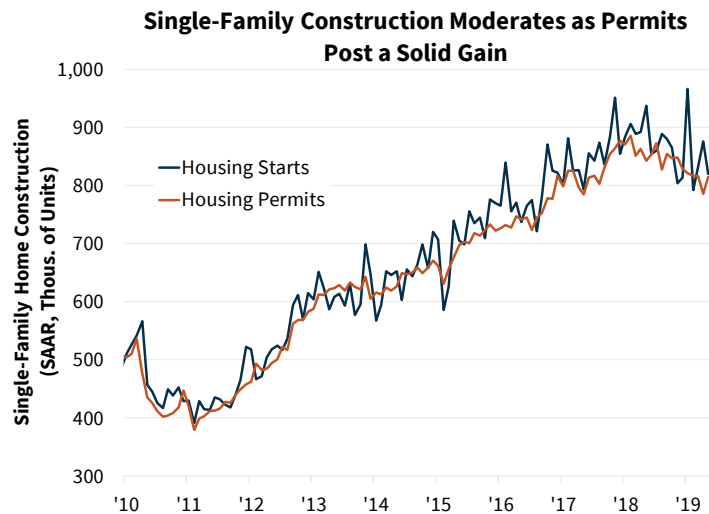




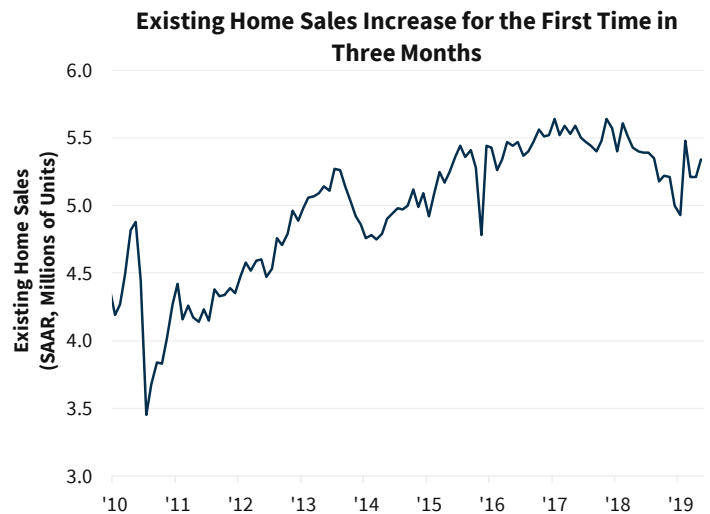
Housing: Home Building Softens, While Sales Tick Up

Housing news this week was mixed, with bearish housing starts but bullish existing home sales. New home construction softened slightly in May after posting two solid months of gains. While multifamily starts spiked to the highest annualized level since the start of 2018, single-family starts declined, fully reversing April's gain. Offsetting some of the bleak news was the largest gain in single-family permits in nearly two years and the first increase since last November. A measure of home builders' confidence fell slightly in June, but sentiment has remained largely stable this year, moving within the solid range of 62 to 66 for the past five months. According to the National Association of Home Builders' press release, while strong demand remains, "builders continue to report rising development and construction costs, with some additional concerns over trade issues." The Freddie Mac average 30-year, fixed mortgage rate edged up 2 basis points this week to 3.84 percent but was more than 70 basis points below its year-ago level. Existing home sales, which continue to account for nearly 90 percent of total home sales, increased in May for the first time in three months with gains in every region. Both single-family and condo/coop sales contributed to the rise, with the latter rising to the highest level since last October. On a year-over-year basis, sales have fallen every month since February 2018, and on a year-to-date basis, sales were 4.3 percent below sales during the same period a year ago. The number of existing homes for sale increased for the tenth straight month and the months' supply was 4.3 months, the highest May reading in three years though still at a historically depressed level. While the median sales price of existing homes has increased every month for more than seven years, the National Association of REALTORS® noted that "consumers are eager to take advantage of favorable [housing] conditions," including falling rates. Finally, after spiking the prior week, mortgage demand softened last week as both purchase and refinance applications declined.

- **Housing starts** edged down 0.9 percent to 1.27 million annualized units in May, according to the Census Bureau. A 6.4 percent decline to 820,000 single-family starts outweighed a 10.9 percent increase to 449,000 multifamily starts. However, single-family permits spiked 3.7 percent, while multifamily permits fell 5.0 percent. On an annual basis, total housing starts fell 4.0 percent and total permits were down 2.3 percent.
- **Existing home sales** rose 2.5 percent in May to a seasonally-adjusted annualized rate (SAAR) of 5.34 million units, according to the National Association of REALTORS®. Both the single-family and condo/coop sectors boosted sales as they increased 2.6 percent to 4.75 million units and 1.7 percent to 590,000 units, respectively. From a year ago, total existing home sales declined 1.1 percent. The number of homes for sale (not seasonally adjusted) rose 2.7 percent year-over-year, and the months' supply rose a tenth from May 2017 to 4.3 months. The median sales price rose 4.6 percent on an annual basis.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** fell 2 points to 64 in June. A reading above 50 indicates that more builders view the single-family market as "good" rather than "poor." Both the present sales and sales in the next six months components declined, falling by 1 point to 71 and 2 points to 70, respectively. The traffic of prospective buyers component declined by 1 point to 48.
- **Mortgage applications** fell 3.4 percent for the week ending June 14, according to the Mortgage Bankers Association. Both refinance applications and purchase applications declined by 3.5 percent.



Source: Census Bureau



Source: National Association of REALTORS®

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