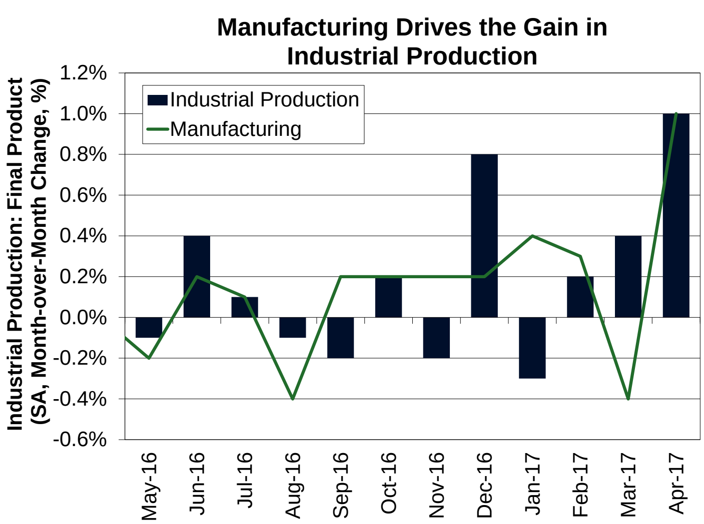
Weekly Note – May 19, 2017

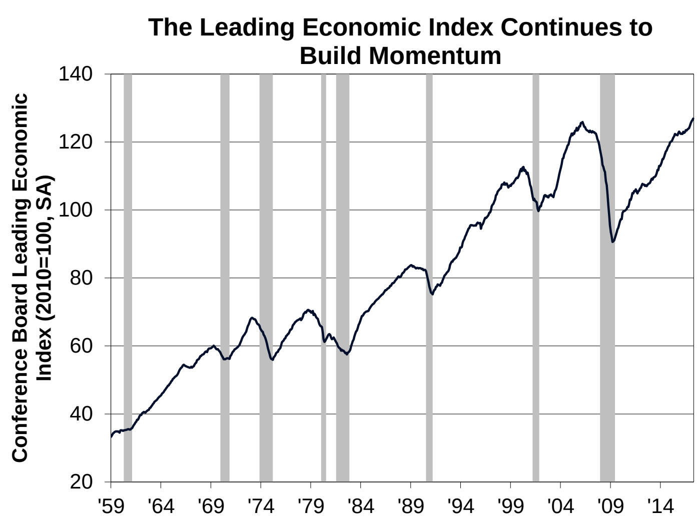
Economics: Growth Poised to Pick Up as Expected

This week's light economic calendar offered upbeat messages for the manufacturing, utility, and mining sectors, as well as for the labor market. Industrial production posted the strongest increase in April in more than three years. Output in all three components rose during the month, the first time that has happened since September 2013. Manufacturing output increased the most since February 2014, sending production to a fresh expansion high, albeit a level that is still about six percent below the pre-recession peak. Mining output continued its increasing trend, rising for the third time in four months. Meanwhile, utility output edged up following a weather-related record increase in the prior month. The industrial production report supports our view that nonresidential investment will contribute to economic growth for the second consecutive quarter. Separately, initial jobless claims, which declined for the third straight week, painted a positive picture of the labor market. Lastly, the Conference Board Leading Economic Index rose in April for the eighth consecutive month. In the six-month period ending in April, the index increased 4.9 percent annualized, more than triple the growth during the prior six months. Overall, this week's economic news is consistent with our call for an acceleration in economic growth to 2.9 percent annualized in the current quarter.

- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, rose 1.0 percent in April, according to the Federal Reserve Board. Manufacturing output, which accounts for about three-quarters of total industrial production, rose 1.0 percent, led by a 5.0 percent surge in motor vehicles and parts. Outside of autos, manufacturing output also posted a solid rise of 0.7 percent. Mining output rose 1.2 percent for the month and has rebounded by 6.2 percent since December, but it remains 11.2 percent below its 2014 year-end peak. Utility output was up 0.7 percent, which followed a rebound of 8.2 percent in March from steep declines during the unseasonably warm January and February.
- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, increased 0.3 percent in April. Eight of the ten components added to the index, and two subtracted. The interest rate spread and average weekly initial claims for unemployment insurance were the two largest positive contributors, while building permits and stock prices were the only two detractors.
- **Initial claims for unemployment insurance** fell 4,000 to 232,000 in the week ending May 13, according to the Department of Labor. The four-week moving average decreased 2,750 to 240,750.



Source: The Federal Reserve Board

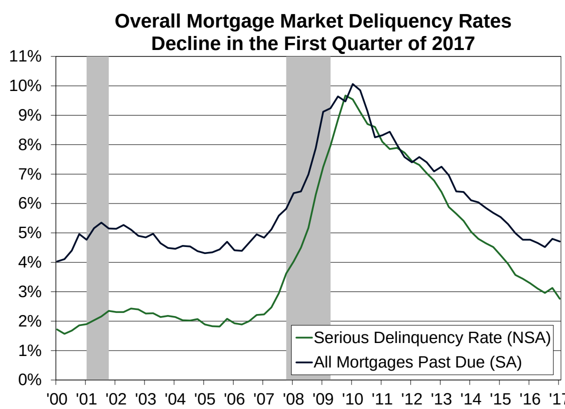


Source: The Conference Board

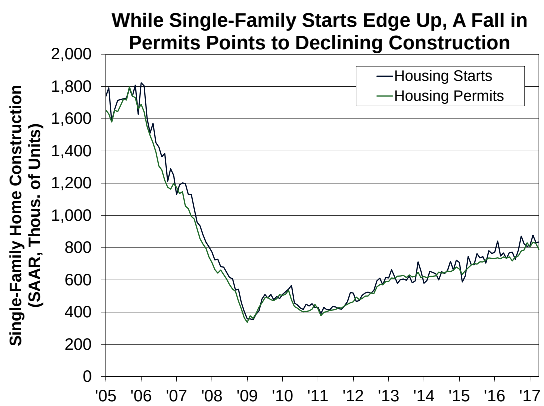
Housing: Mortgage Performance Improves; Starts Fall

Housing data released this week showed continued improvement in mortgage performance and a slip in home construction. The Mortgage Bankers Association reported that the overall mortgage market delinquency rate resumed its declining trend in the first quarter this year after rising for the first time in almost four years in the fourth quarter of 2016. The overall mortgage market delinquency rate remains about 20 basis points above the decade-low hit in the third quarter of 2016. The overall mortgage market serious delinquency rate also fell during the first quarter, reaching the lowest level in nearly a decade. The overall mortgage market foreclosure starts rate, which is closely linked to labor market conditions, increased for the first time since Q4 2014, rising from a 28-year low in the prior quarter. In contrast to the positive news from the mortgage market, home construction stumbled in April as total housing starts dropped to the lowest level since last November. The fourth consecutive decline in multifamily starts drove the decline, yet the second consecutive monthly rise in multifamily permits suggested there may be a near-term improvement for starts. Single-family starts edged up during the month, but permits fell for the third time this year to reach the lowest level in five months. Single-family starts have outpaced permits for the past four months, suggesting building could slow in the near-term. However, home builders remain upbeat about the sector, as the National Association of Home Builders Housing Market Index improved in May to just one point below the expansion best reached in March. In addition, expectations for sales over the next six months rose, approaching a 12-year high. Mortgage demand dropped last week, as refinance applications posted the largest weekly decline so far this year and purchase applications also fell from the prior week's 11-month high. The average 30-year fixed mortgage rate edged down three basis points this week to 4.02 percent, marking the fourth consecutive week mortgage rates have hovered just above four percent, according to Freddie Mac.

- **The Mortgage Bankers Association National Delinquency Survey** for Q1 2017 showed that the overall mortgage market delinquency rate for mortgage loans on one-to-four unit residential properties fell nine basis points to a seasonally-adjusted rate of 4.71 percent of all loans outstanding. The percentage of loans on which foreclosure actions were started ticked up three basis points to 0.30 percent. The survey showed the overall mortgage market serious delinquency rate (the percentage of loans that are 90 days or more past due or in the process of foreclosure, not seasonally-adjusted) fell 37 basis points to 2.76 percent, 53 basis points below the level in Q1 2016.
- **Housing starts** fell 2.6 percent to 1.17 million annualized units in April, according to the Census Bureau. Multifamily starts fell 9.2 percent to 337,000 units, as single-family starts edged up 0.4 percent to 835,000 units. Through the first four months of the year, single-family starts are 7.0 percent higher than the same period a year ago, while multifamily starts are up 1.9 percent. New residential permits dropped 2.5 percent to 1.23 million annualized units. A 4.5 percent drop in single-family permits to 789,000 units outweighed the 1.4 percent gain in multifamily permits to 440,000 units. On a year-to-date basis, single-family permits are up 9.0 percent, while multifamily permits are 1.6 percent higher.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** rose 2 points to 70 in May. A reading above 50 indicates more builders view the single-family housing market as "good" rather than "poor." The current sales and sales expectations components rose during the month, while foot traffic of prospective buyers fell.
- **Mortgage applications** slipped 4.1 percent for the week ending May 12, according to the Mortgage Bankers Association. Purchase applications fell 2.7 percent and refinance applications fell 5.7 percent. The survey's average 30-year fixed mortgage rate was unchanged at 4.23 percent.



Source: Mortgage Bankers Association



Source: Census Bureau

Frank Shaw and Orawin T. Velz
Economic and Strategic Research Group
May 19, 2017

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.