Fannie Mae

Economic and Strategic Research

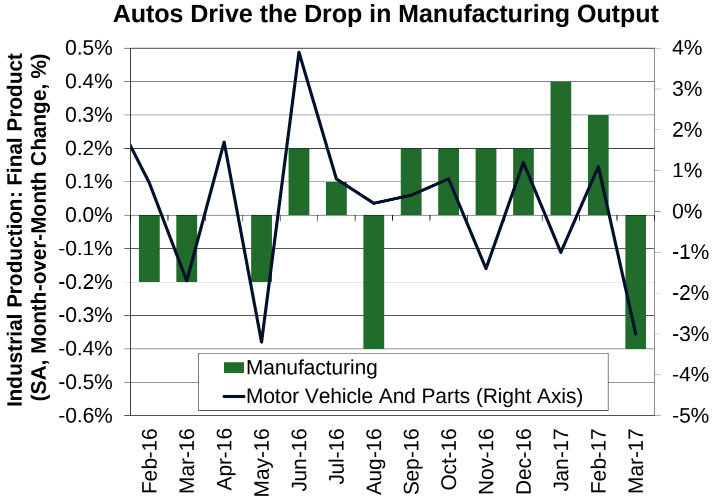
Weekly Note – April 21, 2017

Economics: Weather Boosts Headline Industrial Output

A light week for economic reports revealed the health of the production in the manufacturing, utility, and mining sectors. Overall industrial output rose 0.5 percent in March, due to a weather-induced boost in utility production. The shift from unseasonably warm weather in January and February to more normal weather in March led to a record monthly gain in utility output. The snap-back in demand for utilities offered some hope that, following back-to-back drops in the first two months of the year, consumer spending could rebound in March. Outside the utility sector, however, news was bearish. Manufacturing output fell for the first time in seven months, driven lower by the largest monthly drop in motor vehicle and parts production since last May. Given the third consecutive drop in auto sales in March and elevated auto inventories, the decline in auto production was to be expected. Meanwhile, mining output was little changed in March but posted an annual gain for the second consecutive month following nearly two years of declines, suggesting that oil and gas extraction has begun to recover from the plunge in energy prices that started in the second half of 2014. While news over the past month has pointed to subdued economic growth last quarter, this week's Conference Board Leading Economic Index bodes well for the near-term outlook as it continued its uptrend in March. The six-month annualized growth rate in the index accelerated to 4.9 percent, more than double the pace of increase during the previous six months.

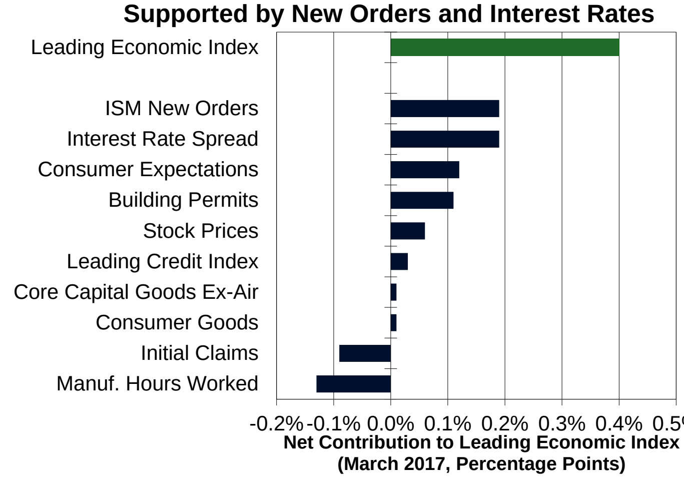
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, rose 0.5 percent in March, according to the Federal Reserve Board. Utility output surged 8.6 percent (not annualized), the largest monthly gain since the series started in 1939. The record increase in utility output was from a February level that was the lowest in over a decade, reflecting weak utility demand amid the second warmest February on record. Mining output edged up 0.1 percent from February and 3.5 percent from a year ago, the biggest annual increase since February 2015 and an encouraging departure from a string of annual declines between April 2015 and January 2017. Manufacturing output fell 0.4 percent, driven by a 3.0 percent decline in motor vehicle and parts production. Unfortunately, manufacturing output was also weak outside the auto sector, with non-auto manufacturing output declining 0.2 percent. Adding to March's downbeat manufacturing news, increases for both January and February manufacturing output were revised lower by two-tenths to 0.4 percent and 0.3 percent, respectively. Still, for the first quarter as a whole, manufacturing output increased 2.7 percent annualized, the strongest pace since Q2 2014.
- **The Conference Board Leading Economic Index (LEI),** a gauge of the economic outlook over the next three to six months, rose 0.4 percent in March, the smallest increase since last November. The improvement was broad-based, led by the interest rate spread—the gap between the yield on 10-year Treasury notes and the federal funds rate—and the Institute for Supply Management (ISM) new orders index. Initial jobless claims and the length of the manufacturing work week were the only two components dragging on the LEI.
- **Initial claims for unemployment insurance** rose 10,000 to 244,000 in the week ending April 15, according to the Department of Labor. Initial claims are less reliable this time of year because of shifts in the timing of the Easter holiday. The four-week moving average fell 4,250 to 243,000.

Autos Drive the Drop in Manufacturing Output



Source: Federal Reserve Board

Leading Economic Index Improves Again, Supported by New Orders and Interest Rates



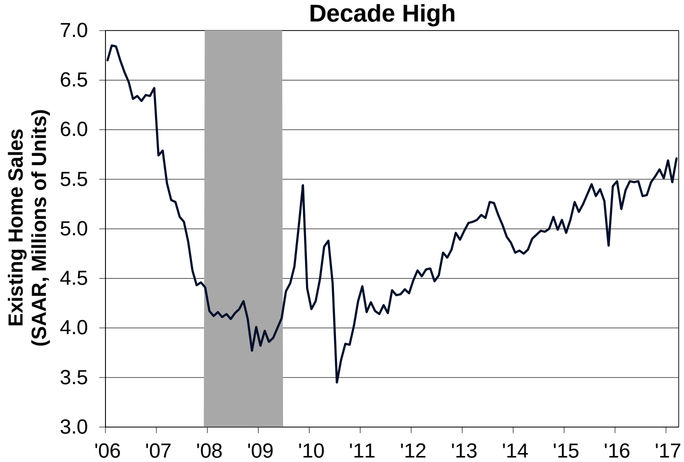
Source: The Conference Board

Housing: A Step Forward for Sales, a Step Back for Starts

Housing data released this week were predictable. Existing home sales rebounded in March, as expected after the February jump in pending home sales—a leading indicator that measures contract signings as compared to closings. Existing sales climbed to a decade high, as sales improved for all regions except the West. Inventory of existing homes remains a concern for the market, as the number of homes for sale declined year over year for the 22nd consecutive month. Home building took a step back during a stormy March, as single-family starts declined from an expansion high reached during the unusually warm February. Single-family permits also decreased slightly in March from an expansion best the prior month. Home builders remain optimistic, however, as the National Association of Home Builders' Housing Market Index remained tied for the second highest level of the expansion in April, after slipping from March's 11-year high. Multifamily building pulled bank in March for the second time in three months to reach a four-month low. The near-term outlook for the multifamily sector improved slightly, however, as permits rose during the month from February's 11-month low. Mortgage demand declined last week for the fourth time in the past five weeks. Purchase applications fell back from a 10-month high the prior week, ending a three-week stretch of gains. Refinance applications were little changed for the second consecutive week despite falling mortgage rates. The average 30-year fixed mortgage rate declined this week for the fifth consecutive week, dropping another 11 basis points to 3.97 percent, according to the survey by Freddie Mac. This week marks the first time mortgage rates dipped below 4.0 percent since the third week of November last year, despite the Federal Reserve raising the federal funds rate twice in that time period.

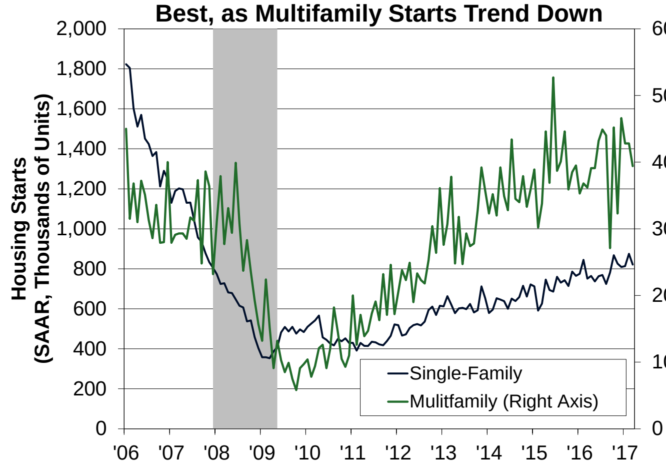
- **Existing home sales** rose 4.4 percent in March to a seasonally adjusted annualized rate of 5.71 million units, according to the National Association of REALTORS®. Through the first three months of the year, existing sales are 5.1 percent higher than the same period a year ago. Single-family sales increased 4.3 percent and condo/coop sales improved 5.0 percent. The number of homes for sale, which is not seasonally adjusted, declined 6.6 percent from a year ago. The months' supply was 3.8 months, six-tenths lower than March 2016. The median sales price, which is not adjusted for the composition of sales, rose 6.8 percent from a year ago.
- **Housing starts** fell 6.8 percent in March to 1.22 million annualized units, according to the Census Bureau. Single-family starts declined 6.2 percent, and multifamily starts slipped 7.9 percent. Through the first three months of the year, single-family starts are 6.0 percent higher than the same period a year ago, and multifamily starts are up 12.8 percent. New residential permits increased 3.6 percent to 1.26 million annualized units. Multifamily permits drove the gain, rising 13.8 percent, as single-family permits slipped 1.1 percent. On a year-to-date basis, single-family permits are up 13.2 percent and multifamily permits are 5.6 percent higher.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** slipped three points in April to 68. A reading above 50 indicates more builders view the single-family market as "good" rather than "poor".
- **Mortgage applications** decreased 1.8 percent for the week ending April 14, according to the Mortgage Bankers Association. Purchase applications drove the decline, falling 3.4 percent, as refinance applications edged up 0.2 percent. The survey's average 30-year fixed mortgage rate decreased six basis points to 4.22 percent.

Existing Home Sales Rebound to a Decade High



Source: National Association of REALTORS®

Single-Family Starts Fall From an Expansion Best, as Multifamily Starts Trend Down



Source: Census Bureau

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