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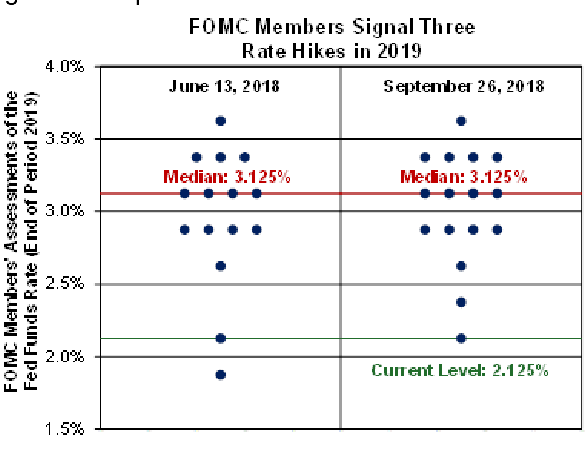
Economic and Strategic Research

Weekly Note – September 28, 2018

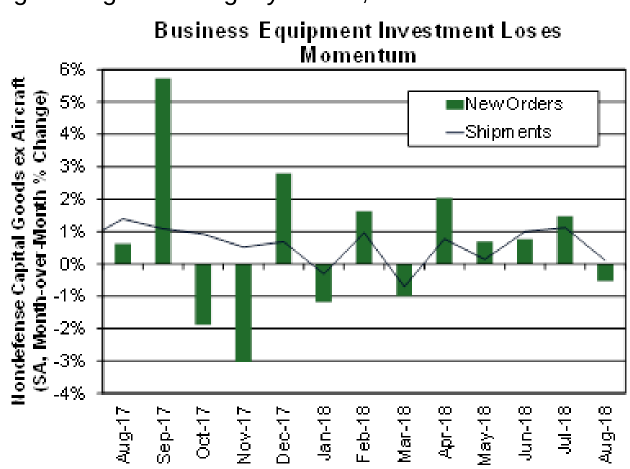
Economics: Fed Sees Firmer Economic Growth

The meeting of the Federal Open Market Committee (FOMC) took center stage this week as market participants sought insights into the path of future monetary policy from the post-meeting statement, FOMC members' updated economic projections, and Chair Powell's press briefing. As universally expected, the Fed raised the fed funds rate to a range of 2.00 percent to 2.25 percent. The statement contained one notable change—the removal of the phrase "the stance of monetary policy remains accommodative." Chair Powell noted that the removal should not be interpreted as a change in policy. Instead, it should be interpreted as a "sign that policy is proceeding in line with our expectations." The new projections showed a three-tenths upgrade to economic growth this year to 3.1 percent and a one-tenth upgrade to next year growth to 2.5 percent, compared with the June forecast. Core personal consumption expenditures (PCE) inflation projections were unchanged at 2.0 percent this year and 2.1 percent for the next three years. The dot plot, which shows the median forecast of the fed funds rate, implies no change from the June projection, with one more hike this year. For 2019, the median rate remains at 3.125 percent, implying three rate hikes. In other news, PCE posted the smallest monthly gain in August since February, but upward revisions to prior months put real spending growth on track for a pace slightly stronger than 3.0 percent annualized this quarter. The annual gain in the core PCE index remained at the Fed's two-percent target for the fourth consecutive month. Two measures of consumer confidence released this week were upbeat in September, with the Conference Board's measure at the highest level in 18 years. On the business front, despite a strong headline in the August durable goods report, details on core shipments and core orders suggested slowing momentum for business equipment investment. Real GDP growth was unrevised in the third estimate. Lastly, initial jobless claims rose last week, partly reflecting a jump in claims in the areas affected by Hurricane Florence.

- **Personal income and personal consumption expenditures (PCE)**, adjusted for inflation, both increased 0.2 percent in August, according to the Bureau of Economic Analysis. The PCE index ticked up 0.1 percent while the core PCE index (excluding food and energy) was flat. The annual increase in the PCE index moderated to 2.2 percent.
- **Durable goods orders** increased 4.5 percent in August, according to the Census Bureau. A surge in aircraft orders drove the gain. Excluding transportation, orders edged up 0.1 percent. Core shipments (nondefense excluding aircraft), which is an input used to estimate business investment in equipment, ticked up 0.1 percent, while core orders, a forward looking indicator, fell 0.5 percent. Durable inventories dropped 0.4 percent.
- **Gross domestic product (GDP)**, adjusted for inflation, grew 4.2 percent annualized in Q2 2018, according to the third estimate from the Bureau of Economic Analysis. Inventory investment was revised lower amid upward revisions in net exports and government spending.
- **The Conference Board Consumer Confidence Index** increased 3.7 points to 138.4 in September, the highest level since September 2000, driven by the expectations component, which jumped 6.0 points. The present situation component rose slightly.
- **The University of Michigan Consumer Sentiment Index** rose 3.9 points to 100.1 in the September final reading, as both the current economic conditions and expectations components increased solidly.
- **Initial claims for unemployment insurance** increased 12,000 to 214,000 in the week ending September 22, according to the Department of Labor. The four-week moving average rose slightly to 206,250.



Source: Federal Reserve

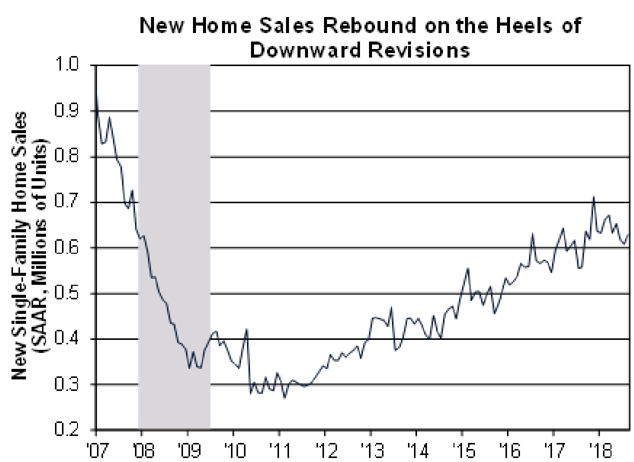


Source: Census Bureau

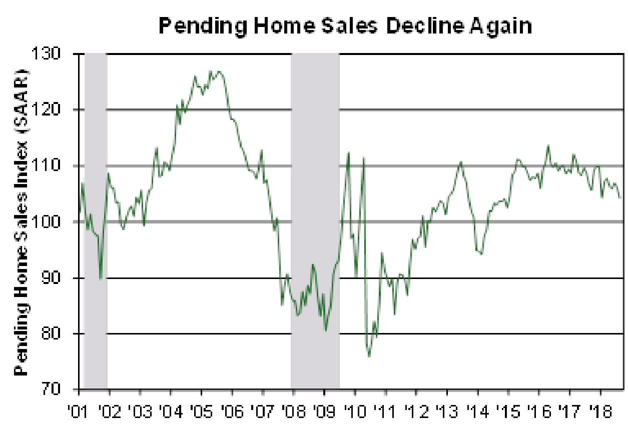
Housing: Mixed Picture for Contract Signings

This week offered a mixed near-term housing outlook. Pending home sales, which record contract signings of existing homes and typically lead closings by one to two months, slipped in August, marking the second straight drop and the fourth decline in five months. Pending home sales have posted year-over-year decreases every month so far this year. On a more positive note, new home sales, which register contract signings of new homes, rebounded in August after two straight drops; however, a sizable net downward revision for the prior months tempered the good news. Two measures of home prices released this week showed continued strong, but moderating, annual gains. Whereas slowing home price appreciation bodes well for home purchase affordability, continued rising mortgage rates will weigh on homebuying activity. However, it appears that recent increases in mortgage rates to a level unseen since 2011 have spurred more purchase and refinance demand, perhaps indicating that potential homebuyers and refinancers are attempting to lock in current rates before they move even higher. Purchase mortgage applications rose last week for the fourth consecutive week, while refinance applications were up sizably for the second straight week. According to Freddie Mac, the average yield on 30-year fixed-rate mortgages rose this week for the fifth consecutive week, increasing 7 basis points to 4.72 percent, the highest level since late-April, 2011. The rate averaged 4.63 percent in August, compared with 4.03 percent in January of this year.

- **New single-family home sales** rose 3.5 percent to a 629,000 seasonally adjusted annualized rate (SAAR) in August, according to the Census Bureau. Sales over the past three months were revised lower, on net, by 40,000 units. The for-sale inventory (seasonally adjusted) rose for the fifth consecutive month, increasing 1.6 percent. The months' supply in August edged down one-tenth from July to 6.1 months, but rose one-tenth from last August. Sales increased from the prior month by 47.8 percent in the Northeast, 9.1 percent in the West, and 2.7 percent in the Midwest, but fell 1.7 percent in the South. Through August, sales increased 7.2 percent from the same period last year. The median home price, which is unadjusted for the mix of sales, rose 1.9 percent from a year ago.
- **The National Association of REALTORS® Pending Home Sales Index** declined 1.8 percent to 104.3 in August. Pending home sales fell in every region: 5.9 percent in the West, 1.3 percent in the Northeast, 0.7 percent in the South, and 0.5 percent in the Midwest. From a year ago, the index fell 2.3 percent, as every region except the South experienced a year-over-year decline.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally adjusted basis, increased 0.2 percent in July. From a year ago, the index rose 6.4 percent, the smallest increase since January 2017, after holding at 6.8 percent for three straight months. **The S&P CoreLogic Case-Shiller National Home Price Index** (not seasonally adjusted) rose 0.4 percent in July. The annual gain moderated for the third consecutive month to 6.0 percent, the smallest increase since last September.
- **Mortgage applications** were up 2.9 percent for the week ending September 21, according to the Mortgage Bankers Association. Purchase applications increased 2.6 percent to the highest level since mid-July. Refinance applications rose 3.2 percent following a 3.7 percent rise in the prior week. The survey's average 30-year fixed mortgage rate jumped 9 basis points to 4.97 percent, the highest level since mid-April, 2011.



Source: Census Bureau



Source: The National Association of REALTORS®

Orawin T. Velz
Economic and Strategic Research Group
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