

Economics: Retail Sales Fall as Consumption Slows

Third quarter retail sales growth decelerated from a strong second quarter showing with retail sales falling in September for the first time since February, with sales at vehicle dealers, department stores, gas stations, and building supply stores all dragging on the headline number. Core retail sales were unchanged in September as sales at clothing stores posted the second strongest gain of the year, offsetting declines elsewhere. Despite the increase in August sales being revised upward from 0.4 percent to 0.6 percent, the report was consistent with our expectation of a moderation in consumer spending growth for the remainder of the year. The General Motors (GM) strike that began on September 16 has already surfaced in the data, with the motor vehicles and parts component of industrial production falling by the most since January. A proposed deal to end the strike provides some upside to the sector, though workers have announced they will remain out as union leaders consider and vote on the offer. Manufacturing and mining output both fell, erasing most of the gains seen last month. The utilities component was the only one to increase in September, thanks largely to record high temperatures over the month. Capacity utilization fell for the third straight quarter, posting the first consecutive declines since 2016. Despite the decrease in September industrial production, the quarterly average of the index rose in Q3 for the first time this year, suggesting that some of the headwinds faced by the manufacturing industry may be alleviating. Looking forward, the Leading Economic Index fell in September for the second month in a row, dragged down by what the Conference Board described as “weakness in the manufacturing sector and the interest rate spread,” both of which we expect to continue to weigh on growth.

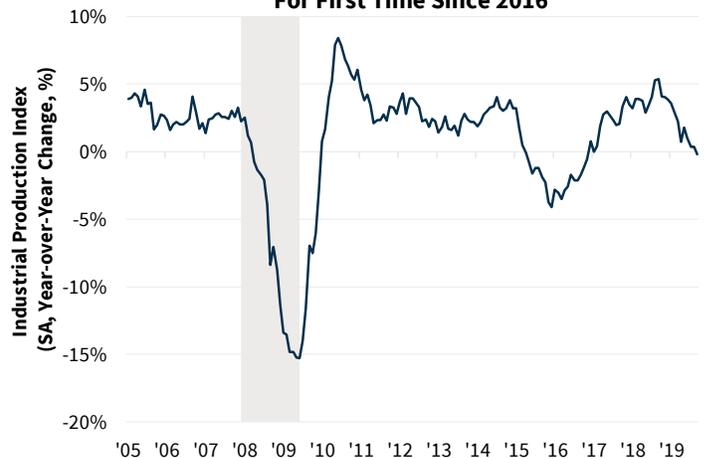
- Retail sales** fell 0.3 percent in September, according to the Census Bureau. Large declines were seen in sales at motor vehicle dealers (-0.9 percent), building supply stores (-1.0 percent), gasoline stations (-0.7 percent), and department stores (-1.4 percent). Core retail sales were unchanged from last month. From a year ago, September retail sales rose 4.1 percent, while core retail sales rose 4.8 percent. On a quarterly basis, retail sales rose 1.5 percent in the third quarter, while core sales rose 1.6 percent.
- Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, fell 0.4 percent in September, according to the Federal Reserve Board. The manufacturing and mining components fell 0.5 percent and 1.3 percent, respectively, while the utilities component rose 1.4 percent. Capacity utilization fell 0.4 percentage points to 77.5 percent. On a year-over-year basis industrial production fell 0.2 percent in September.
- The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, fell 0.1 percent in September. The August number was revised downward from being unchanged to a 0.2 percent decline. Some of the largest positive contributors were stock prices, initial unemployment claims, and new manufacturers’ core orders (nondefense, excluding aircraft), while the ISM New Orders Index, building permits, and consumer expectations for business conditions were large negative contributors.
- Initial claims for unemployment insurance** rose by 4,000 to 214,000 in the week ending with October 12, according to the Department of Labor. The four-week moving average rose by 1,000 to 214,750.

Retail Sales Fall For the First Time in Seven Months



Source: Census Bureau

Annual Industrial Production Falls For First Time Since 2016



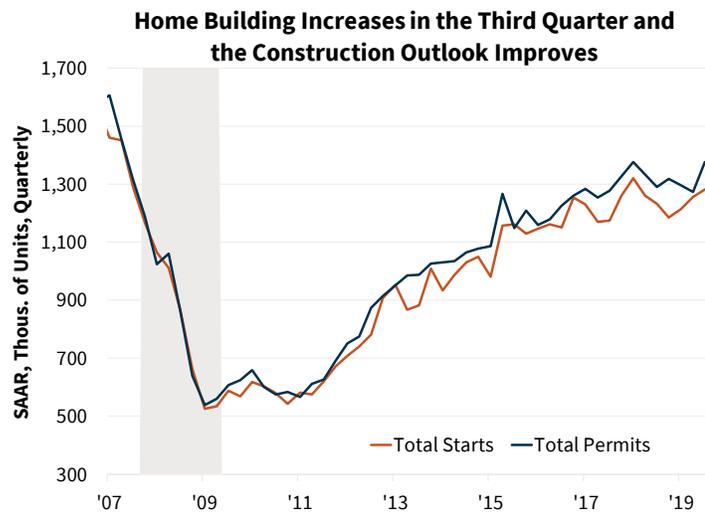
Source: Federal Reserve



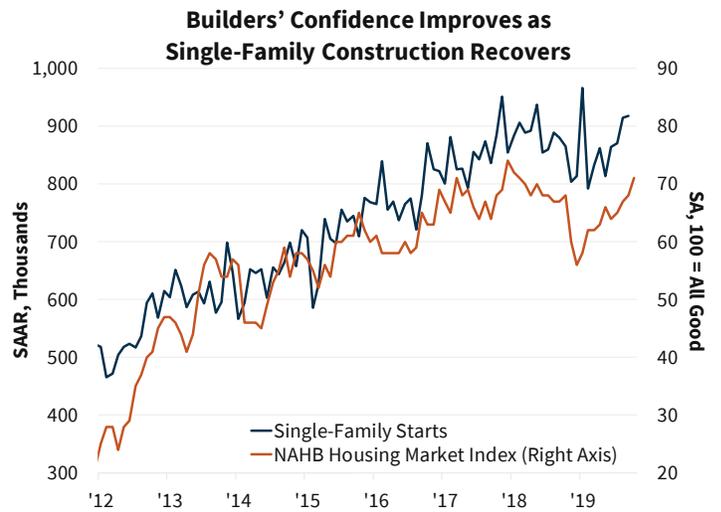
Housing: Despite a Drop in September, Home Building Improves in the Third Quarter

Housing data released this week showed an expected drop in total housing starts, though details were positive for the single-family sector and homebuilder confidence improved. New home construction slowed in September, falling back from the prior month's expansion high. The monthly decline was driven entirely by multifamily starts, which posted the largest decline in almost three years, reversing nearly all of August's gains. Single-family starts rose for the sixth time in seven months, though they remained below the expansion best seen at the beginning of this year. Single-family starts were driven by gains in the South that outweighed declines in the other three regions. Over the third quarter starts were up 2.1 percent, in line with the forecast of 2.7 percent that we made in early October. Single-family starts posted the largest quarterly gain since the end of 2016 to rise above 900,000 annualized units for the first time since 2007, while multifamily starts posted the largest quarterly decline in over a year. The near-term outlook for home building is positive as total permits tied an expansion best in the third quarter with gains in both single-family and multifamily. Consistent with this strength in building, homebuilder confidence in the single-family market increased in October as the National Association of Home Builders (NAHB) Housing Market Index rose to the highest level since February 2018. While demand is solid, the NAHB press release noted that "builders continue to remain cautious due to ongoing supply side constraints and concerns about a slowing economy." Mortgage demand edged up last week, boosted by the third consecutive week of refinance application increases, whereas purchase applications continued to languish, falling for the third week in the past month. Finally, the average 30-year fixed mortgage rate jumped 12 basis points to 3.69 percent this week, according to Freddie Mac.

- **Housing starts** fell 9.4 percent in September to a 1.26 million SAAR, according to the Census Bureau. Single-family starts edged up 0.3 percent to 918,000, while multifamily starts declined 28.2 percent to 338,000. Through the first nine months of the year, single-family starts were 1.8 percent lower than the same period a year ago while multifamily starts were flat. New residential permits fell 2.7 percent to 1.39 million annualized units. Single-family permits rose 0.8 percent to 882,000, and multifamily permits fell 8.2 percent to 505,000 units. On a year-to-date basis, single-family permits were down 3.5 percent, while multifamily permits were up 3.4 percent.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** increased 3 points to 71 in October. A reading above 50 indicates more builders view the single-family market as "good" rather than "poor." All three components – current sales, sales expectations, and foot traffic of prospective buyers – increased.
- **Mortgage applications** edged up 0.5 percent in the week ending October 11, according to the Mortgage Bankers Association. Refinance applications increased 3.6 percent, counteracting a 4.1 percent decline in purchase applications.



Source: Census Bureau



Source: Census Bureau, National Association of Home Builders

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