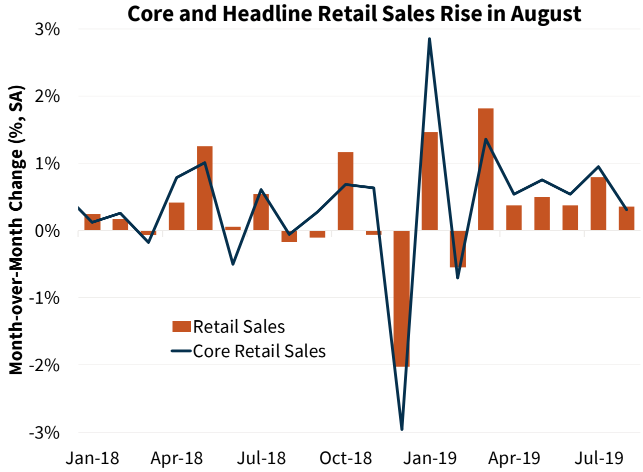
Economics: Consumers Continue to Spend

Consumers continue to remain unfazed in the wake of increased trade and economic uncertainty. Retail sales rose in August for the sixth consecutive month; sales were concentrated at motor vehicle dealers, however, and headline retail sales were unchanged when those sales were excluded. Sales at building supply stores rose by the most since the beginning of the year, suggesting increased residential improvement spending in August. Core retail sales rose in August driven by an increase in sales at nonstore retailers. Overall, this report continued to support our expectations of solid but moderating consumer spending for the remainder of the year. Our outlook is also supported by the healthy increase in consumer non-mortgage credit in July, which was driven by almost equal increases in both revolving debt (largely credit cards) and nonrevolving debt (largely student and auto loans). The increase, which was the largest in a year, suggests that consumers have more room to spend than previously thought and may provide further upside to consumer spending even if job creation continues to slow. According to the Job Openings and Labor Turnover Survey (JOLTS), the labor market has begun to cool heading into the tail end of the year. Job openings fell in July for the third time in four months, and the prior month's number was revised downward significantly as well, another sign that the labor market, though still robust, is slowing. Hires jumped by the second largest amount of the year along with total separations, indicating that the rise in hires was primarily people leaving one job for another. The quits rate, a signal of employee confidence in the market, rose for the first time in fourteen months. While consumers remain resilient, an index of small business optimism fell in August to the lowest level since March. The share of firms reporting they expect the economy to improve fell by the most since January, as uncertainty over trade and growth weighs on business sentiment, supporting our forecast of weak business investment through the rest of 2019. The Consumer Price Index (CPI) decelerated slightly in August on an annual basis as gasoline prices have dropped significantly over the year. While the annual gain in the core CPI accelerated to tie an eleven-year high, we still expect the Fed to cut rates at their September meeting.

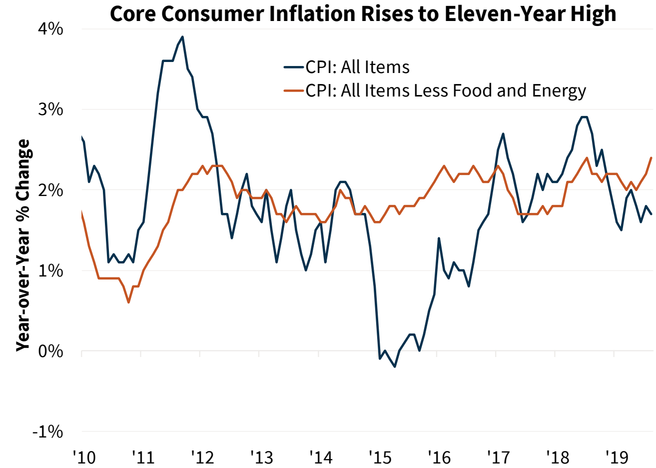
- **Retail sales** grew 0.4 percent in August, according to the Census Bureau. Sales in July were revised up one-tenth to a 0.8 percent increase. Sales at building supply stores rose 1.4 percent, while sales at gasoline stations fell 0.9 percent. Core retail sales rose 0.3 percent. From a year ago, retail sales rose 4.1 percent and core retail sales rose 5.3 percent.
- **Consumer (non-mortgage) credit outstanding**, grew $23.3 billion in July to $4.12 trillion, according to the Federal Reserve Board. Revolving credit grew by $10.0 billion and non-revolving credit grew by $13.3 billion.
- **The Job Openings and Labor Turnover Survey** showed that job openings fell by 31,000 to 7.22 million in July, according to the Bureau of Labor Statistics. The June decrease in job openings was revised further down to a decline of 136,000. Total hires rose by 237,000 to 5.95 million and total separations rose by 246,000 to 5.76 million. The job openings rate fell to 4.5 percent, while both the hires rate and separations rate rose to 3.9 percent and 3.8 percent, respectively. The quits rate ticked up 0.1 percent to 2.4 percent.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** fell 1.6 points in August to 103.1, with the net share of firms expecting the economy to improve falling 8.0 percentage points to 12 percent.
- **The Consumer Price Index** rose 0.1 percent in August as gasoline prices fell 3.5 percent. From a year ago, the CPI rose 1.7 percent. Core CPI (excludes food and energy prices) rose 0.3 percent and 2.4 percent from a year ago. **The Producer Price Index (PPI)** for final demand of goods and services rose 1.8 percent annually and core PPI rose 1.9 percent. **Import prices** fell 2.0 percent in August from a year ago. Excluding fuels, import prices were down 1.0 percent year-over-year. All three reports are published by the Bureau of Labor Statistics.

Core and Headline Retail Sales Rise in August



Source: Census Bureau

Core Consumer Inflation Rises to Eleven-Year High



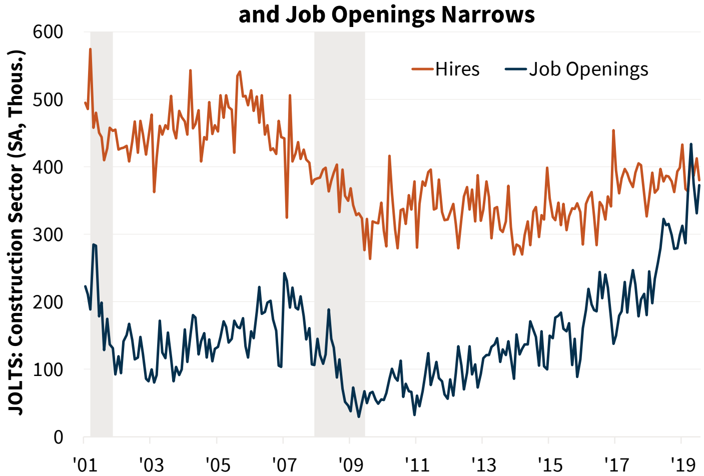
Source: Bureau of Labor Statistics

Housing: Construction Hiring Constricts

A quiet week of housing news showed a further tightening of the construction labor market but positive developments in mortgage applications. First, the JOLTS reported that construction job openings rose in July for the first time in three months, remaining at historically elevated levels and likely indicating there is still high demand for construction workers. Whether there are enough construction workers to meet that demand is less certain. Construction hiring fell for the second time in three months to the lowest level since March. Historically, hiring of construction workers has outpaced job openings, but the series have converged over the past year, inverting for the first time in April 2019. While the layoffs and discharges rate has risen over the past year, it remains low at 2.5 percent. The paucity of available construction labor continues to be an issue for builders and their potential profit margins. Mortgage demand increased for the first time in four weeks last week, driven by a spike in purchase applications, which posted the largest weekly gain since early June. Refinance applications ticked up slightly, breaking two straight weeks of declines. The 30-year fixed mortgage rate increased 7 basis points this week to 3.56 percent, the largest one-week gain since November 2018, according to Freddie Mac. We believe mortgage rates will stabilize around 3.5 percent for the remainder of the year, helping to entice more homebuyers off the sideline though the lack of housing stock is the constant limit to demand.

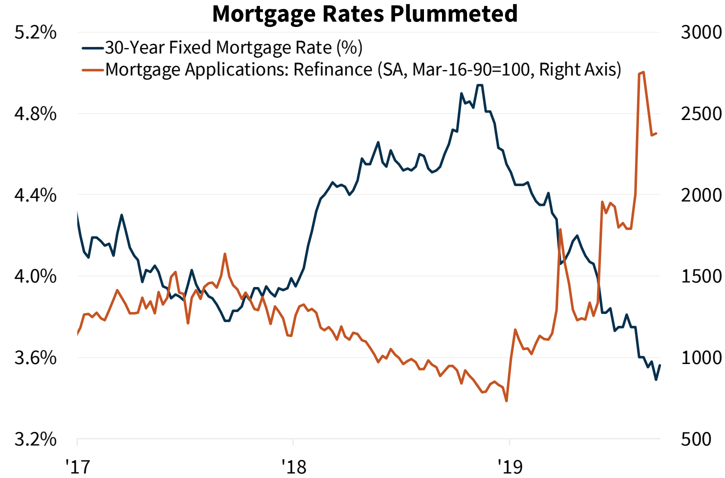
- **The Job Openings and Labor Turnover Survey** showed that construction job openings rose 42,000 in July to 373,000 after steep drops in the prior two months, according to the Bureau of Labor Statistics. Construction hires fell 8,000 to 380,000. The job openings rate increased five-tenths to 4.7 percent, while the hires rate fell four-tenths to 5.1 percent. The quits rate edged down one-tenth to 2.4 percent.
- **Mortgage applications** rose 2.0 percent in the week ending September 6, according to the Mortgage Bankers Association. Refinance applications edged up only 0.4 percent, while purchase applications jumped 4.5 percent.

The Gap Between Construction Hires and Job Openings Narrows



Source: Bureau of Labor Statistics

Refinance Applications Have Risen While Mortgage Rates Plummeted



Source: Mortgage Bankers Association

Ricky Goyette and Rebecca Meeker
Economic and Strategic Research Group
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