Fannie Mae

Economic and Strategic Research

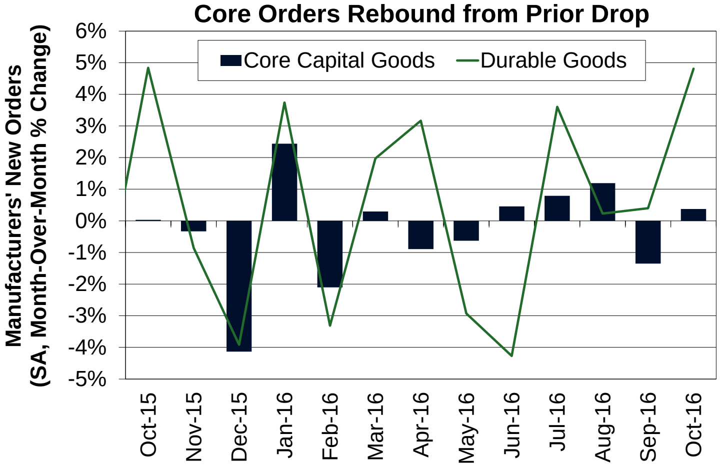
Weekly Note – November 23, 2016

Economics: Manufacturing Shows Signs of Life

A quiet week of economic data focused on the near-term outlook for manufacturing and an initial post-election read on consumer sentiment. The October durable goods report suggested that the manufacturing sector is regaining its footing, with orders posting the largest monthly gain in a year. In addition, September's data was revised upward, reversing a slight drop to a slight gain. As a result, durable goods orders have improved for four consecutive months, the longest stretch of gains since mid-2010. Core capital goods orders, a proxy for future business investment in equipment, rose for the fourth time in the past five months. This positive trend is tempered somewhat, however, by the fact that new core orders have been below year-ago levels for eight straight months. Shipments of durable goods improved for the second straight month and core shipments, an input to the calculation of equipment investment in GDP, rose for the third straight month. The report suggests business fixed investment in equipment should be revised upward for the third quarter, and that equipment investment could finally rise in the fourth quarter after falling for three consecutive quarters. Consumer sentiment, the other key news this week, improved sharply after the presidential election. The initial November reading, which used data from before the election, suggested consumer sentiment fell slightly, but the final reading, which is based on data collected since the election, saw the headline series post the largest gain in nearly three years to reach a six-month high. The initial post-election results showed that consumers expressed greater optimism about their personal finances as well as prospects for the national economy, as both the current economic conditions and consumer expectations components posted large gains. Whether this optimism will continue remains to be seen. Turning finally to the labor market, initial unemployment insurance claims climbed after reaching a new expansion low the prior week. However, the four-week moving average remains just 1,500 above the 43-year low reached in early October, suggesting limited slack in the labor market.

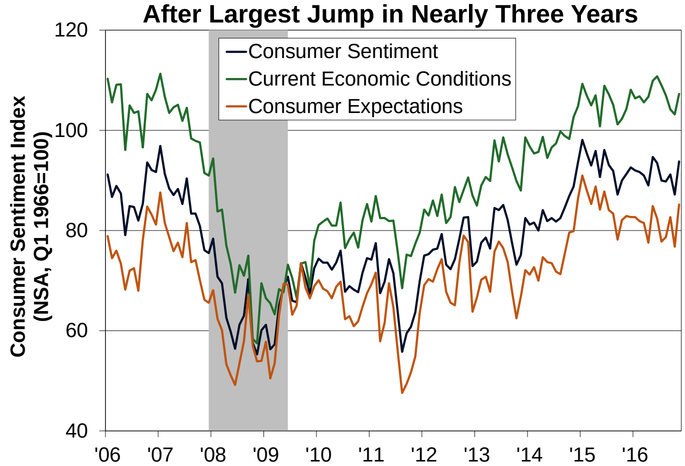
- **Durable goods orders** rose 4.8 percent in October, according to the Census Bureau. The volatile non-defense aircraft orders component rose 94.1 percent, marking the largest gain in 12 months, but there was also widespread improvement amongst the other sectors. One exception was orders for motor vehicles and parts, which declined for the first time in three months. Shipments of durable goods edged up 0.1 percent. Core capital goods orders (nondefense capital goods excluding aircraft) increased 0.4 percent, while core shipments edged up 0.2 percent. September core orders and shipments saw negligible revisions.
- **The University of Michigan Consumer Sentiment Index** jumped 6.6 points to 93.8 in the final November reading. The current economic conditions component increased 4.1 points, the largest gain since June 2015. The consumer expectations component rose 8.4 points, the largest gain since September 2012.
- **Initial claims for unemployment insurance** increased by 18,000 to 251,000 in the week ending November 19, according to the Department of Labor. The four-week moving average decreased by 2,000 to 251,000.

Durable Goods Post Largest Gain in a Year, as Core Orders Rebound from Prior Drop



Source: Census Bureau

Consumer Sentiment Hits Six-Month High After Largest Jump in Nearly Three Years



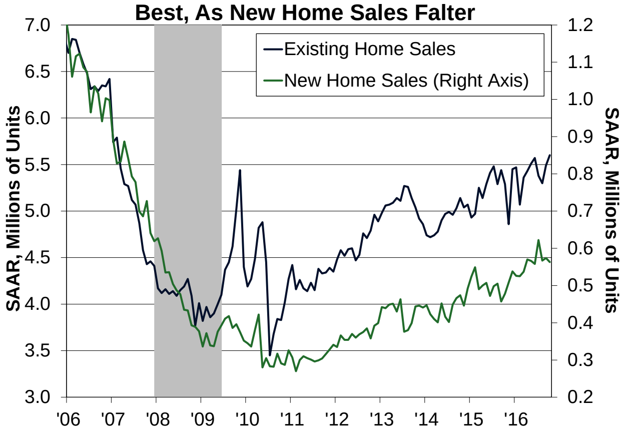
Source: University of Michigan

Housing: A Mixed Bag for Home Sales

A busy week of housing data centered on home sales and changing mortgage demand amidst rising interest rates. Existing home sales were positive, rising for the second consecutive month to reach a new expansion high in October. The lingering negative for the existing home market is the ongoing decline in the inventory of homes for sale, which declined on a year-over-year basis for the seventeenth consecutive month. However, the pace of decline is slowing, perhaps suggesting a light at the end of the tunnel. The ongoing limited supply of homes for sale has put sustained upward pressure on home prices, as the FHFA purchase-only house price index posted year-over-year growth over 6.0 percent for the second consecutive month. In contrast to the upbeat news on existing sales, new home sales fell for the second time in the past three months after reaching an expansion high in July. In addition, home sales in the prior three months were revised lower significantly. The recent rise in interest rates continues to affect mortgage demand. Refinance applications fell last week for the seventh consecutive week to hit the lowest level since the middle of January. Demand for refinancing should continue to falter, as mortgage rates jumped again this week. The average 30-year fixed mortgage rate climbed another seven basis points to 4.03 percent, the highest level since July 2015, according to Freddie Mac's survey. Purchase applications, on the other hand, surprised to the upside last week, posting the largest weekly jump since the first week of October 2015 and recovering much of the ground lost over the past two months. The sudden spike in purchase applications could be a rush by potential homebuyers to apply for a mortgage before rates climb even higher. Regardless, the new rising rate environment poses a downside risk for the housing market.

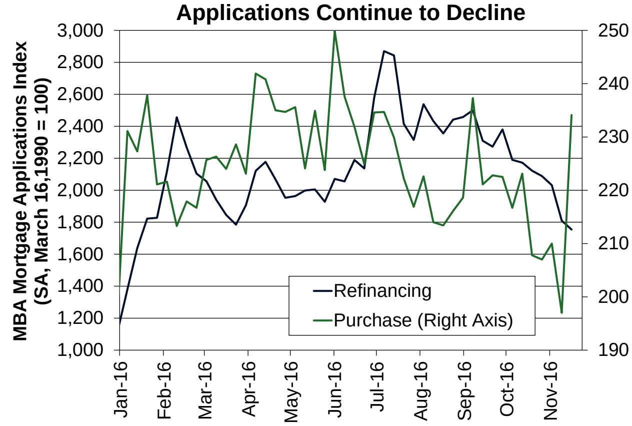
- **New single-family home sales** fell 1.9 percent in October to a seasonally adjusted annual rate (SAAR) of 563,000 according to the Census Bureau. New home sales in the prior three months were revised lower by 34,000. Through the first 10 months of the year, home sales are 13.1 percent higher than the same period a year ago. Sales during October fell in every region but the West. The number of homes for sale rose 2.9 percent from a month ago and 8.8 percent from a year ago. The months' supply (inventory-to-sales ratio) ticked up two-tenths to 5.2 months. The median sales prices, which is not adjusted for the mix of sales, increased 1.9 percent year-over-year.
- **Existing home sales** increased 2.0 percent to a SAAR of 5.6 million units in October, according to the National Association of REALTORS®. Single-family sales rose 2.3 percent while condo/coop sales were flat. Through the first 10 months of the year, existing home sales are 2.9 percent higher than the same period a year ago. Inventory of homes for sale (not seasonally adjusted) declined 4.3 percent year-over-year. The months' supply fell to 4.3 months, and is five-tenths below the level in October 2015.
- **The FHFA purchase-only house price index**, reported on a seasonally adjusted basis, increased 0.6 percent in September. From a year ago, prices increased 6.1 percent, moderating slightly from the 6.4 percent gain in August. On a quarterly basis, home prices rose 1.5 percent in Q3 from Q2 2016, and rose 6.0 percent from Q3 2015.
- **Mortgage applications** rose 5.5 percent for the week ending November 18, according to the Mortgage Bankers Association. Purchase applications drove the rise, jumping 18.8 percent. Refinancing applications, on the other hand, dropped 3.1 percent. The average 30-year fixed mortgage rate jumped again, this time by 21 basis points to reach 4.16 percent, the highest level this year.

Existing Home Sales Reach New Expansion Best, As New Home Sales Falter



Source: National Association of Realtors, Census Bureau

Purchase Applications Jump as Refinance Applications Continue to Decline



Source: Mortgage Bankers Association

Frank Shaw
Economic and Strategic Research Group
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