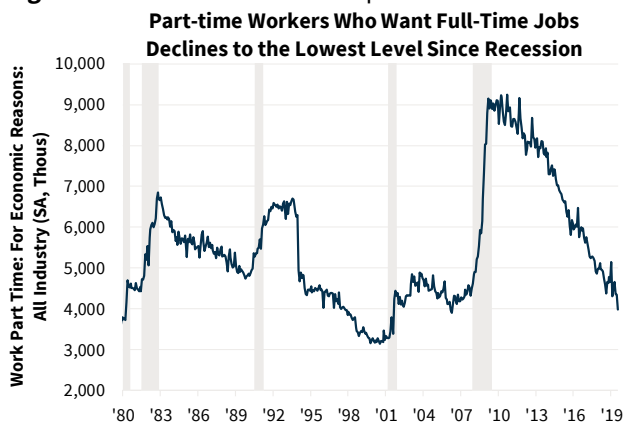


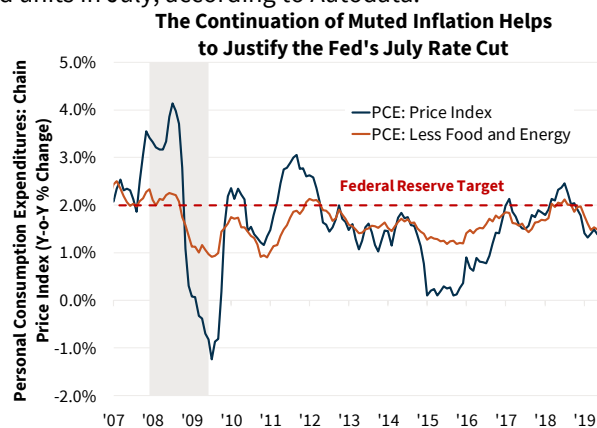
# Economics: Markets Rocked by a Surprisingly Hawkish Fed

After being spurred to all-time highs last Friday by a strong GDP report, financial markets stumbled this week after the Federal Open Market Committee (FOMC) meeting and again after a new tariff announcement by the U.S. on China. In its [statement](#) released Wednesday the FOMC announced that it would cut the federal funds target rate a quarter point to 2.00 to 2.25 percent and conclude the reduction in its balance sheet in August, two months earlier than previously indicated. During the post-meeting press conference Chairman Powell emphasized that the outlook for the economy remains favorable with a solid labor market and strong consumer spending. Therefore, he framed the first rate cut by the Fed since 2008 as insurance “against downside risks from weak global growth and trade policy uncertainty” as well as to help boost inflation closer to the 2 percent objective. Powell described the rate reduction as a “mid-cycle adjustment to policy” and made clear that this action should not be interpreted as guaranteeing the start of a sustained easing period. This was considered hawkish by investors, who had expected the Fed to strike a more dovish tone ahead of further cuts by the end of this year; after the announcement the S&P 500 closed down 1.2 percent and the U.S. dollar reached a two-year high. The other major data point this week was the jobs report, which showed that nonfarm payrolls increased by 164,000 in July. This was in line with expectations and is consistent with an economy that is gradually slowing as the current expansion lengthens. Downward revisions in the prior two months helped put the 3-month average job gain at 140,000, the lowest level in nearly two years. Encouraging details included a slight acceleration in wage growth, a steady unemployment rate, and an uptick in the labor force participation rate; 370,000 households were added to the labor force this month, the largest gain this year, as households continue to return from the sidelines. The U-6, a broad measure of labor market slack, fell this month to its lowest level since the end of 2000, and the number of people working part time but who would prefer a full-time job fell to its lowest level since 2006. In other news, real consumer spending rose in June for the fourth straight month. Disposable income increased slightly more than consumer spending, pushing up the saving rate a tenth to 8.1 percent. Consumers remain optimistic as two measures of consumer sentiment both rose in July, but our first look at third quarter consumer spending disappointed as vehicle sales fell in July to a 3-month low. While factory orders rose in June, that result was driven entirely by durable goods as nondurable goods orders posted the largest decline of the year. Finally, the trade deficit narrowed in June but failed to reverse May’s significant widening.

- **Nonfarm payroll employment** grew by 164,000 in July, according to the Bureau of Labor Statistics. The gains in May and June were revised downward by 41,000. The average workweek edged down one-tenth to 34.3 hours. Average hourly earnings rose 0.3 percent over the month and 3.2 percent from the prior year. The unemployment rate was flat at 3.7 percent, while the labor force participation rate rose a tick to 63.0 percent. The U-6 rate fell two-tenths to 7.0 percent.
- **Personal income**, adjusted for inflation, rose 0.3 percent in June, according to the Bureau of Economic Analysis. Real disposable income rose by the same amount. Real PCE rose 0.2 percent. The PCE deflator rose 0.1 percent during June and 1.4 percent from a year ago. The core deflator increased 0.2 percent on a monthly basis and 1.6 percent on an annual basis.
- **The Employment Cost Index (ECI)**, a measure of labor compensation, rose 0.6 percent (not annualized) in Q2 2019, according to the Bureau of Labor Statistics. Wages and benefits improved 0.7 percent and 0.5 percent, respectively.
- **The U.S. trade deficit** narrowed \$190 million to \$55.2 billion in June, according to the Census Bureau.
- **Factory orders** rose 0.6 percent and factory shipments increased 0.4 percent in June, according to the Census Bureau. Nondurable goods orders, the new piece of data in the report, declined 0.5 percent.
- **The Conference Board Consumer Confidence Index** spiked 11.4 points in July to 135.7, the highest reading in eight months.
- **The University of Michigan Consumer Sentiment Index** edged up 0.2 points in the final July reading to 98.4.
- **The ISM Manufacturing Index** edged down 0.5 points to 51.2 in July (any reading above 50 indicates expansion).
- **Light vehicle sales** declined 2.0 percent to 16.9 million annualized units in July, according to Autodata.



Source: Bureau of Economic Analysis



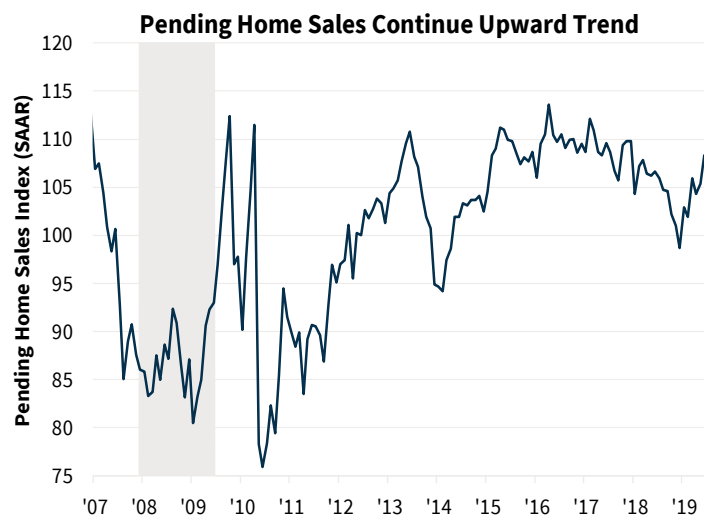
Source: Bureau of Economic Analysis



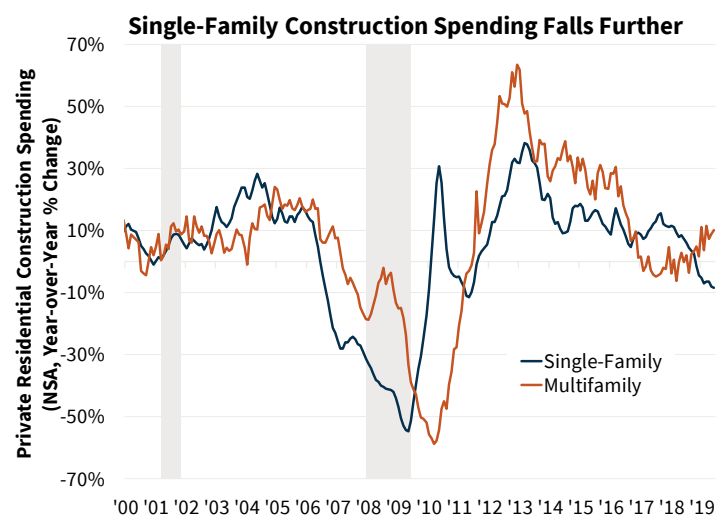
# Housing: Pending Home Sales Continue to Impress

This week in housing news, pending home sales jumped, private residential construction spending dipped, a measure of home price growth decelerated, and mortgage applications fell. Pending home sales, a leading indicator of existing home sales activity, rose sharply in June by the largest amount since March and for the second straight month. This was also the first year-over-year increase in 18 months. The jump in pending home sales supports our expectations of moderate growth in existing home sales over the coming months. Total private residential construction spending fell in June as declines in single-family and improvement spending outweighed a small gain in multifamily spending. For Q2 as a whole, however, total residential construction spending rose slightly after three consecutive quarters of decline, though single-family spending fell for the fourth straight quarter. While the rise in pending sales provides upside risk to our outlook, the continued slump in single-family construction spending does little to alleviate a lack of affordable supply and tempers expectations of robust future sales growth. Turning to home prices, growth in the S&P Case-Shiller National Home Price Index continued to decelerate on a year-ago basis, slowing for the thirteenth consecutive month to the slowest pace since September 2012. Slower house price appreciation helps on the affordability front and should be a positive for homebuyers going forward. In another boon for homebuyers, the average yield on 30-year fixed-rate mortgages was unchanged this week at 3.75 percent, just shy of the lowest level since September 2017. Nevertheless, mortgage applications fell for the fifth straight week as the third consecutive weekly decline in purchase applications outweighed a slight uptick in refinance applications. Monthly, mortgage applications fell in July after a strong showing in June, as a lack of affordable supply and economic uncertainty continue to weigh on the responsiveness of homebuyers. Despite the small direct effect of a federal funds rate cut on housing, easing monetary policy should support economic growth in coming quarters, bolstering incomes and job growth and thus ultimately aiding homebuyers.

- **The National Association of REALTORS® Pending Home Sales Index**, which records contract signings of existing homes and typically leads closings by one to two months, jumped 2.8 percent in June and was up 1.6 percent from a year ago. The index increased in all four regions, with sales in the West rising 5.4 percent. On a quarterly basis, pending sales rose 2.3 percent in the second quarter.
- **Private residential construction spending** fell 0.5 percent in June, according to the Census Bureau. Single-family construction spending and spending on improvements fell 0.7 percent and 0.5 percent, respectively, while spending on multifamily construction rose by 0.2 percent. From a year ago, single-family spending was down 8.5 percent, while multifamily spending was up 11.5 percent. Quarterly, total residential construction spending ticked up 0.1 percent and single-family spending fell 1.1 percent, while multifamily spending rose 2.6 percent.
- **S&P CoreLogic Case-Shiller National Home Price Index** (not seasonally adjusted) rose 0.8 percent in May and 3.4 percent from a year ago.
- **Mortgage applications** fell 1.4 percent in the week ending with July 26, according to the Mortgage Bankers Association. Refinance applications rose 0.1 percent, while purchase applications fell 3.0 percent. For the month of July, total mortgage applications fell 4.7 percent, with both purchase and refinance applications falling 2.6 and 6.6 percent, respectively.



Source: National Association of REALTORS®



Source: Census Bureau

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August 02, 2019



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