Fannie Mae

Economic and Strategic Research

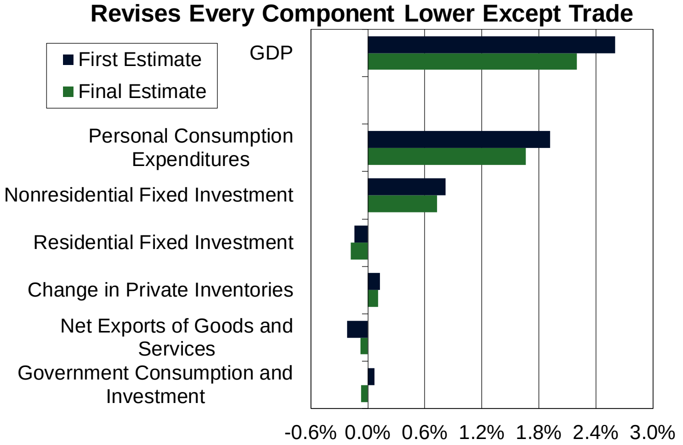
Weekly Note – March 29, 2019

Economics: Measures of Inflation Slow

In a busy week for economics, the final estimate of fourth quarter gross domestic product (GDP) was marked down four-tenths to a seasonally adjusted annual rate of 2.2 percent. Nonresidential investment, private inventories, and personal consumption expenditures (PCE) contributed to economic growth, but each of their contributions was downwardly revised. Partially offsetting these positive contributions were declines in residential investment, government spending, and net exports. The decrease in residential investment was larger than previously estimated while government spending swung from a positive to a negative contribution. Although net exports subtracted from fourth quarter economic growth, the negative impact shrank due to an upward revision to growth of exports and a downward revision to growth in imports. Corporate profits for the fourth quarter, which were newly updated, declined for the first time since the first quarter of 2017. In more recent releases, real PCE grew in January but failed to recover from December's largest decline in nine years and the trade deficit narrowed in January which should support first quarter growth. While the smaller trade deficit in January partly reflected an increase in exports, it was also due to a decline in imports, which may signal that domestic demand has moderated. In other news, measures of consumer confidence were mixed. The Conference Board's Consumer Confidence Index fell in March reversing much of the gains from February while the University of Michigan's Consumer Sentiment Index rose for the second consecutive month in March. Finally, consumer inflation slowed in January as both the headline PCE deflator and the core measure, which excludes more volatile food and energy prices, decelerated further from the Federal Reserve's 2.0 percent target. Headline inflation fell to the slowest pace since September 2016 while core inflation was at the slowest pace in almost a year.

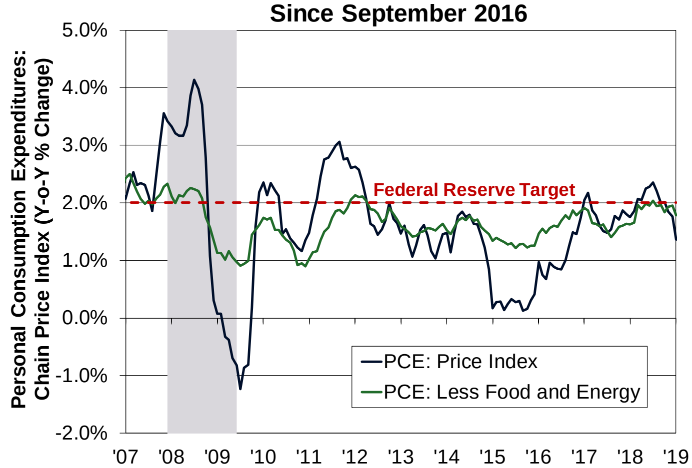
- **Gross domestic product**, adjusted for inflation, rose by 2.2 percent in the final Q4 2018 release, according to the Bureau of Economic Analysis. Growth of PCE and nonresidential investment were downwardly revised from 2.8 to 2.5 percent and from 6.2 to 5.4 percent, respectively. Government spending was lowered from a 0.4 percent increase to a 0.4 percent decrease and residential investment was downwardly revised from a 3.5 percent drop to 4.7 percent decline. Exports were revised up from 1.6 to 1.8 percent and imports were revised down from 2.7 to 2.0 percent. Corporate profits fell 1.7 percent in the fourth quarter. Private inventories contributed 0.11 percentage points to GDP growth, revised slightly down from a 0.13 percentage point contribution.
- **Personal income**, adjusted for inflation, fell 0.1 percent in January, according to the Bureau of Economic Analysis. Real PCE grew 0.1 percent following a 0.6 percent decrease in December. The PCE deflator fell 0.1 percent while core PCE inflation rose 0.1 percent. Year-over-year, PCE inflation slowed four-tenths to 1.4 percent and core inflation slowed two-tenths to 1.8 percent.
- **The U.S. trade deficit** narrowed $8.8 billion to $51.1 billion in January, according to the Census Bureau. Exports rose by 0.9 percent while imports fell 2.6 percent. The real goods trade deficit fell $7.8 billion to $83.8 billion.
- **The Conference Board Consumer Confidence Index** fell 7.3 points to 124.1 in March. **The University of Michigan Consumer Sentiment Index** rose 4.6 points to 98.4 in March as both the current economic conditions and consumer expectations components rose. Inflation expectations for the next year fell to the lowest level since November 2017.
- **Initial claims for unemployment insurance** fell by 5,000 to 211,000 in the week ending with March 23, according to the Department of Labor. The four-week moving average declined 3,250 to 217,250.

Final Estimate of Fourth Quarter Growth Revises Every Component Lower Except Trade



Source: Bureau of Economic Analysis

Headline Inflation Decelerates to Slowest Pace Since September 2016



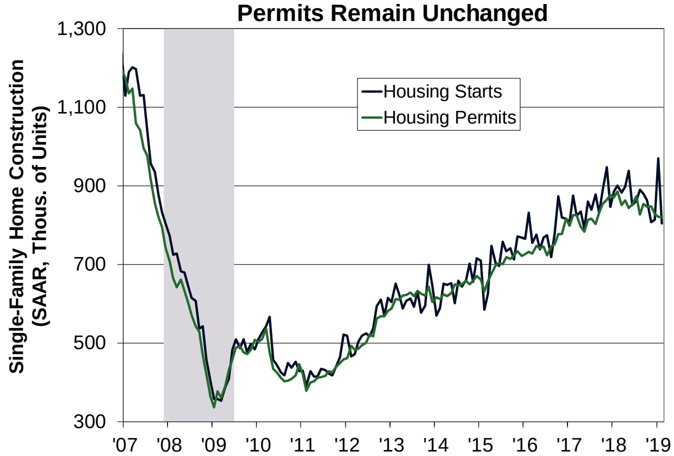
Source: Bureau of Economic Analysis

Housing: New Home Sales Strength Continues

Housing news was mixed this week as housing starts dropped, but new home sales came in strong. Housing starts fell in February, driven entirely by a sharp decline in single-family starts that more than reversed the large increase seen in January. While single-family starts hit the lowest level since May 2017, multifamily starts rose for the first time in three months. The recent volatility in starts is likely explained by weather which was unusually mild in January before falling to below-average temperatures in February. Single-family permits, which are less influenced by the weather, were flat. New home sales rose in February to reach the highest level in almost a year. Sales in the South, which account for nearly 60 percent of all sales, rose to the highest level since 2007. While the last two months of 2018 saw sizable downward revisions to new home sales, the start of 2019 fared better with January sales revised up 29,000. The uptick in sales put downward pressure on inventories, with the months' supply declining to the lowest level in eight months. Buyers seem to be entering the market in response to improved homebuying affordability; home price growth is slowing, and mortgage rates are falling. Measures of annual home price appreciation decelerated in January, with the S&P CoreLogic Case-Shiller Home Price Index showing the slowest growth since April 2015. According to Freddie Mac, the average yield on 30-year fixed-rate mortgages fell 22 basis points to 4.06 percent this week, the lowest level in 14 months. This is the largest weekly decline in a decade, and rates are now 88 basis points below the recent peak last November. Our outlook for the spring selling season remains hopeful. Pending home sales, which measure contract signings of existing homes, fell in February, but did not reverse the large increase seen in January. Mortgage applications rose for the third straight week last week driven by both refinance and purchase applications, the latter of which posted the largest weekly increase since spiking in early January. Despite the modest decline in pending home sales, the strength from the prior month along with recent improvements in purchase mortgage applications are positive signs for home sales in the coming months.

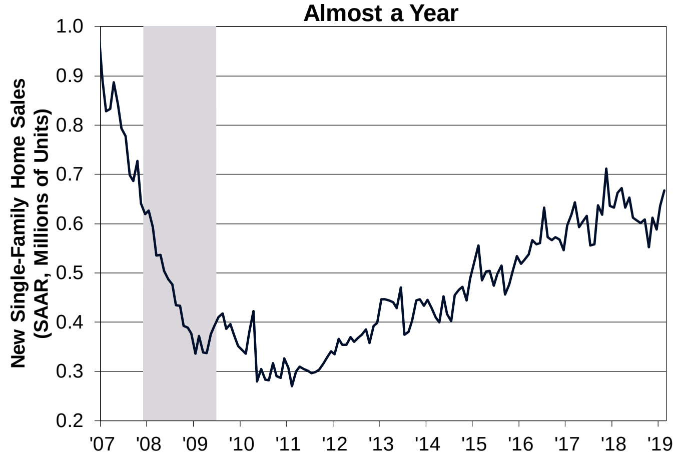
- **New single-family home sales** rose 4.9 percent in February to a seasonally adjusted annual rate of 667,000, according to the Census Bureau. Year-over-year, new single-family sales rose 3.7 percent (not seasonally adjusted). For sale inventory fell 0.6 percent during the month but increased 13.6 percent annually. The months' supply fell four-tenths to 6.1. The median sales price was $315,300, down 3.6 percent annually.
- **Housing starts** fell 8.7 percent to 1.16 million (SAAR) in February, according to the Census Bureau, leaving total housing starts 9.9 percent below their level in February 2018. Single-family starts fell 17 percent to 805,000, while total multifamily starts saw a 17.8 percent rise to 357,000. Single-family permits were unchanged, while multifamily permits dropped 4.2 percent.
- **The National Association of REALTORS® Pending Home Sales Index**, which typically leads closings by one to two months, fell 1.0 percent in February. The index is down 4.9 percent annually, the fourteenth straight decline.
- **The FHFA Purchase-Only House Price Index,** reported on a seasonally adjusted basis, rose 0.6 percent in January, up 5.6 percent form a year ago. **The S&P CoreLogic Case-Shiller National Home Price Index** (not seasonally adjusted) fell 0.2 percent in January, up 4.3 percent from a year ago.
- **Mortgage applications** jumped 8.9 percent for the week ending March 22, according to the Mortgage Bankers Association. Refinance applications and purchase applications increased 12.4 percent and 6.4 percent respectively. The survey's average 30-year fixed mortgage rate fell 10 basis points to 4.45 percent.

Single-Family Starts Fall Dramatically While Permits Remain Unchanged



Source: Census Bureau

New Home Sales Rise to the Highest Level In Almost a Year



Source: Census Bureau

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