



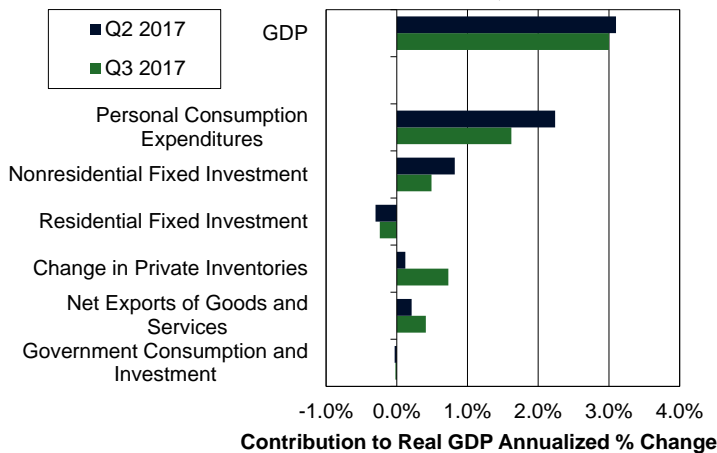
### Weekly Note – October 27, 2017

## Economics: Solid Growth Despite Hurricane Disruptions

This week's news featured an upside surprise on the first estimate of third quarter economic growth. Real GDP growth slowed by only one-tenth from the second quarter to 3.0 percent annualized despite hurricane-related disruptions, marking the first back-to-back quarters of economic growth of at least three percent since 2014. Consumer spending growth slowed nearly one percentage point from the prior quarter, as spending growth on nondurables and services moderated. Business investment in equipment remained a bright spot, increasing strongly for the second consecutive quarter. However, the decline in investment in structures for the first time in three quarters slowed overall nonresidential fixed investment growth in the third quarter compared with the second quarter. Housing remained a blemish on growth, as the residential investment component was the biggest drag on growth again. Inventory investment and net exports were the two main components of GDP that added more to growth in the third quarter than in the second quarter. Two other reports this week also offered positive news. The University of Michigan survey showed consumer sentiment jumped in October to the highest level since January 2004. The durable goods report suggested that business investment in equipment will likely continue adding to GDP in coming quarters, as its leading indicator—core capital goods orders—posted a solid gain in September for the third consecutive month. Lastly, initial jobless claims rose last week for the first time in four weeks, but from an expansion-best level.

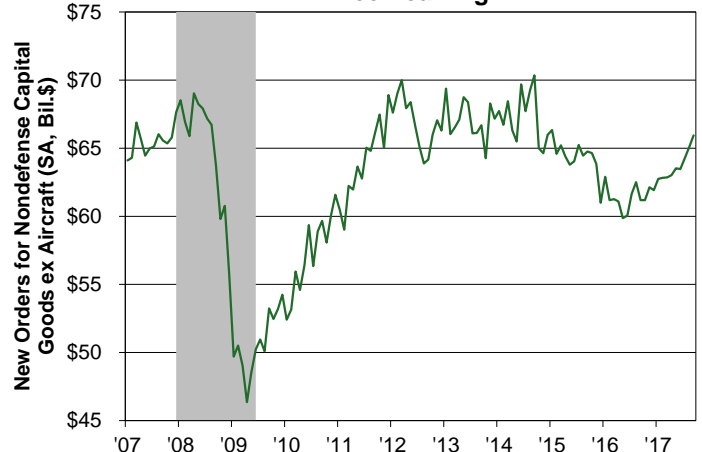
- **Gross domestic product (GDP)**, adjusted for inflation, increased 3.0 percent annualized in Q3 2017, according to the advance estimate from the Bureau of Economic Analysis (BEA). Real personal consumption expenditures (PCE) grew 2.4 percent, slowing from a 3.3 percent pace in the prior quarter, and contributed 1.6 percentage points to GDP growth. Investment in business equipment jumped 8.8 percent, while investment in intellectual property products rose 5.0 percent. However, nonresidential investment in structures fell 5.2 percent, the first drop in three quarters. As a result, nonresidential fixed investment contributed only 0.5 percentage points to GDP growth. Real residential investment fell 6.0 percent, subtracting 0.2 percentage points from growth. Real government spending fell slightly. Inventory investment contributed seven-tenths to GDP growth, while net exports added 0.4 percentage points. Inflation picked up. The GDP price index rose at a 2.2 percent annual rate, up from 1.0 percent in the second quarter. The PCE index rose at a 1.5 percent annual rate, accelerating from 0.3 percent in the second quarter.
- **The University of Michigan Consumer Sentiment Index** rose 5.6 points from September to 100.7 in the final October reading. Confidence in current economic conditions increased to its highest level since 2000. Consumer expectations also jumped, rising to the highest reading since January 2015.
- **Durable goods orders** rose 2.2 percent in September, driven by nondefense aircraft orders, according to the Census Bureau. Core capital goods orders (nondefense orders excluding aircraft) increased 1.3 percent, with upward revisions to prior months' data. Core capital goods shipments were up 0.7 percent.
- **Initial claims for unemployment insurance** increased 10,000 to 233,000 in the week ending October 21, according to the Department of Labor. The four-week moving average fell 9,000 to 239,500.

**Consumer Spending and Business Investment Contribute Less to Third Quarter GDP**



Source: Bureau of Economic Analysis

**Core Capital Goods Orders Climb to a Near Three-Year High**



Source: Census Bureau

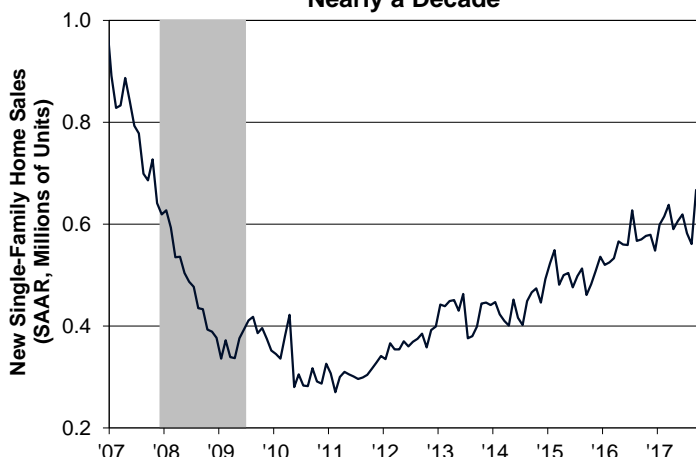


# Housing: New Home Sales Jump; Pending Sales Stall

Housing data released this week told different stories for the new and existing home sales markets in September. First, new home sales posted the largest monthly jump since January 1992 to reach the highest level in almost a decade. The increase was across the regions, with sales in the Northeast and the South climbing to expansion highs. In addition, sales were revised modestly higher for each of the prior three months. The number of new homes for sale was unchanged at an expansion high. Existing home sales, in contrast, should remain subdued in the near term. Pending home sales, which record contract signings of existing homes and typically lead closings by one to two months, were flat in September, remaining at the lowest level since January 2015. A drop in the South, partly due to Hurricane Irma, cancelled out modest gains across the other regions. The year-over-year trend in pending sales worsened further in September, as sales fell annually for the fifth time in the past six months, dropping across all four regions. The ongoing limited supply of existing homes has dampened contract signings and maintained upward pressure on home prices. The August FHFA Purchase-Only House Price Index posted the strongest month-over-month gain since March and the year-over-year rise accelerated for the first time in four months. Mortgage demand fell last week for the fifth time in the past six weeks. Purchase applications dropped sharply to a five-week low, while refinance applications continued the recent downward trend to hit a three-month low. Mortgage rates rose six basis points this week to 3.94 percent, according to Freddie Mac. Since dipping to a 2017 low in mid-September, mortgage rates have climbed nearly 20 basis points over the past six weeks to reach a three-month high.

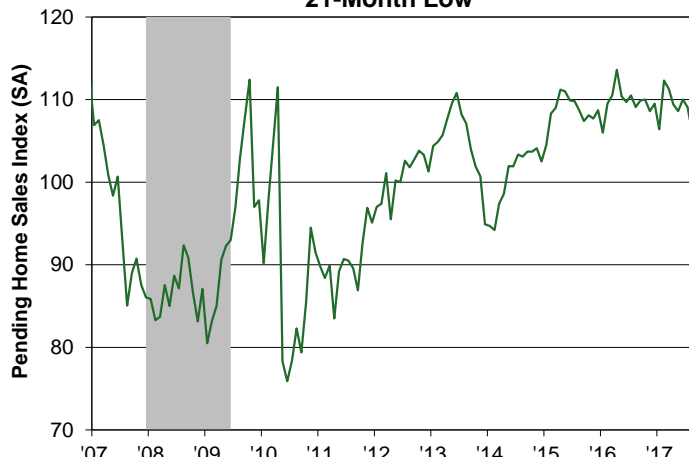
- **New single-family home sales** jumped 18.9 percent to a 667,000 seasonally adjusted annualized rate in September, according to the Census Bureau. Sales in the prior three months were revised upward by 8,000. Through the first nine months of the year, new home sales are 8.5 percent higher than the same period a year ago. The number of homes for sale (seasonally adjusted) was unchanged from August, but rose 14.5 percent from a year ago. The months' supply fell from 6.0 months in August to 5.0 months, compared with 5.1 months a year ago. The median sales price, which is not adjusted for the composition of sales, rose 1.6 percent from September 2016.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally adjusted basis, rose 0.7 percent in August. From a year ago, the index increased 6.6 percent, accelerating from 6.5 percent in July.
- **The National Association of REALTORS® Pending Home Sales Index** was unchanged in September. From a year ago, the index fell 3.5 percent.
- **Mortgage applications** decreased 4.6 percent for the week ending October 20, according to the Mortgage Bankers Association. Purchase applications dropped 6.1 percent and refinance applications declined 3.0 percent. The survey's average 30-year fixed mortgage rate increased four basis points to 4.18 percent.

**New Home Sales Jump to the Highest Level in Nearly a Decade**



Source: Census Bureau

**Pending Home Sales Remain Stuck at a 21-Month Low**



Source: National Association of REALTORS®

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