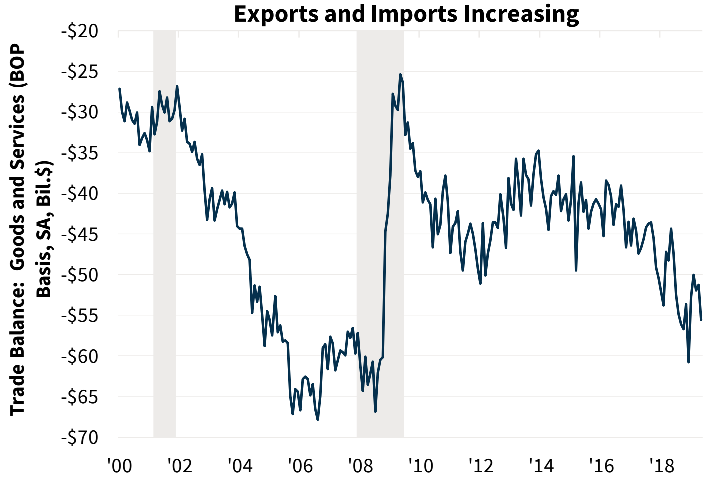
Economics: Trade Deficit Widens and Manufacturing Continues to Weaken

The holiday-shortened week provided updates on trade, manufacturing, and the auto industry. The U.S. nominal trade deficit widened in May for the second time in three months as both exports and imports rose to just shy of their expansion highs. The inflation-adjusted goods deficit, used in the calculation of net exports in gross domestic product (GDP), widened to the largest deficit this year. It now appears likely that net exports will drag on GDP growth in the second quarter after adding strongly to growth in the first quarter. Heightened trade tensions have weighed on global trade, though the resumption of trade talks between the U.S. and China poses an upside risk to trade for the second half of the year. A survey of purchasing managers showed manufacturing continued to lose momentum in June, falling for the third straight month to the slowest pace of expansion since October 2016. The softness in manufacturing data is unlikely to abate in the near term as factory orders fell for the third time in four months in May. The top-line decrease was mainly driven by the volatile nondefense aircraft sector, though orders excluding transportation were essentially flat, rising only 0.1 percent. While core capital goods orders maintained the gain from the advance report, it failed to make up for April's steep decline. Service sector activity also disappointed, according to the ISM Nonmanufacturing Index, coming in at the slowest pace of expansion in nearly two years in June. Light vehicle sales edged down slightly in June, but after May's impressive gain, average monthly sales for the second quarter increased modestly from the first quarter, a positive sign for real consumer spending during the quarter. However, the bigger picture for vehicle sales is more daunting. Sales have been trending down since 2016 when an average of 17.6 million annualized units were sold each month compared to the second quarter's average pace of 17.0 million annualized units. This trend is likely to continue as trade tensions spur volatility and a recent drop in crude oil inventories puts upward pressure on fuel prices. Finally, while initial unemployment claims fell last week, claims averaged 222,000 in June, the second consecutive month of increases.

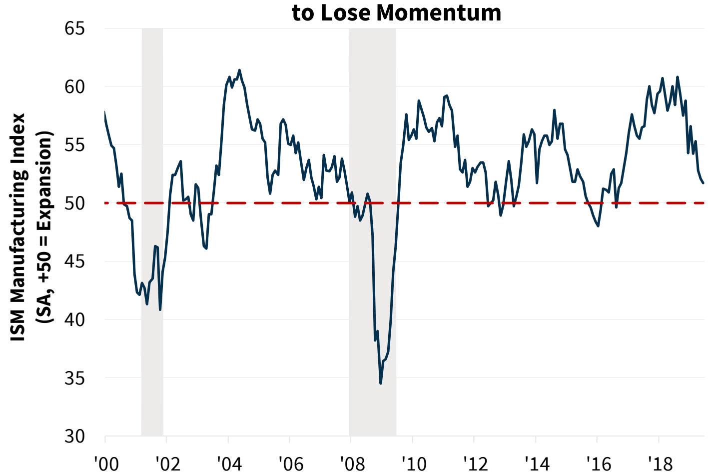
- **The U.S. trade deficit** widened $4.3 billion to $55.5 billion in May, according to the Census Bureau, as exports rose 2.0 percent and imports increased 3.3 percent. The real goods deficit widened by $4.8 billion to $87.0 billion.
- **Factory orders** fell 0.7 percent in May, while factory shipments edged up 0.1 percent, according to the Census Bureau. Orders for April were revised down to -1.2 percent from -0.8 percent. New orders for nondurable goods, the new piece of data in the report, declined 0.2 percent.
- **The ISM Manufacturing Index** declined 0.4 points to 51.7 in June (any reading above 50 indicates expansion). **The ISM Nonmanufacturing Index**, a gauge of service sector activity, fell 1.8 points to 55.1 in June.
- **Light vehicle sales** fell slightly in June, edging down 0.7 percent to 17.3 million annualized units, according to Autodata. Auto sales increased 1.4 percent to 5.1 million units, while light truck sales decreased 1.5 percent to 12.2 million units.
- **Initial claims for unemployment insurance** declined 8,000 to 221,000 in the week ending June 29, according to the Department of Labor. The four-week moving average increased 500 to 222,500.

The U.S. Trade Deficit Widens With Both Exports and Imports Increasing



Source: Census Bureau

Manufacturing Sector Activity Continues to Lose Momentum



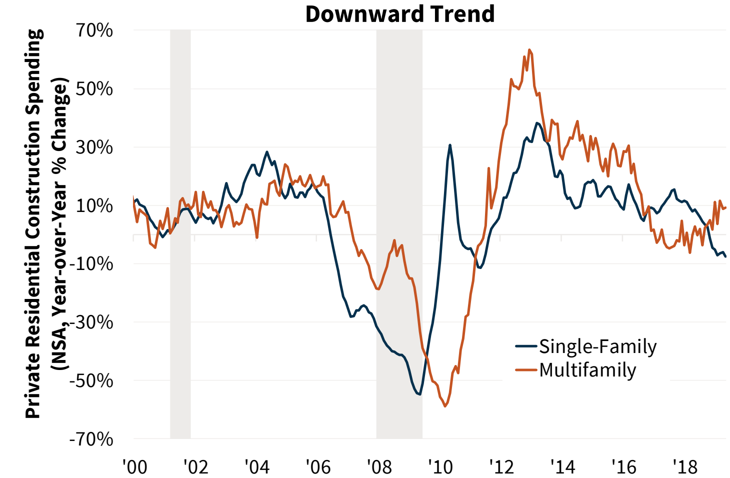
Source: Institute for Supply Management

Housing: House Price Growth Accelerates as Residential Construction Spending Continues to Fall

This week in housing news, private residential construction spending declined, a measure of home price appreciation rose, and mortgage applications dipped. Private residential construction spending fell in May for the fifth month in a row, with decreases in both single-family and improvement spending outweighing an increase in multifamily spending. On a year-over-year basis, private residential construction spending fell for the ninth consecutive month, driven by seven consecutive months of year-over-year declines in single-family construction spending. Meanwhile, the CoreLogic National Home Price Index posted the largest May increase since 2015. On a year-over-year basis, home price appreciation rose for the first time in fourteen months, with prices in the lowest tier appreciating the fastest. As of May, prices in more than 75 percent of states (including the District of Columbia) had risen above their pre-recession peaks. Affordability remains a concern as house price growth remains above wage growth, though the recent drop in mortgage rates is a boon to homebuyers. The average yield on 30-year, fixed-rate mortgages rose 2 basis points this week to 3.75 percent but remains just shy of the lowest level since September 2017, and 77 basis points below year-ago levels. Though mortgage rates remain low, mortgage applications fell a tick last week as a decline in refinance applications outweighed a gain in purchase applications. Despite little movement in applications during the last week of the month, consumers responded positively to the decline in mortgage rates over the month of June. Purchase applications rose for the third time in four months, increasing 3.0 percent and almost completely reversing the decline seen in May. Meanwhile, refinance applications rose a whopping 50.9 percent, the largest monthly gain since January 2015. We expect that the continued slump in single-family construction spending will likely exacerbate the current dearth of affordable supply and, when coupled with an acceleration in home prices, supply constraints and general economic and trade uncertainty could limit the responsiveness of buyers.

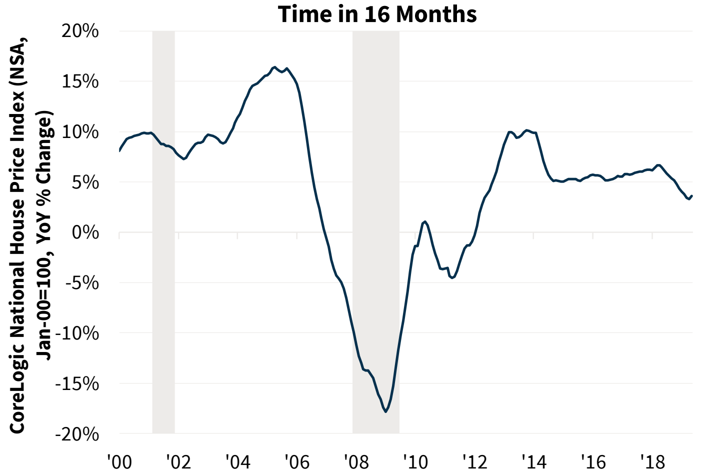
- **Private residential construction spending** fell 0.6 percent in May, according to the Census Bureau. Spending on single-family construction and improvements fell 0.8 percent and 1.2 percent, respectively, while spending on multifamily construction rose 1.9 percent. From a year ago, single-family spending was down 7.5 percent, improvement spending was down 17.3 percent, and multifamily spending was up 9.2 percent.
- **The CoreLogic National Home Price Index**, a repeat sales measure, rose 0.9 percent in May (not seasonally adjusted). From a year ago, the index rose 3.6 percent, a three-tenths acceleration from April's annual growth, which was revised downward to 3.3 percent from 3.6 percent. Prices in the lowest price tier (75 percent or less of the median national sales price) grew 5.4 percent annually, while prices in the low-to-middle price tier (between 75 and 100 percent of the median) grew 4.5 percent. The middle-to-moderate price tier (between 100 and 125 percent of the median) increased 4.0 percent, and the high price tier (greater than 125 percent of the median) increased 3.0 percent.
- **Mortgage applications** fell 0.1 percent in the week ending with June 28, according to the Mortgage Bankers Association. Refinance applications fell 1.2 percent, while purchase applications rose 1.1 percent.

Single-Family Construction Spending Continues Downward Trend



Source: Census Bureau

Home Price Appreciation Rises in May For First Time in 16 Months



Source: CoreLogic

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July 3, 2019

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