Fannie Mae

Economic and Strategic Research

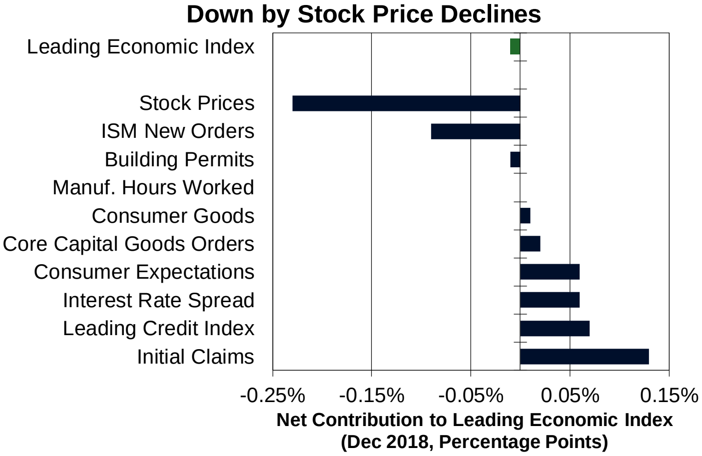
Weekly Note – January 25, 2019

Economics: Continued Labor Market Strength amid Softening Growth Outlook

The week was light on economic indicators due in part to the ongoing partial government shutdown, which has delayed releases of some data, including those from the Census Bureau. Still, of note was a modest decline in the December reading of the Conference Board's Leading Economic Index, the second drop in three months, suggesting weakening economic growth over the next couple quarters. The LEI has weakened considerably over the past few months, coinciding with the return of volatility in financial markets. In December, the index was dragged down by stock price declines. However, given that financial markets have since stabilized considerably, and most of the other subcomponents contributed positively to the index, the details were not as weak as the headline suggests. Turning to current conditions, for the week ending January 19, initial unemployment claims fell for the third consecutive week to the lowest level of the expansion. The four-week rolling average also fell to a level consistent with solid employment gains during the month. While financial market turbulence, the shutdown, and uncertainty over monetary and trade policy may weigh on the growth outlook, the labor market appears to be on strong footing to start the year.

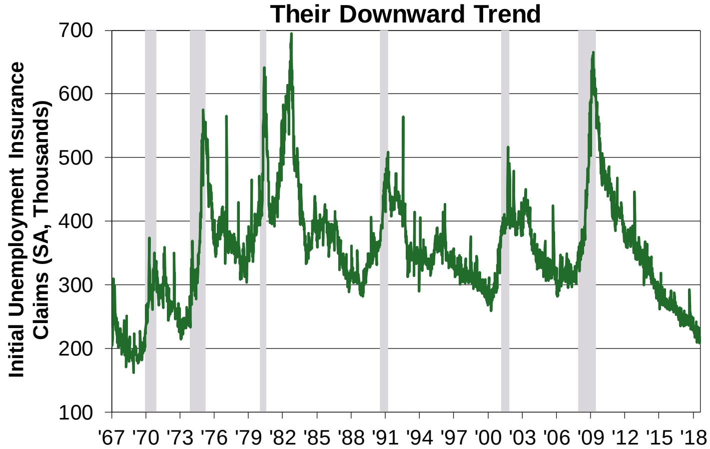
- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, ticked downward by 0.1 percent in December. For comparison, prior to the softening that started in October, the index rose an average of approximately 0.5 percent per month in 2018. Of the index's ten components, December's modest decline was driven by only three components: stock prices, new factory orders (as reported by the Institute for Supply Management survey), and building permits.
- **Initial claims for unemployment insurance** decreased for the third consecutive week, falling by 13,000 to 199,000 in the week ending January 19, according to the Department of Labor. The four-week moving average decreased by 5,500 to 215,000. Separately, initial claims for federal employees surged over 25,000 in the week ending January 12, continuing the jumps seen since late December. For comparison, weekly unemployment claims for federal workers typically came in between 1,000 and 2,000 prior to the shutdown.

Leading Economic Index Primarily Driven Down by Stock Price Declines



Source: Conference Board

Claims for Unemployment Insurance Continue Their Downward Trend



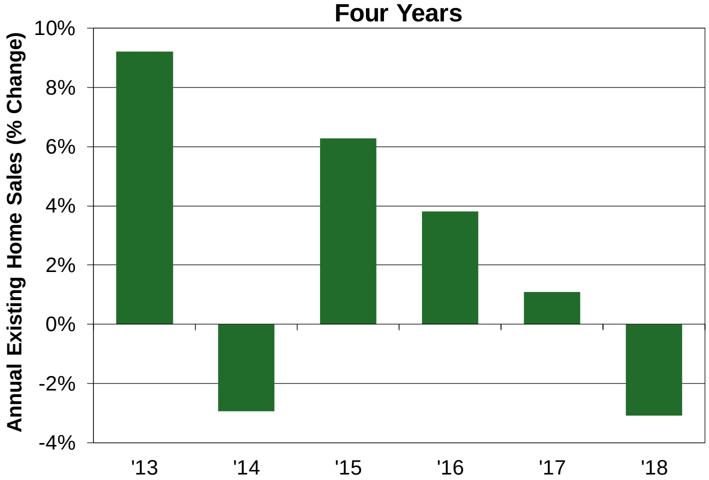
Source: Department of Labor

Housing: Despite a Disappointing 2018, There Is Hope for Existing Home Sales This Year

Existing home sales finished 2018 with a whimper, falling below 5.0 million units annualized in December for the first time since November 2015. Condo and co-op sales were hit particularly hard, falling to the lowest level in over six years. Sales were down in all four regions, with the West posting its second slowest pace in eight years. Despite the increases in total existing home sales in the first two months of the fourth quarter, last month's large decline weighed on the quarter, resulting in a 1.8 percent decline and marking the fourth consecutive quarterly drop. For all of 2018, total existing home sales fell 3.1 percent, the first annual decline since 2014. The inventory of existing homes for sale increased year over year for the fifth straight month, rising at its fastest annual pace since October 2014. Meanwhile, home price gains have softened in recent months. In November, the annual gain in the FHFA Purchase-Only House Price Index was unchanged from the prior month, remaining at the slowest rate since mid-2016, just nine months after tying an expansion high of 7.8 percent. We expect home price gains to slow in 2019 to an average of 4.2 percent amid a relatively flat trend in mortgage rates, which should support affordability and home buying conditions. Mortgage rates were unchanged this week, with the average 30-year fixed mortgage rate remaining at 4.45 percent for the third straight week, according to Freddie Mac. The uptick in inventory, subsequent easing in home price appreciation, and steady mortgage rates support our forecast of stabilizing existing home sales in 2019. Finally, mortgage demand eased last week for both purchase and refinance applications after spiking for the first two weeks of the year.

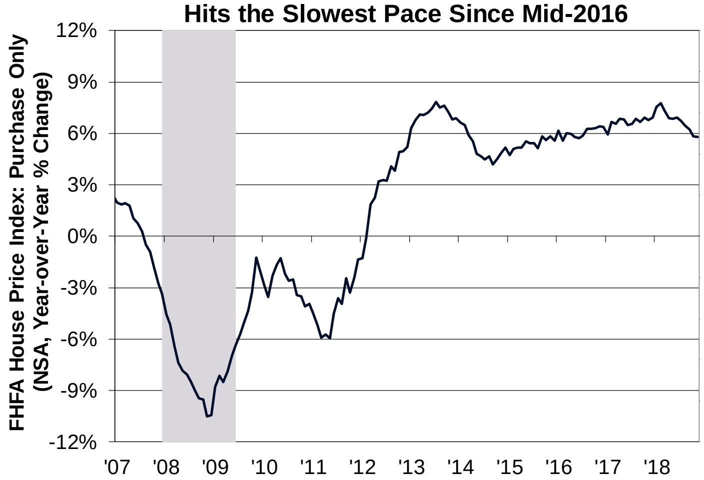
- **Existing home sales** fell 6.4 percent in December to a seasonally-adjusted annualized rate (SAAR) of 4.99 million units, according to the National Association of REALTORS®. Single-family sales fell 5.5 percent to 4.45 million units, and condo/coop sales fell 12.9 percent to 540,000 units. For all of 2018, existing home sales totaled 5.34 million units. The number of homes for sale (not seasonally adjusted) increased 6.2 percent from December 2017. The months' supply rose to 3.7 months from 3.2 months the prior December (a 6.0-month supply is considered balanced). The median existing home sales price rose 2.9 percent from a year ago.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally-adjusted basis, increased 0.4 percent in November. From a year ago, the index rose 5.8 percent.
- **Mortgage applications** fell 2.7 percent for the week ending January 18, according to the Mortgage Bankers Association. Both purchase and refinance applications declined, falling 2.2 percent and 5.3 percent, respectively, due to declines in both conventional and government applications. The MBA survey's average 30-year fixed mortgage rate ticked up 1 basis point to 4.75 percent, the first increase in ten weeks.

Existing Home Sales Fall for the First Time In Four Years



Source: National Association of REALTORS®

Annual Growth in the FHFA Home Price Index Hits the Slowest Pace Since Mid-2016



Source: Federal Housing Finance Agency

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