Fannie Mae

Economic and Strategic Research

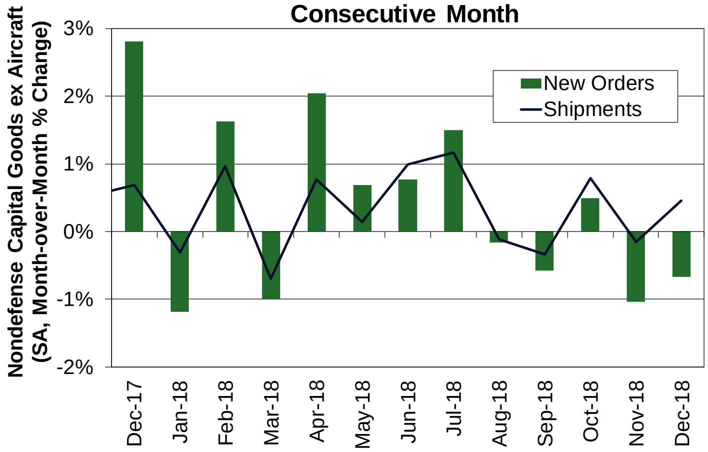
Weekly Note – February 22, 2019

Economics: Fed's Dovishness Continues as it Sees Growing Downside Risks

In this week's spotlight, the minutes from the January Federal Open Market Committee (FOMC) meeting shed light on the path of future monetary policy. With softening economic data and a return of financial market volatility, the market was anxious for insight into the Fed's recent dovish turn. The minutes reiterated what Fed Chair Powell had said in the post-meeting press conference: The Committee will be "patient" in determining future policy adjustments. The minutes also discussed substantial downside risks to the outlook such as slowing global growth, fading fiscal stimulus, and continued political uncertainty around US-China trade wars and Brexit. Importantly, "almost all participants thought that it would be desirable to announce before too long a plan to stop reducing the Federal Reserve's asset holdings later this year." While it had previously been stated that the balance sheet wind down was no longer on "autopilot," the minutes were the first to reveal a suggested timeline for pausing or ending the balance sheet reduction. In other news, headline durable goods orders were solid in December but were driven predominately by the volatile defense and aircraft components. Core orders, a forward-looking indicator which excludes these segments, fell significantly for the second consecutive month, suggesting a slowdown in manufacturing activity and business equipment investment this quarter. Similarly, the January measure of the Leading Economic Index softened slightly. The index has been essentially flat since October 2018, following months of solid increases earlier in 2018. While improvements in financial market measures were a boost to the index, manufacturing and labor market components weighed on the reading. Finally, weekly unemployment claims fell sharply last week, but the series has recently been volatile due in part to the partial federal government shutdown. On a four-week rolling average, claims rose slightly. While the level of claims is still low and consistent with solid continued employment growth, a bottoming out of the measure may be occurring, consistent with being late in the business cycle.

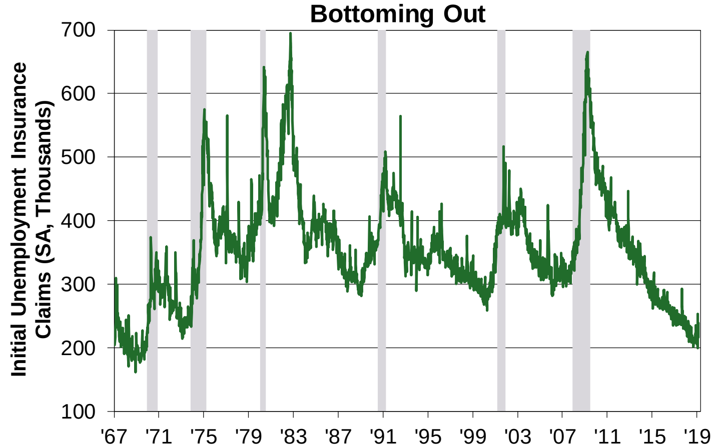
- **Durable goods orders** rose 1.2 percent in December according to the Census Bureau following an upwardly revised gain of 1.0 percent in November (previously 0.8 percent). Not including the transportation segment, orders rose by only 0.1 percent. Core orders, which exclude aircraft and defense related items, fell 0.7 percent – the second consecutive monthly decline. Core shipments fared better over the month, rising by 0.5 percent.
- **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 January. Financial market components of the index were positive on net over the month, whereas labor market indicators, specifically unemployment claims and average weekly manufacturing hours, were a drag on the index.
- **Initial claims for unemployment insurance** decreased by 23,000 to 216,000 in the week ending February 16, according to the Department of Labor. The four-week moving average increased modestly by 4,000 to 235,750.

Core Orders Decline for Second Consecutive Month



Source: Census Bureau

Claims for Unemployment Insurance May Be Bottoming Out



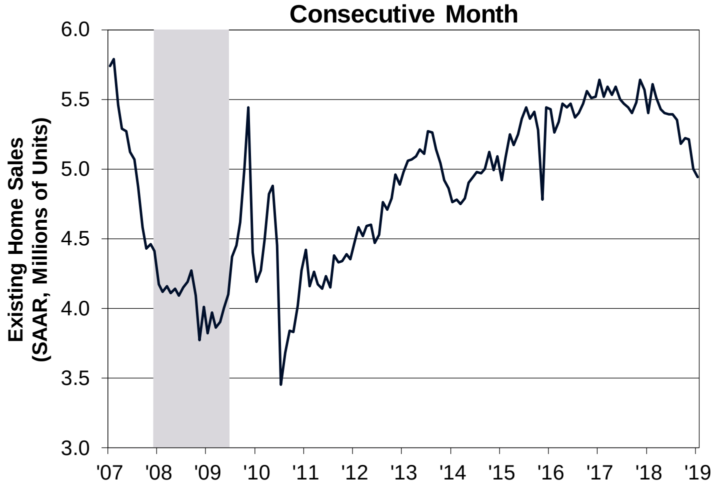
Source: Department of Labor

Housing: Existing Home Sales Start 2019 on a Sour Note

The week's news was mixed. On the bearish side, total existing home sales fell in January for the third consecutive month and the fifth time over the last six months to the lowest level in more than three years. Sales rose in the Northeast but declined in every other region, with sales in the Midwest and South posting 38-month lows and activity in the West falling to the lowest level in more than eight years. Fortunately, the existing home sales data tend to lag other housing indicators, and more recent data signal some improvement going into the spring selling season. A gauge of homebuilder confidence rose in February for the second straight month, with all three components – current sales conditions, expectations, and buyer traffic – registering gains. However, the new home market continues to face headwinds from shortages of buildable lots and skilled labor, tariffs on key building materials, and continued tight regulations, which make it difficult to produce relatively more affordable housing to meet increased demand. Affordability has improved over the past several months, however, as mortgage rates have trended downward and home price appreciation has moderated. After surging during the first two weeks of January, and then pulling back sharply, purchase and refinance demand finally showed signs of life last week. Mortgage rates declined further this week, with the yield on 30-year fixed-rate mortgages falling for the third consecutive week, edging down 2 basis points to 4.35 percent, the lowest level in more than a year, according to Freddie Mac. Since the last week of November, rates have dropped 46 basis points.

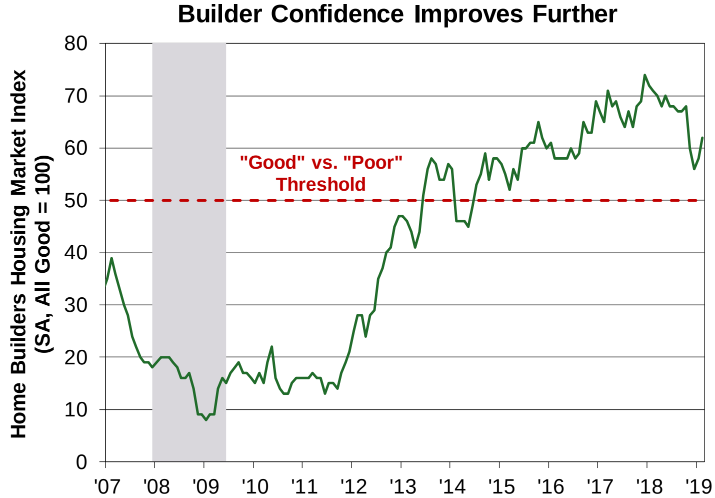
- **Existing home sales** fell 1.2 percent to a 4.94 million seasonally-adjusted annualized rate in January, the slowest pace since November 2015, according to the National Association of REALTORS®. Single-family sales were entirely responsible for the decline, falling 1.8 percent, while condo/co-op sales increased 3.6 percent. From January 2018, total existing home sales were down 8.5 percent. The number of homes for sale (not seasonally adjusted) rose 4.6 percent from last January but remained very lean, as last month's mark was the second-lowest reading for any January on record. The months' supply rose five-tenths from a year ago to 3.9 months. The median sales price, which is not adjusted for the mix of sales, was up 2.8 percent from a year ago, the smallest gain since February 2012. On an annual basis, sales declined in every region, ranging from drops of 1.4 percent in the Northeast to 13.8 percent in the West.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** increased 4 points to 62 in February. A number over 50 indicates that more builders view conditions as good than poor. Turning to index components, current sales conditions rose 3 points to 67, sales expectations over the next 6 months gained 5 points to 68, and buyer traffic advanced 4 points to 48.
- **Mortgage applications** increased 3.6 percent for the week ending February 15, according to the Mortgage Bankers Association. Purchase applications rose 1.7 percent, thanks to an increase in the conventional segment amid the fifth straight drop in the government segment. Refinance applications were up 6.4 percent, as a gain in conventional demand outweighed a drop in demand for government loans. The survey's average 30-year fixed mortgage rate edged up 1 basis point to 4.66 percent.

Existing Home Sales Drop for the Third Consecutive Month



Source: National Association of REALTORS®

Builder Confidence Improves Further



Source: National Association of Home Builders

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