



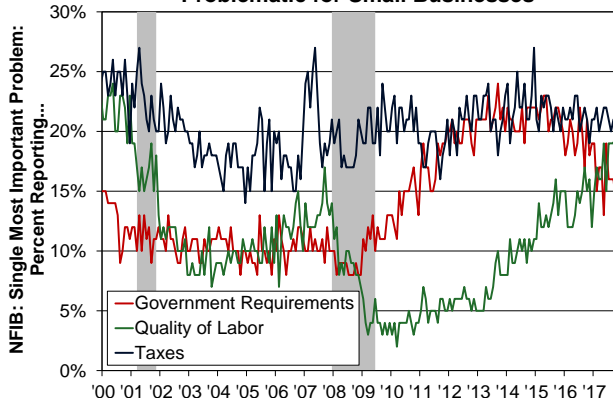
Weekly Note – November 17, 2017

Economics: Hurricane Impact Continues to Unwind

This week's reports pointed to normalization following disruptions from the hurricanes. Headline retail sales growth moderated sharply in October, due in part to declining sales at gasoline stations and building supply stores following September's surges. However, growth in core retail sales (excludes autos, gasoline and building materials), which is an input to GDP estimates of consumer spending on goods, slowed only modestly, supporting our view that real consumer spending growth will likely pick up six-tenths to 3.0 percent annualized this quarter. The industrial production report showed the biggest monthly gain in manufacturing output in six months, largely driven by the rebound in activity after the hurricanes. Retail and wholesale prices showed some signs of firming in October. The headline Consumer Price Index (CPI) posted the weakest monthly gain in three months as retail energy prices declined following surges in the prior two months, but core CPI firmed, posting the biggest annual increase since April. The strengthening of core CPI growth was broad-based, supported by prices for shelter, used cars, and medical care. Although wholesale energy prices were flat in October, both the overall and core Producer Price Indices posted the strongest annual gains since 2012. Small business confidence partially rebounded in October from the hurricane-induced drop in the prior month. However, business owners continue to report difficulty finding qualified workers, which they report has become their second most important challenge, just behind taxes. By contrast, the share of firms stating that government requirements are the most important problem has declined since late 2016. Lastly, initial jobless claims jumped last week for the second consecutive week, partly because of Hurricane Maria's impact on Puerto Rico.

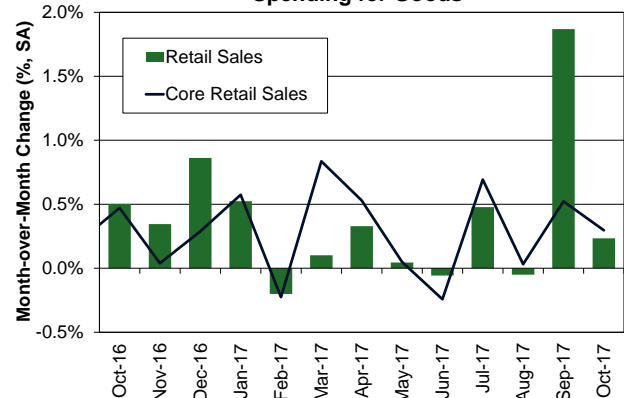
- **Retail sales** rose 0.2 percent in October, according to the Census Bureau. Gains were broad-based, with strong increases in sales at vehicle dealers, eating and drinking places, and furniture stores. Sales at building materials dealers, gasoline stations, and nonstore retailers fell. Core sales were up 0.3 percent.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, was up 0.9 percent in October, according to the Federal Reserve Board. Manufacturing output rose 1.3 percent, the biggest gain since April, reflecting a return to normal activity following disruptions from the hurricanes. Mining output fell 1.3 percent, while utility output rose 2.0 percent. The Federal Reserve noted that, excluding the rebound from the hurricanes, total industrial production rose 0.3 percent in October and manufacturing output rose 0.2 percent.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** edged up 0.8 points to 103.8 in October following a 2.3 point drop in the prior month. From a year ago, the index was up 8.9 points. The share of businesses expecting sales to improve over the next six months and the share planning to expand each jumped six percentage points. The share of businesses reporting few or no qualified applicants for open positions rose 3 percentage points to 52 percent, tying an expansion high.
- **The Consumer Price Index (CPI)** edged up 0.1 percent in October. Excluding food and energy items, core prices rose 0.2 percent from September and 1.8 percent from last October. **The Producer Price Index (PPI)** for final demand of goods and services and core PPI each rose 0.4 percent in October. **Import prices** edged up 0.2 percent in October. (The Bureau of Labor Statistics produces all three reports.)
- **Initial claims for unemployment insurance** rose 10,000 to 249,000 in the week ending November 11, according to the Department of Labor. Claims in Puerto Rico, which have surged over the past four weeks, contributed to the rise. The four-week moving average increased 6,500 to 237,750.

Quality of Labor Has Become Increasingly Problematic for Small Businesses



Source: The National Federation of Independent Business

Core Retail Sales Bode Well for Consumer Spending for Goods



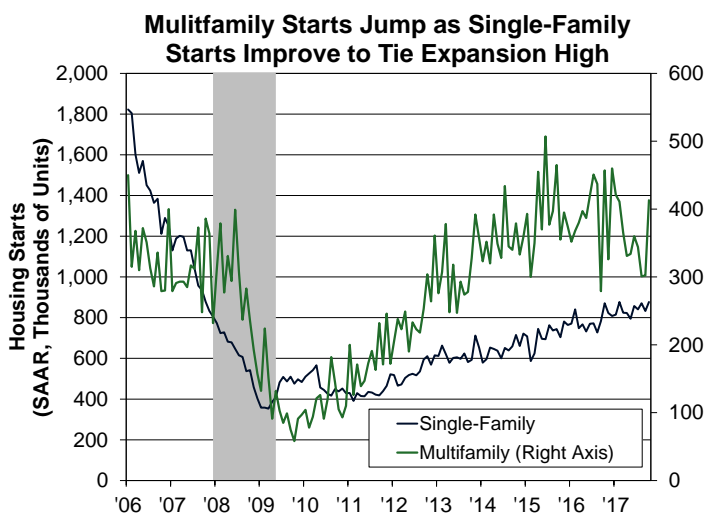
Source: Census Bureau



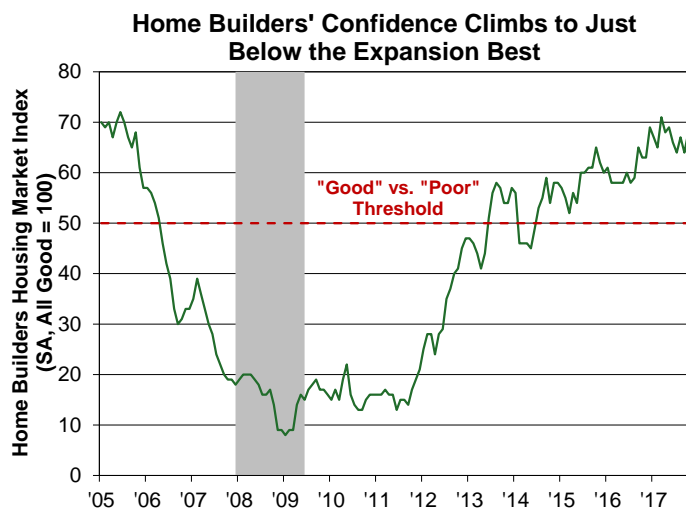
Housing: Home Building Starts Q4 with a Bang

Housing data released this week featured good news for home construction. Total housing starts in October posted the largest monthly gain in a year, ending a three-month stretch of declines. The largest monthly increase in multifamily starts this year helped boost the total. However, despite the sizable monthly jump, multifamily starts remain almost 10 percent lower on a year-to-date basis than a year ago. Single-family construction also rose in October, more than reversing last month's drop to tie the expansion high. Single-family starts in the South rebounded from a large decline in September to the highest level in a decade, likely reflecting delayed starts due to disruptions from the hurricanes. The near-term outlook for home building looks positive as well, as both single-family and multifamily permits rose during the month, with single-family permits hitting an expansion best. Further adding to the positive news for the single-family sector, home builders' optimism continued to improve, as the National Association of Home Builders' Housing Market Index rose for the second consecutive month in November to approach the 12-year high reached in March. Builders' view of present sales improved to tie an expansion high, while their outlook for future sales dipped slightly from October's expansion best. Mortgage demand improved last week for the first time in a month, boosted by the first rise in refinance applications over that span. Purchase applications, meanwhile, posted another meager gain. Mortgage rates rose this week for the first time in November, as the average 30-year fixed mortgage rate increased 5 basis points to 3.95 percent, the highest level since July.

- **Housing starts** increased 13.7 percent in October to a 1.29 million seasonally-adjusted annualized rate, according to the Census Bureau. Single-family starts rose 5.3 percent to 877,000, and multifamily starts jumped 36.8 percent to 413,000. Through the first ten months of the year, single-family starts are 8.4 percent higher than the same period a year ago, while multifamily starts are 9.6 percent lower. New residential permits rose 5.9 percent to 1.30 million annualized units. Single-family permits increased 1.9 percent to 839,000, and multifamily permits rose 13.9 percent to 458,000. On a year-to-date basis, single-family permits are up 9.5 percent, while multifamily permits are down 4.1 percent.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** rose 2 points to 70 in November. A reading above 50 indicates more builders view the single-family market as "good" rather than "poor". The present sales component rose 2 points to 77, while the future sales component edged down 1 point to 77. Foot traffic of prospective buyers improved 2 points to 50.
- **Mortgage applications** rose 3.1 percent for the week ending November 10, according to the Mortgage Bankers Association. Purchase applications edged up 0.4 percent, as a slight rise in conventional purchase applications outweighed a smaller drop in government applications. Refinance applications rose 6.3 percent, helped by 6.1 percent and 7.1 percent increases in conventional and government refinance applications, respectively. The survey's average 30-year fixed mortgage rate was unchanged at 4.18 percent.



Source: Census Bureau



Source: National Association of Home Builders

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