



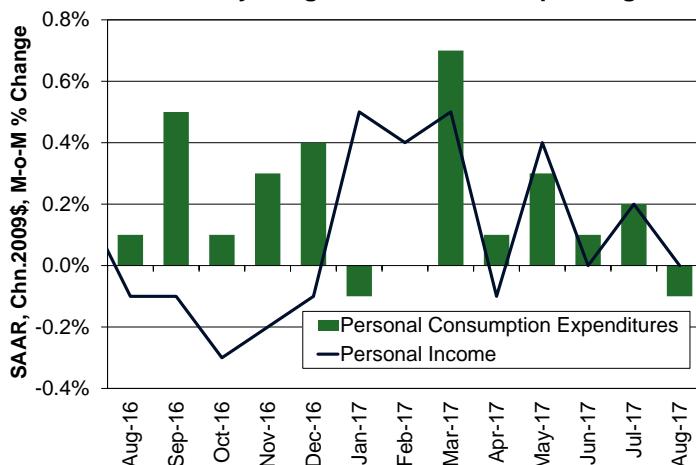
Weekly Note – September 29, 2017

Economics: Hurricanes Weigh on Third Quarter Activity

This week's reports provided additional evidence of the negative economic impacts of Hurricanes Harvey and Irma. Real consumer spending fell in August for the first time since January, driven by a sharp drop in motor vehicle spending likely due in part to Harvey. In addition, power outages caused by Harvey contributed to a slight decline in utility spending during the month. The annual rise in Personal Consumption Expenditures (PCE), the Fed's favored measure of inflation, remained stuck for the third consecutive month at 1.4 percent in August, continuing to undershoot the Fed's 2.0-percent target. Meanwhile, the annual rate of core inflation ticked down to 1.3 percent, the slowest pace since November 2015. Despite weakness in the inflation trend, Fed Chair Yellen reiterated in her speech this week that the Fed should be "wary of moving too gradually" in normalizing monetary policy. Other reports this week showing the impact of the hurricanes included consumer confidence and initial jobless claims. Both the Conference Board consumer confidence index and the University of Michigan consumer sentiment index fell in September. While the latest week of initial jobless claims data continued to reveal a fading impact from Harvey, they showed jumps in claims in Florida and Georgia from Irma. The details in the durable goods orders report offered one piece of good news this week as core capital goods shipments—a key input used to estimate the business equipment investment component of GDP—rose solidly in August, suggesting that business equipment investment will likely contribute strongly to GDP growth again this quarter. In addition, core capital goods orders, a forward-looking indicator, posted a strong rise for the second straight month. Lastly, the third print of GDP was uneventful, as a slight upward revision largely reflected a better inventory investment estimate.

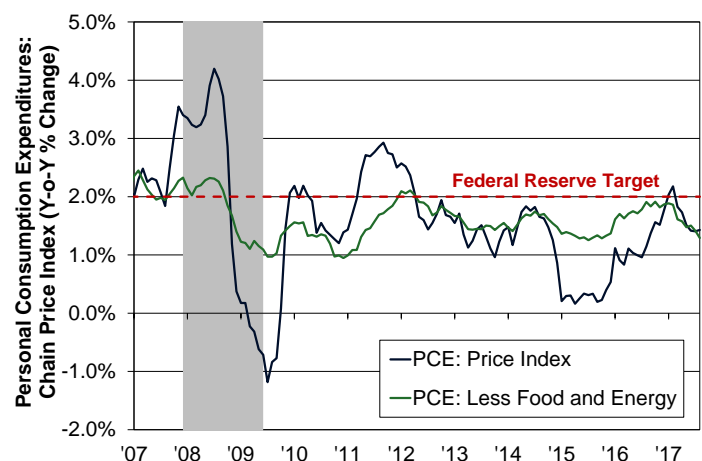
- **Personal income**, adjusted for inflation, was flat in August, according to the Bureau of Economic Analysis. Real consumer spending edged down 0.1 percent. The saving rate remained at 3.6 percent. The PCE deflator rose 0.2 percent from July, boosted by a rise in energy prices, while core prices ticked up 0.1 percent.
- **Durable goods orders** increased 1.7 percent in August, according to the Census Bureau. Motor vehicle orders rose 1.5 percent. Core capital goods shipments (nondefense capital goods excluding aircraft) increased for the seventh consecutive month, rising 0.7 percent, while core capital goods orders rose 0.9 percent.
- **The University of Michigan Consumer Sentiment Index** fell 1.7 points from August to 95.1 in the final September reading. **The Conference Board Consumer Confidence Index** slipped 0.6 points to 119.8 in September, the first drop in three months. State-level consumer confidence, which is not seasonally adjusted, declined markedly in Texas. Sentiment also fell in Florida, but to a much lesser extent.
- **Gross domestic product (GDP)**, adjusted for inflation, rose 3.1 percent annualized in Q2 2017, according to the third estimate from the Bureau of Economic Analysis, compared with increases of 3.0 percent in the second estimate and 2.6 percent in the first estimate. The upward revision came primarily from inventory investment, which contributed one-tenth to GDP growth in the third estimate versus zero contribution in the prior estimate.
- **Initial claims for unemployment insurance** increased 12,000 to 272,000 in the week ending September 23, according to the Department of Labor. The four-week moving average rose 9,000 to 277

Harvey Weighs on Consumer Spending



Source: Bureau of Economic Analysis

Inflation Remains Muted



Source: Bureau of Economic Analysis

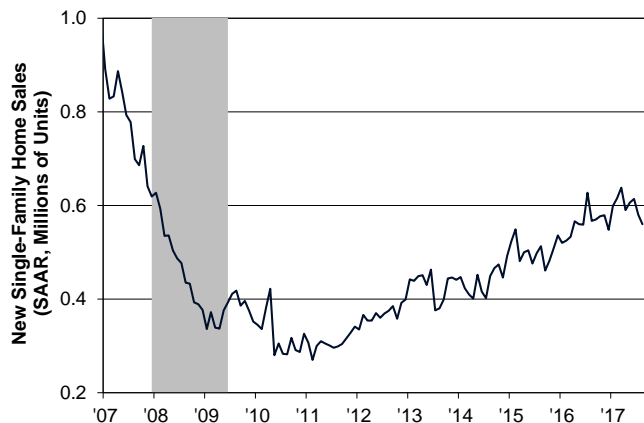


Housing: Home Sales Sputter

Housing data released this week showed a second consecutive drop in August for contract signings for both new and existing homes. New home sales, which record contract signing on new homes, dipped to a new 2017 low, as sales fell in the Northeast, West, and South and were flat in the Midwest. While new home sales fell sharply in the South, the Census Bureau is not able to discern the direct effects of the Hurricanes on activity in the region. Sales in the prior three months were revised downward substantially. The supply picture for new homes, on the other hand, has improved recently. In August, the largest monthly increase in almost four years pushed the number of new homes for sale to a new expansion high. The decline in sales and the rise in supply pushed the months' supply of new homes (inventory-to-sales ratio) above six months for the first time in over three years. The National Association of REALTORS® pending home sales index, which records contract signings on existing homes, fell in August for the fifth time in six months to hit a 20-month low. Pending sales declined across all four regions, with sales in the Northeast registering the steepest drop. NAR noted in its press release that Hurricane Harvey contributed to the South's decline in contract signings in August and that Hurricane Irma will likely weigh further on the region's sales in September. While the hurricanes will depress sales regionally, the tight supply of homes for sale continues to constrain existing sales and put upward pressure on prices nationally. The trend continued in July, as the S&P/Case-Shiller National Home Price Index grew at the fastest annual pace in over three years. Finally, mortgage demand was relatively steady last week after large swings the prior two weeks. A drop in refinance applications slightly outweighed a gain in purchase applications. The average 30-year fixed mortgage rate was unchanged this week at 3.83 percent after a five-basis-point increase the prior week, according to Freddie Mac.

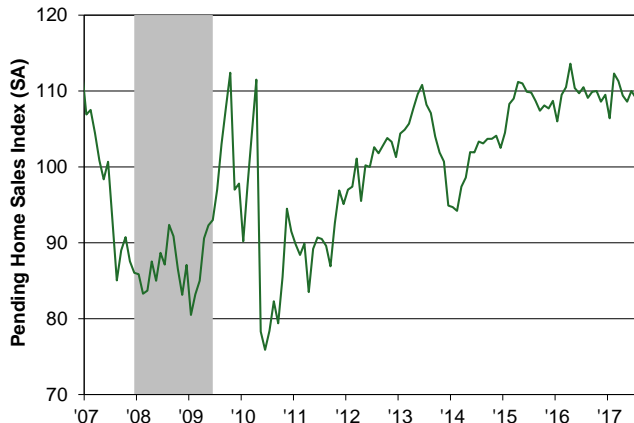
- **New single-family home sales** declined 3.4 percent in August to a 560,000 seasonally adjusted annualized rate, according to the Census. Sales over the prior three months were revised downward 19,000, on net. Through the first eight months of the year, new home sales are 7.4 percent higher than the same period a year ago. The number of new homes for sale (seasonally adjusted) jumped 3.6 percent from July, and 19.0 percent from August 2016. The months' supply of new homes rose four-tenths to 6.1 months, a full month higher than a year ago. The median sales price for new homes, which is not adjusted for the composition of sales, edged up 0.4 percent from August 2016.
- **The National Association of REALTORS® Pending Home Sales Index**, which records contract signings of existing homes and typically leads closings by one to two months, fell 2.6 percent in August. From a year ago, pending sales also fell 2.6 percent, marking the fourth annual decline in five months.
- **The S&P/Case-Shiller National Home Price Index** (not seasonally adjusted) increased 0.7 percent in the three months ending in July. Year over year, the index rose 5.9 percent, accelerating slightly from the 5.8 percent annual gain the prior month.
- **Mortgage applications** edged down 0.5 percent in the week ending September 22, according to the Mortgage Bankers Association. Purchase applications rose 2.8 percent, as conventional purchase applications improved 3.4 percent and government applications increased 1.2 percent. Refinance applications, on the other hand, fell 3.5 percent as conventional and government refinance applications dropped 2.8 percent and 6.8 percent, respectively. The survey's average 30-year fixed mortgage rate rose seven basis points to 4.11 percent, a four-week high.

New Home Sales Slip Further



Source: Census Bureau

Pending Home Sales Dip to a 20-Month Low



Source: National Association of REALTORS®

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