

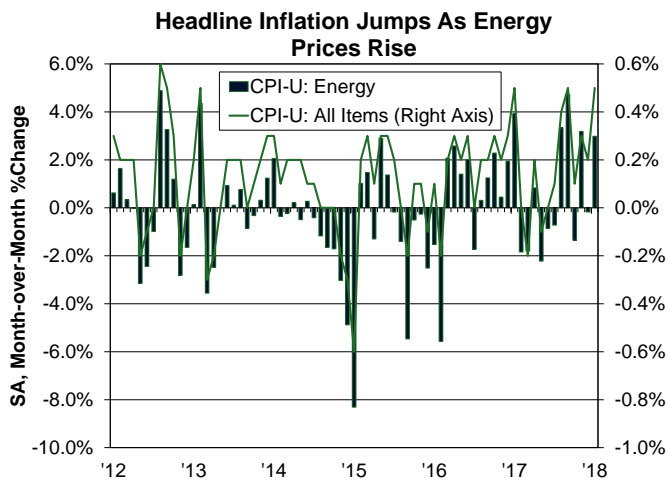


Weekly Note – February 16, 2018

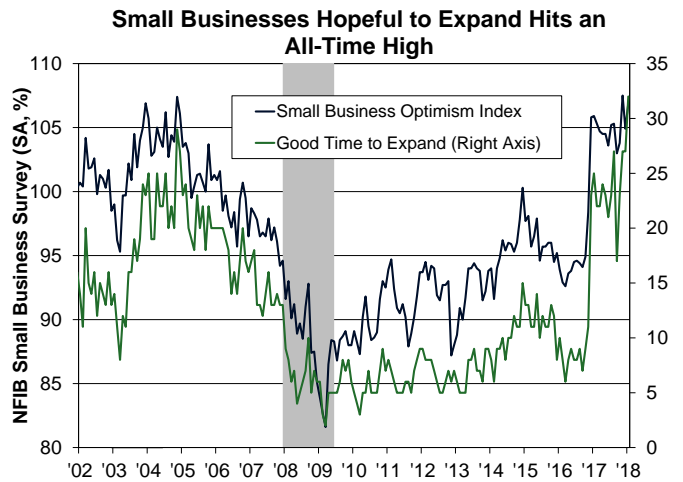
### Economics: Inflation Data Pushed into the Limelight

In a week full of economic releases, inflationary concerns dominated the news. In January, the Consumer Price Index (CPI) posted the largest monthly gain since September, pushed up by energy prices. However, year-over-year growth in the index was stagnant from December and below November’s pace. Core CPI (excluding food and energy prices) had a similar theme of a large monthly gain (largest since January 2017) and an unchanged annual growth rate. The Producer Price and Import Price Indices also registered sizable gains during the month. Despite showing little signs of accelerating inflation over the past year, the CPI report prompted a jump in Treasury yields and slightly boosted the odds that the Fed will raise rates four times this year, according to fed funds futures. The National Federation of Independent Business reported that small business confidence improved in January to just shy of November’s 34-year high, boosted by a jump in the net share of firms indicating that it is a good time to expand to 32 percent, the highest level since the series’ inception in 1973. The share of small businesses raising employee compensation reached the highest level since 2000, and the share planning to raise compensation climbed to the highest reading since December 1989, adding to signs witnessed in the January jobs report of increased wage pressures. Retail sales declined in January for the first time in five months, and gains in November and December were revised downward. Core retail sales, which exclude auto, gasoline, and building material sales and are an input for the consumer goods spending component of gross domestic product, were flat in January but were revised down for December to post the first decline in six months. Total industrial production edged down in January from December’s all-time high. Manufacturing output was unchanged at an expansion high, while utility output rose to an expansion best; however, mining dragged on total production with its largest monthly decline since August. Lastly, consumer sentiment rose for the first time in four months in early February to reach the second highest level since 2004. Both current conditions and expectations components posted the largest monthly gains since October.

- **The Consumer Price Index (CPI)** increased 0.5 percent in January and 2.1 percent from a year ago. Core prices rose 0.3 percent from December and 1.8 percent from January 2017. **Import prices** increased 1.0 percent in January and rose 3.6 percent annually, the biggest gain since April. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.4 percent in January. On an annual basis, gains in the headline and core PPI indexes slowed to 2.7 and 2.2 percent, respectively. The Bureau of Labor Statistics produces each of these reports.
- **Retail sales** fell 0.3 percent in January and core retail sales were flat, according to the Census Bureau. Sales fell most at building supply stores and motor vehicle dealers.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** rose 2.0 points to 106.9 in January. The net share of firms raising worker compensation and the share planning to raise compensation rose to 30 percent and 24 percent, respectively.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, fell 0.1 percent in January, according to the Federal Reserve Board. Manufacturing output was unchanged, utility output rose 0.6 percent, and mining output fell 1.0 percent. Capacity utilization fell two-tenths to 77.5 percent in January, 2.3 percentage points below its long-run average.
- **The University of Michigan Consumer Sentiment Index** rose 4.2 points to 99.9 in the February preliminary reading. Both long-term and short-term inflation expectations were unchanged.



Source: Bureau of Labor Statistics



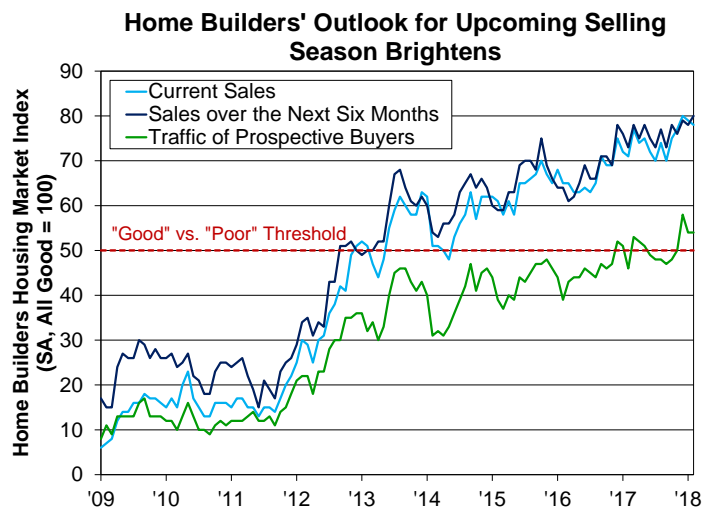
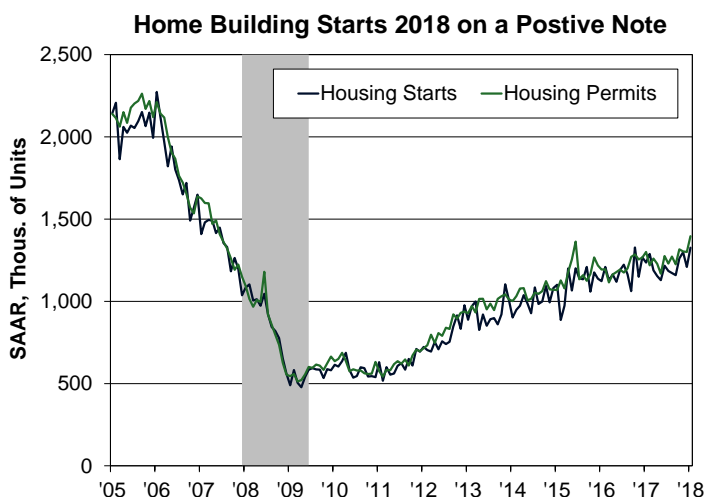
Source: National Federation of Independent Business



# Housing: Good News on the Home Building Front

Housing data released this week pointed to a bright start for home construction in 2018. Total housing starts reached the second highest level of the expansion in January, helped by increases in both single-family and multifamily building. Single-family starts posted the third gain in fourth months, rebounding from the significant decline in December. Multifamily starts maintained recent momentum, rising for the fourth time in the past five months to reach the highest level in a year. The near-term outlook for home building remains generally positive. Total permits climbed during the month to the highest level since June 2007, boosted by the largest monthly increase in multifamily permits since March 2012. Single-family permits, in contrast, posted a small decline, ending a four-month streak of gains that had pushed single-family permits to a decade-high in December. On the whole, the recent improvement in multifamily building is welcomed news after starts in the sector fell by 9.8 percent in 2017. For single-family building, the slow upward grind looks set to continue this year, as labor and land shortages and rising material prices will likely continue to impede significant improvements in construction activity. Home builders remain optimistic, as the National Association of Home Builders Housing Market Index was unchanged in February at just below the 18-year high reached in December. Home builders' optimism for the spring and summer selling season is growing, as sales expectations for the next six months climbed to a 13-year high. The present sales component, in contrast, slipped for the second consecutive month but still remains just shy of the expansion high reached at the end of 2017. Purchase and refinance mortgage demand fell last week for the second time in three weeks, with the former declining to the lowest level this year. Mortgage rates continued their recent climb, mirroring the rise in Treasury yields. The average 30-year fixed mortgage rate increased 6 basis points to 4.38 percent, marking the sixth consecutive increase to the highest level since April 2014.

- **Housing starts** rose 9.7 percent to 1.33 million annualized units in January, according to the Census Bureau. Single-family starts improved 3.7 percent to 877,000 units, and multifamily starts jumped 23.7 percent to 449,000 units. New residential permits increased 7.4 percent to 1.40 million annualized units. Multifamily permits increased 26.5 percent to 530,000, while single-family permits slipped 1.7 percent to 866,000.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** was unchanged in February at 72. The present sales component slipped one point to 78, while the sales expectations component rose 2 points to 80. The third component, foot traffic of prospective buyers, was flat at 54.
- **Mortgage applications** fell 4.1 percent for the week ending February 9, according to the Mortgage Bankers Association (MBA). Purchase applications dropped 5.9 percent, as conventional purchase applications decreased 6.0 percent and government purchase applications declined 5.6 percent. Refinance applications slipped 1.9 percent as conventional and government refinance applications fell 0.7 percent and 8.3 percent, respectively. The MBA survey's average 30-year fixed mortgage rate rose 7 basis points to 4.57 percent.



Source: Census Bureau

Source: National Association of Home Builders

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