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A Message from Stewart Sadler:

"test"

Fannie Sees Growth Slowing, Turns Bearish on Housing

Fannie Mae's economists have upgraded their second quarter economic forecast but say **that may be about it for the year**. In their July forecast, the company's Economic & Strategic Research (ESR) Group, headed by Doug Duncan, noted that the expansion just celebrated its ninth anniversary "with a bang." Economic growth in the second quarter may have approached the high in that expansion that occurred almost three years ago.

The outlook for housing has turned bearish. Single-family construction starts were up in May for the fourth time in five months but still lagged the post-crash high of last November. (Fannie Mae's economists prepared this report before the June data was released wherein housing starts plummeted by more than 12 percent.) Multifamily starts rebounded in May, reversing about half of the prior month's drop but permits dropped for both single and multifamily construction.

Home sales were mixed. New home sales rose in May, but the increase was driven by sales in the South which were at a decade long high. Homebuyers are increasingly buying homes still in the planning stage, which suggests that **building activity has not kept pace with demand.** Builders continued to face challenges from shortages of labor and rising building material costs.

Existing home sales fell for the second month and were lower year-over-year for the fourth time in five months. The inventory of available homes has been down year-over-year for three years, impeding sales and driving price increases. Typical marketing time is now 26 days, the shortest since the National Association of Realtors started tracking the number in 2011. Pending home sales, a forward-looking indicator of existing home sales, also dropped for the second month in a row.

Even though interest rates stopped rising and even dipped a bit in May, purchase mortgage application activity was flat and refinance applications continued their decline, falling for the fifth straight month and the eighth time in nine months. May volume was the **lowest since December 2000.**

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.33%	-0.12	0.00
15YR Fixed	6.89%	-0.10	0.00
30YR FHA	6.95%	-0.10	0.00
30YR Jumbo	7.44%	-0.06	0.00
7/6 SOFR	6.81%	-0.19	0.00
30YR VA	6.97%	-0.10	0.00

Rates as of: 11/20

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.51	+0.41
10 YR Treasury	4.9403	-0.1033
30 YR Treasury	5.3324	-0.0738

Pricing as of: 11/20 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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The overall bearish activity in housing prompted Fannie Mae to lower its forecast for existing home sales from a slight increase over 2017 to a slight drop and downgrade purchase mortgage originations by $20 billion. They left their forecast for refinancing unchanged at a 26 percent decrease from last year, with an 8 point drop in the refinancing share to 28 percent. Mortgage originations in 2018 are forecast to total $1.69 trillion, an 8 percent decline.

As to the overall economy, the ESR group estimate that GDP growth shot up to **4.2 percent during the second quarter** from 2.0 percent in the first. This was due to spending by consumers and the government, inventory investment and more favorable trade. Residential investment, which was a drag on growth in the first quarter appears to have made a modest contribution in the second.

Enjoy it while it lasts. The economists say this growth will not be sustainable and that the GDP will finish out 2018 with 2.8 percent growth, one tenth-point higher than they predicted last month. It will then slow to 2.2 percent in 2019 as fiscal impacts fade.

Trade will be a factor in the slowdown. Canada has already implemented tariffs on $12.5 billion in U.S. goods and there is a back and forth with China involving tariffs on $34 billion in goods on each side. The U.S. has proposed a 10 percent tariff on a list of another $200 billion in Chinese imports. The impact of these actions so far, Fannie Mae's economists say, have been small but potential retaliation from China "could be devastating for some local economies."

Even though wages remained flat - up another 0.2 percent - in the June employment report, inflation did increase. The Fed's preferred indicator, the personal consumption expenditures (PCE) deflator, moved up, also by 0.2 percent, in May for the second straight month. That brings annual growth to 2.3 percent, above the Fed's target measure of 2.0 percent. The Fed has indicated it would tolerate inflation overshooting its target and there are also concerns about the flattening yield curve, the spread between 2-year and 10-year yields was at about 30 basis points at the time the forecast was written. Despite these contra-indications, the ESR group says it expects the Fed to stay on its monetary normalization track and they changed their rate hike call to **two increases in the second half of this year**, in September and December, compared with the one hike they anticipated in their June forecast.

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