



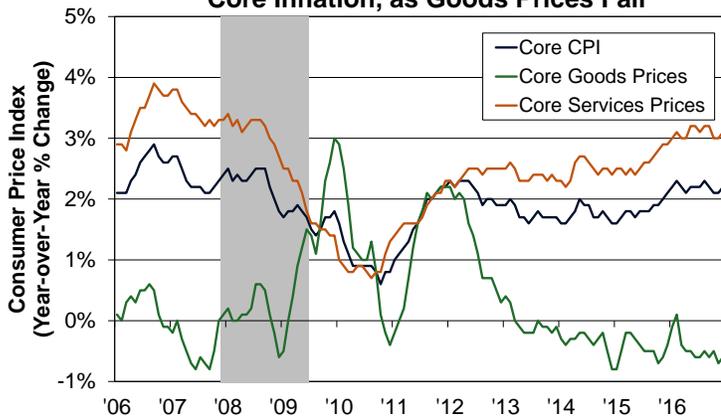
Weekly Note – January 20, 2017

### Economics: Inflation and Industry Show Signs of Life

Economic data released this week featured news on inflation and industrial production. The annual increase in the Consumer Price Index (CPI) crossed the 2.0 percent threshold in December, posting the largest gain since June 2014. The main driver of the recent acceleration in the headline index is the fading drag from declining energy prices. After falling for two full years, energy prices have risen year-over-year for the past three months reaching the fastest annual pace in December since February 2012. Excluding food and energy, annual growth in core prices accelerated slightly. Prices for services have propped up the core index since 2012, as core goods prices have fallen year-over-year for 44 of the previous 45 months. Meanwhile, core services prices grew by over three percent on an annual basis in every month of 2016. Shelter costs, in particular, have been driving the index, as annual growth in both tenants' rent and owners' equivalent rent accelerated to expansion highs. The other key piece of data this week was the Federal Reserve's report on industrial production, which in December posted the largest monthly jump since November 2014 to reach a 14-month best. The gain was driven by the largest monthly increase in utilities output since 1989 and a rise in manufacturing production, the third in four months. Also of note: oil and gas well drilling continued its recent turnaround, rising for the seventh consecutive month, mirroring the upward trend in oil prices. Finally, a drop in initial claims for unemployment insurance last week pushed the four-week moving average down to a new 43-year low, providing further evidence of declining slack in the labor market.

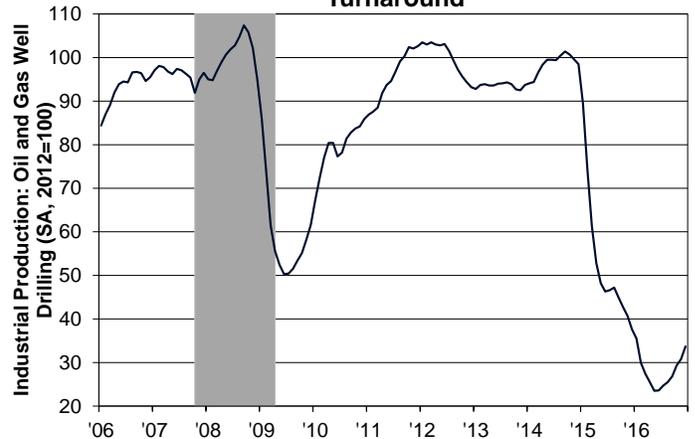
- **The Consumer Price Index (CPI)** rose 0.3 percent in December, according to the Bureau of Labor Statistics. Year-over-year, the headline index rose 2.1 percent. Excluding food and energy, core prices rose 0.2 percent for the second consecutive month. From a year ago, core prices are 2.2 percent higher. Core goods prices were flat during the month and fell 0.6 percent from a year ago. In contrast, prices for core services rose 0.3 percent on a monthly basis and 3.1 percent on an annual basis. Owners' equivalent rent rose 0.3 percent month-over-month for the third consecutive month and accelerated to 3.6 percent year-over-year. Tenants' rent also rose 0.3 percent from a month ago and 4.0 percent from December 2015.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, increased 0.8 percent in December, according to the Federal Reserve Board. Manufacturing output rose 0.2 percent. Mining output was flat during the month and utility output jumped 6.6 percent. Oil and gas well drilling improved 9.3 percent, marking the largest monthly gain in almost seven years. After almost fully reversing the prior month's decline, motor vehicle and parts production is just below the all-time high reached in October.
- **Initial claims for unemployment insurance** decreased by 15,000 to 234,000 in the week ending January 14, according to the Department of Labor. The four-week moving average decreased by 10,250 to 246,750.

**Rising Prices for Services Prop Up Core Inflation, as Goods Prices Fall**



Note: Core Prices exclude Food and Energy  
Source: Bureau of Labor Statistics

**Oil and Gas Well Drilling Continues Recent Turnaround**



Source: Federal Reserve Board

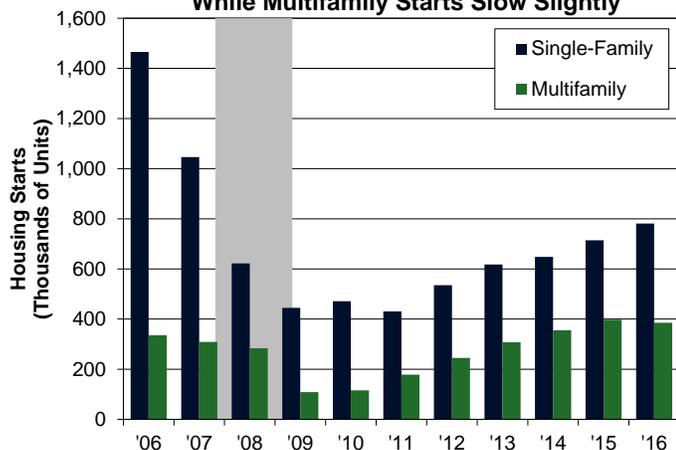


# Housing: Single-Family Building Keeps Grinding Forward

Housing data released this week closed the books on home building in 2016 and gave a view of homebuilders' outlook for 2017. Total housing starts in 2016 reached the highest level since 2007, but the progress was incremental as home construction posted the weakest annual gain since 2011. Single-family starts drove the rise with another year of slow but steady improvement. Single-family starts have risen every year of the expansion except 2011 but still remain more than 240,000 units below the long-term average of 1.02 million units a year. Multifamily construction, on the other hand, fell slightly in 2016 after recording the sector's best year since 1988 in 2015. On a monthly basis, single-family starts fell further in December from the expansion best in October, while multifamily starts continued to be volatile, alternating between double digit gains and declines over the past four months. Turning toward 2017, homebuilders remain confident heading into the new year, as the National Association of Home Builders (NAHB) Housing Market Index fell back only slightly in January from the eleven-year high hit in December. The NAHB reports that home builders are hopeful of regulatory reform under the new Administration and Congress, while their top concerns for the year include rising mortgage rates, a lack of lots, and labor shortages. Mortgage rates, however, have reversed course after a post-election run-up, falling every week so far in January. The average 30-year fixed mortgage rate declined three basis points to 4.09 percent, 23 basis points below the 32-month high reached at the end of December. The recent reversal for mortgage rates has had a mixed effect on mortgage demand. Last week, refinance applications rose for the third consecutive time, posting stronger gains each week. Purchase applications, in contrast, gave back almost all of the prior week's gain.

- **Housing starts** rose 11.3 percent in December to 1.23 million annualized units, according to the Census Bureau. Multifamily units drove the gain, jumping 57.3 percent to 431,000, while single-family starts dropped 4.0 percent to 795,000. For all of 2016, housing starts totaled 1.17 million, a 4.9 percent rise from 2015. Single-family housing starts totaled 781,000 in 2016, marking a 9.3 percent rise from a year ago. Multifamily starts fell back 3.0 percent from 2015 to 385,500. New residential permits edged down 0.2 percent in December to 1.21 million annualized units. Single-family permits rose 4.7 percent to 817,000 but were outweighed by the 9.0 percent drop in multifamily permits to 393,000. Compared with the prior year, single-family permits for all of 2016 were 7.1 percent higher, while multifamily permits were 9.3 percent lower.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** slipped two points to 67 in January. A reading above 50 indicates more builders view the single-family market as "good" rather than "poor". All three components—current sales, sales expectations, and foot traffic of prospective buyers—fell during the month. Notably, the foot traffic component remained above the 50 threshold for a second month, a first for this expansion.
- **Mortgage applications** edged up 0.8 percent for the week ending January 13 to reach a four-week high, according to the Mortgage Bankers Association. Purchase applications fell 5.2 percent after rising 6.1 percent the prior week. Conventional and government applications for purchase loans both declined. Refinance applications, on the other hand, rose 6.8 percent, as government refinance applications jumped 19.3 percent. The average 30-year fixed mortgage rate declined five basis points to 4.27 percent, marking the third straight drop.

Single-Family Starts Edge Higher in 2016, While Multifamily Starts Slow Slightly



Source: Census Bureau

Home Builders' Confidence Remains Elevated at the Start of 2017



Source: National Association of Home Builders

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