

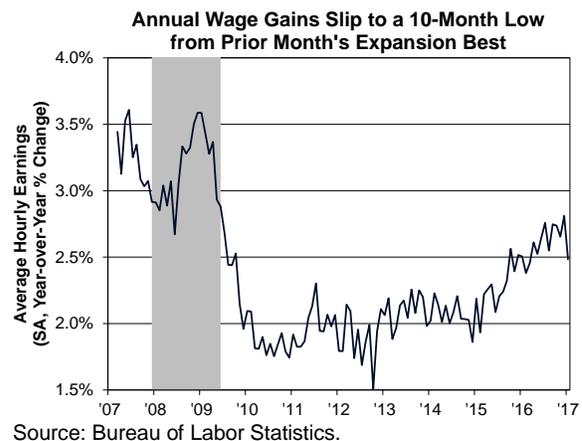


Weekly Note – February 3, 2017

Economics: Job Market Is Off to a Running Start in 2017

Today's jobs report was largely positive, showing a pickup in hiring and in the labor force participation rate. More people joining the labor force suggests more slack in the labor market than implied by the low unemployment rate. A few blemishes in the report included downward revisions in the prior months' payrolls and weakening wage gains. While the slowing pace of wage gains is disappointing, muted wage inflation supports a gradual normalization of monetary policy. In other news related to labor costs, the Employment Cost Index showed that annual growth in compensation held steady last quarter, while the productivity report pointed to moderating unit labor cost growth, thanks to improving productivity during the quarter. The Fed's preferred measure of inflation (personal consumption expenditures deflator), on the other hand, posted a year-over-year increase of 1.6 percent in December, the fastest gain since September 2014. At the Federal Open Market Committee meeting this week, the Fed left rates unchanged, and the subsequent [statement](#) revealed little on the timing of the next rate increase. Consumer spending picked up in December, as the saving rate fell to a 21-month low. Auto sales fell in January after reaching an expansion best in December amid strong incentives. The post-election boost in consumer sentiment paused last month, as the Conference Board's index slipped from a 16-year high. Manufacturing received good news this week: in addition to the second consecutive rise in manufacturing payrolls in January, factory orders jumped in December and a survey of purchasing managers indicated faster expansion last month.

- **Nonfarm payroll employment** expanded by 227,000 in January, according to the Bureau of Labor Statistics. The three-month average change accelerated from 148,000 in December to 183,000 in January. The past two months' job gains were revised down 39,000. The unemployment rate ticked up one-tenth to 4.8 percent amid a two-tenths rise in the labor force participation rate to 62.9 percent. Average hourly earnings edged up 0.1 percent from December and 2.5 percent year-over-year, slowing from an expansion-best 2.8 percent annual growth rate in the prior month. The broadest measure of the unemployment rate (U-6) rose two-tenths to 9.4 percent.
- **Personal income**, adjusted for inflation, increased 0.2 percent in December, according to the Bureau of Economic Analysis. Real personal consumption expenditures (PCE) rose 0.3 percent. The personal saving rate slipped two-tenths to 5.4 percent. The PCE deflator edged up 0.2 percent during the month and 1.6 percent from December 2016. Excluding food and energy, the core PCE deflator edged up 0.1 percent on a monthly basis and 1.7 percent annually.
- **Nonfarm business productivity** improved 1.3 percent annualized in Q4 2016 and 1.0 percent from Q4 2015, according to the Bureau of Labor Statistics. Compensation rose 3.0 percent annualized, and unit labor costs increased 1.7 percent.
- **The Employment Cost Index (ECI)**, a measure of labor compensation, rose 0.5 percent in Q4 2016, according to the Bureau of Labor Statistics. Wages and salaries increased 0.5 percent, while growth in benefits slowed to 0.4 percent.
- **The Institute for Supply Management (ISM) Manufacturing Index** improved 1.5 points in January to 56 points (any reading above 50 indicates expansion). All five components rose during the month. **The ISM Nonmanufacturing Index**, a gauge of service sector activity, edged down one-tenth to 56.5 points in January.
- **The Conference Board Consumer Confidence Index** dropped 1.5 points in January to 111.8.
- **Light vehicle sales** declined 4.4 percent in January to a 17.6 million annualized rate, according to Autodata.
- **Factory orders** rose 1.3 percent in December, according to the Census Bureau. Nondurable goods orders, the new piece of data in the report, increased 3.1 percent. The drop in durable goods orders was revised slightly lower.

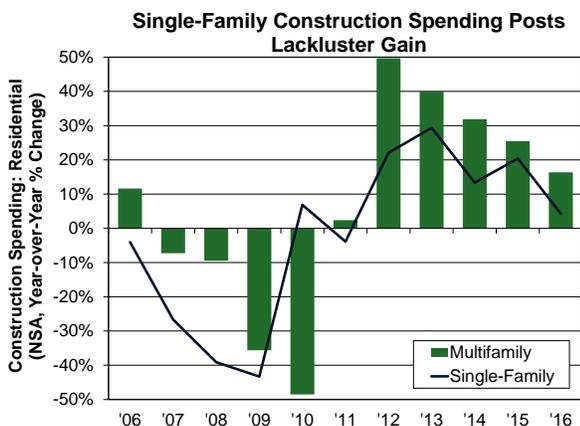




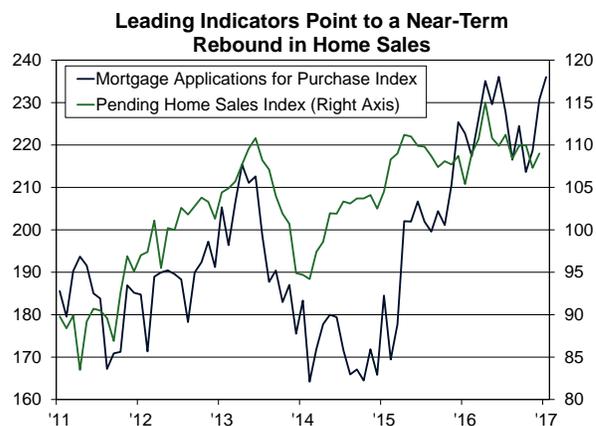
Housing: Gradual Expansion Amid Robust Price Gains

This week's news painted a picture of a good-but-not-robust year for housing in 2016. The December construction spending report showed a modest gain in single-family construction spending following four consecutive years of double-digit increases. While single-family starts posted only a slightly moderate gain in 2016, the shift in construction toward lower-priced units tempered the rise in the dollar value of construction. More inventory, especially in the lower-price range, will help the housing recovery. Tight inventory helps explain the strong home price gains in late 2016. The Case-Shiller House Price Index posted the strongest annual gain in November since July 2014. While home sales ended 2016 on a weak note amid a spike in mortgage rates, leading indicators point to improvement in early 2017. Pending home sales (contract signings of existing homes) rebounded in December, partially offsetting the large drop in the prior month. The scarcity of listings in the lower-end of the price distribution, when combined with strong home price appreciation, has restricted the ability of potential first-time homebuyers to enter the market. Purchase mortgage applications increased in recent months, as some potential homebuyers appeared to rush to apply for mortgages before rates rose further. Despite a decline in the last week of January, purchase applications managed to increase for the third consecutive month. After rising to 4.32 percent during the last week of 2016, the average 30-year fixed mortgage rate has trended lower, holding steady at 4.19 percent this week according to Freddie Mac's survey. Lastly, the homeownership rate showed signs of stabilization, rising in Q4 2016 for the second straight quarter and dropping just one-tenth since Q4 2015. For 2016, the rate fell 0.3 percentage points to 63.4 percent. While this marks the twelfth consecutive annual drop, the pace of decline moderated sizably relative to its recent trend.

- **Private residential construction spending** edged up 0.5 percent in December, according to the Census Bureau. Spending on new single-family construction rose 0.5 percent, compared with a 2.8 percent gain for multifamily. New single-family construction spending was up 0.7 percent from a year ago, the first rise in five months, and rose 4.3 percent for all of 2016, the weakest gain since 2011. Multifamily construction spending rose 10.9 percent from last December and increased 16.3 percent in 2016.
- **The National Association of REALTORS® pending home sales index** rose 1.6 percent in December following a 2.5 percent drop in the prior month. Pending sales were up 0.3 percent from December 2015.
- **The Housing Vacancy Survey (HVS)** for Q4 2016 (not seasonally adjusted) showed that the homeownership rate rose two-tenths to 63.7 percent from the prior quarter but fell one-tenth from Q4 2015, according to the Census Bureau. The homeowner vacancy rate held at 1.8 percent while the rental vacancy rate ticked up to 6.9 percent. For the year, the homeowner vacancy rate averaged 1.8 percent, the lowest reading since 2004, compared with 6.8 percent for the rental vacancy rate, which marks its best performance since 1985.
- **The S&P/Case-Schiller National Home Price Index** (not seasonally adjusted) rose 0.2 percent in the three months ending in November. The annual gain accelerated to 5.6 percent.
- **Mortgage applications** fell 3.2 percent for the week ending January 27, according to the Mortgage Bankers Association (MBA), as the average 30-year fixed mortgage rate rose four basis points to 4.39 percent. Purchase and refinance applications dropped 5.6 percent and 1.4 percent, respectively. For all of January, purchase demand rose 2.3 percent while refinance demand fell for the sixth consecutive month, declining 5.5 percent.



Source: Census Bureau



Source: National Association of REALTORS and MBA

Frank Shaw and Orawin T. Velz
Economic and Strategic Research Group
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