



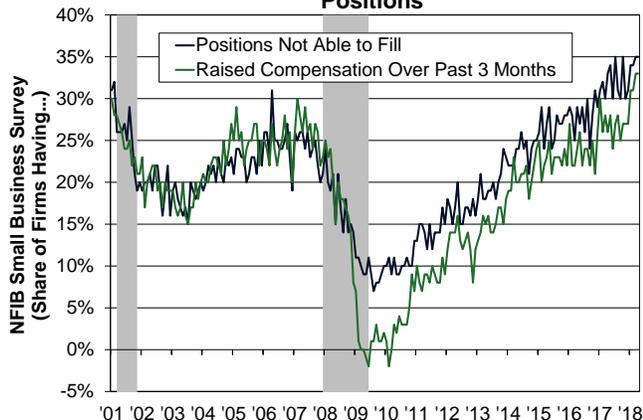
Weekly Note – May 11, 2018

Economics: The Labor Supply Comes Up Short

The labor market took the spotlight this week as several releases implied a growing shortage of workers. The National Federation of Independent Business reported that small business confidence was essentially unchanged in April, remaining at historically elevated levels. The most notable aspects of the report were about employment, as the net share of small businesses unable to fill open positions tied an expansion high for the second consecutive month. Finding qualified workers to fill those vacant positions has become more difficult; the single most important problem for small business owners was quality of labor, cited by 22 percent of respondents, tying an expansion high. The net percent of businesses that raised worker compensation over the past three months maintained a 17-year best for the second straight month, reflecting increased competition. Another survey of labor market conditions, the Job Openings and Labor Turnover Survey, reported that both the job openings level and rate rose to reach all-time highs in March. In a more timely measure of labor market tightness, last week's initial unemployment insurance claims remained just shy of the 48-year low reached at the end of April. Consumer sentiment was unchanged in early May as a drop in confidence in current conditions offset an increase in consumer expectations. Consumer credit expanded further in March, as a rise in nonrevolving credit (mainly auto and student loan debt) outweighed a contraction in revolving credit (mainly credit card debt). Consumers are becoming cautious with their credit card usage, as March marked the first back-to-back declines in revolving credit outstanding in nearly five years. On the inflation front, the headline Consumer Price Index rose in April and accelerated on an annual basis for the third consecutive month, reaching its fastest pace in over a year, thanks in part to rising oil prices. The annual growth for the core (excluding food and energy) index was unchanged, despite a decrease in new car prices, which posted an annual decline for the tenth straight month and registered the biggest drop of the expansion.

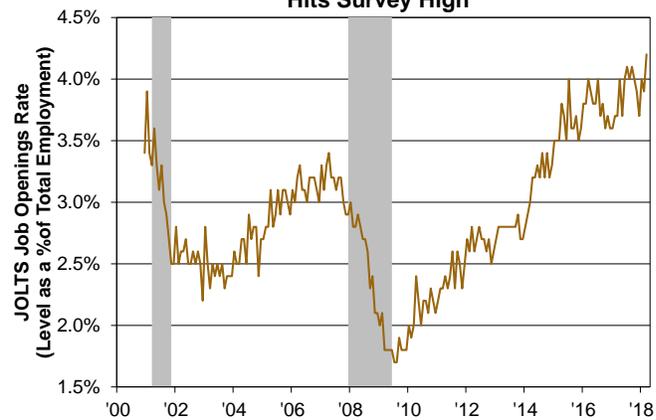
- **The Consumer Price Index (CPI)** rose 0.2 percent in April and increased 2.5 percent from a year ago. Core prices ticked up one-tenth from March and 2.1 percent on an annual basis. **Import prices** rose 0.3 percent in April and 3.3 percent annually. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.1 percent in April. On an annual basis, gains in the headline and core PPI indexes accelerated to 2.6 and 2.5 percent, respectively. The Bureau of Labor Statistics produces each of these reports.
- **The University of Michigan Consumer Sentiment Index** was flat at 98.8 in the May preliminary reading. Short-term inflation expectations ticked up while the long-term inflation outlook remained unchanged for the fourth straight month.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** edged up 0.1 points to 104.8 in April. The net share of small businesses expecting the economy to improve fell for the second consecutive month to 30 percent, the lowest level since the election in November 2016.
- **Consumer (non-mortgage) credit outstanding** expanded by \$11.6 billion in March, according to the Federal Reserve Board. Nonrevolving credit grew \$14.2 billion, while revolving credit decreased \$2.6 billion. From a year ago, nonrevolving and revolving credit increased 5.1 percent and 5.0 percent, respectively.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings increased 472,000 to 6.6 million in March, according to the Bureau of Labor Statistics. The job openings rate rose three-tenths to 4.2 percent. The hires and layoffs rates were unchanged at 3.7 and 1.1 percent, while the quits rate ticked up to 2.3 percent.
- **Initial claims for unemployment insurance** were flat at 211,000 in the week ending May 5, according to the Department of Labor. The four-week moving average decreased by 5,500 to 216,000.

Small Businesses Compete to Fill Open Positions



Source: National Federation of Independent Business

Opportunity Abounds as Job Openings Rate Hits Survey High



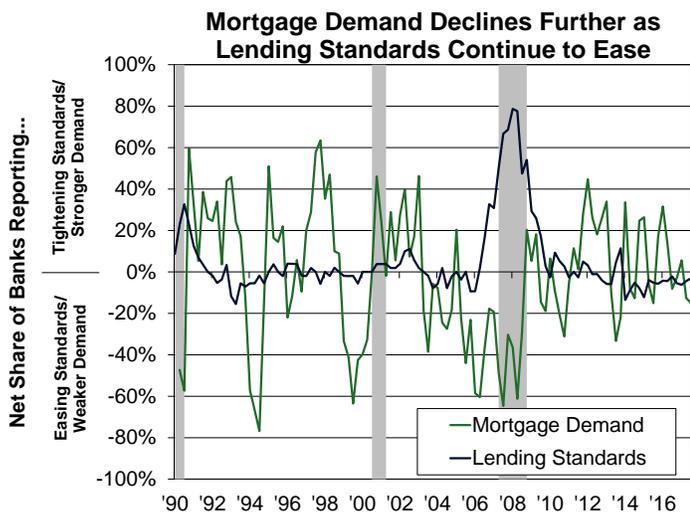
Source: Bureau of Labor Statistics



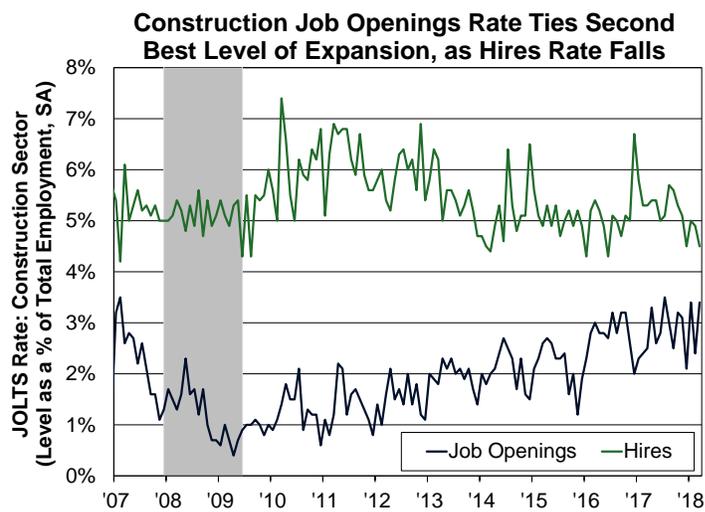
Housing: Mortgage Lending Standards Ease Further

A quiet week of housing data featured news on mortgage lending standards and demand, as well as the construction labor market. Results from the Federal Reserve Board's second quarter Senior Loan Officer Opinion Survey showed that lending standards on residential mortgage loans eased for the 16th consecutive quarter, marking the longest stretch of easing in the survey's nearly 28-year history. Meanwhile, demand for mortgages declined for the fifth time in the past six quarters, with the largest net share of banks reporting declining demand in four years. The trend of easing standards amid declining demand held true for all major loan types except subprime loans, where credit standards and demand were unchanged. Job openings for construction workers rose in March amid a decline in hiring, according to the Job Openings and Labor Turnover Survey. The job openings rate (openings as a share of total construction employment) rose to tie the second highest level of the expansion, while the hires rate continued its downward trend, declining for the sixth time in seven months. Construction workers' confidence in their job prospects remains elevated, as the construction quits rate was unchanged during the month, remaining just three-tenths below the expansion high hit a year ago. Mortgage demand edged down last week, as both purchase and refinance applications posted minor declines. Refinance applications have fallen five times over the past six weeks to reach the lowest level since October 2008. Mortgage rates were unchanged this week, with the average 30-year fixed mortgage rate remaining at 4.55 percent, 3 basis points below the four-year high reached two weeks ago, according to Freddie Mac.

- **The Federal Reserve Board Senior Loan Officer Opinion Survey** in the three months ending in April showed banks reported that lending standards on residential real estate loans eased amid declining demand. By type of mortgages, the largest net share of banks reported easing standards on QM-Jumbo loans, while the largest net share of banks reported declining demand for non-QM Jumbo loans.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that **construction job openings** rose 37.8 percent in March to 248,000, according to the Bureau of Labor Statistics. The construction job openings rate increased a full percentage point to 3.4 percent. The hires rate fell four-tenths to 4.5 percent. The quits rate was unchanged at 2.1 percent, while the layoffs rate increased three-tenths to 2.4 percent.
- **Mortgage applications** edged down 0.4 percent for the week ending May 4, according to the Mortgage Bankers Association (MBA). Purchase applications slipped 0.2 percent as both conventional and government purchase applications declined slightly. Refinance applications decreased 0.6 percent, as a 4.3 percent drop in government refinance applications outweighed the 0.1 percent increase in conventional applications. The MBA survey's average 30-year fixed mortgage rate declined 2 basis points to 4.78 percent.



Source: Federal Reserve Board



Source: Bureau of Labor Statistics

Frank Shaw and Rebecca Meeker
Economic and Strategic Research Group
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