



Weekly Note – June 8, 2018

Economics: Trade Expected to Contribute to Growth

In a busy week for economic data, highlights include trade, productivity, and the labor market. The U.S. nominal trade deficit narrowed in April to the lowest level in seven months as exports reached an all-time high and imports fell for the second consecutive month. The inflation-adjusted goods deficit, used in the calculation of net exports in gross domestic product (GDP), narrowed for the third time in four months. It now appears that net exports will likely contribute to GDP growth this quarter after adding slightly to growth in the first quarter. However, heightened trade tension with our trading partners poses downside risk for the second half of the year. Productivity growth remained anemic in the first quarter after being revised down by three-tenths of a percent, the combined effect of a downward revision to output and an upward revision to hours worked. Unit labor costs were revised upward to the strongest quarterly gain in a year, although the annual increase slowed from the prior quarter. Data from the Job Openings and Labor Turnover Survey confirm reduced slack in the labor market. Job openings, which have exceeded hires since January 2017, rose to a record high in April. As job opportunities abound and workers feel confident of their job prospects, the quits rate remained at the expansion high, which also tied the prior expansion's peak. The manufacturing sector had a disappointing headline to start the second quarter as factory shipments were flat and orders fell in April. However, core capital goods orders and shipments held the gains registered in the advanced durable goods report. Service sector activity expanded at a faster pace in May, the first acceleration in four months, according to the ISM Nonmanufacturing Index. All four components of the index – new orders, employment, business activity, and supplier deliveries – rose during the month. Finally, consumer credit expanded further in April, aided by gains in both nonrevolving (mainly auto and student loan debt) and revolving (mainly credit card debt) credit. Revolving credit bounced back from March's decline, which was its first contraction since the end of 2015.

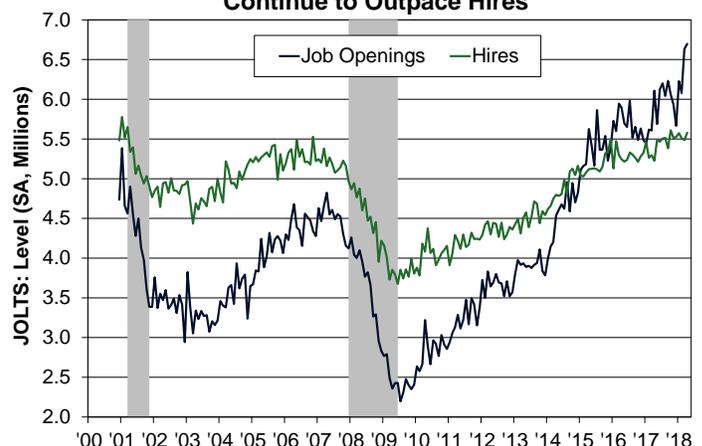
- **The U.S. trade deficit** narrowed \$1.0 billion to \$46.2 billion in April, according to the Census Bureau. The real goods deficit narrowed by \$682 million to \$77.5 billion.
- **Nonfarm business productivity** rose 0.4 percent annualized in Q1 2018, according to the Bureau of Labor Statistics. Productivity and unit labor costs both grew 1.3 percent annually, compared with a 2.6 percent rise in compensation.
- **The Job Openings and Labor Turnover Survey** showed that job openings increased by 65,000 to 6.7 million in April, according to the Bureau of Labor Statistics. The job openings and quits rate were unchanged at 4.3 percent and 2.3 percent, respectively. The hires and layoffs rates both increased to 3.8 percent and 1.2 percent, respectively.
- **Factory orders** declined 0.8 percent in April and factory shipments were flat, according to the Census Bureau. Nondurable goods orders, the new piece of data in the report, increased 0.1 percent.
- **The ISM Nonmanufacturing Index**, a gauge of service sector activity, rose 1.8 points to 58.6 percent in May (any reading above 50 indicates expansion), marking the first rise in four months.
- **Consumer (non-mortgage) credit outstanding** expanded by \$9.3 billion in April, according to the Federal Reserve Board. Nonrevolving and revolving credit grew \$7.0 billion and \$2.3 billion, respectively. From a year ago, revolving credit rose 5.3 percent and nonrevolving credit increased 4.8 percent.
- **Initial claims for unemployment insurance** fell 1,000 to 222,000 in the week ending June 2, according to the Department of Labor. The four-week moving average rose by 2,750 to 225,500.

Exports Rise to a Record High Amid a Drop in Imports



Source: Census Bureau

Job Openings Climb to an All-Time High and Continue to Outpace Hires



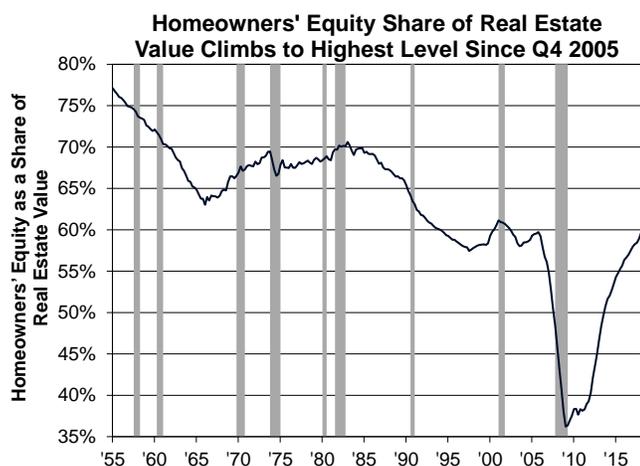
Source: Bureau of Labor Statistics



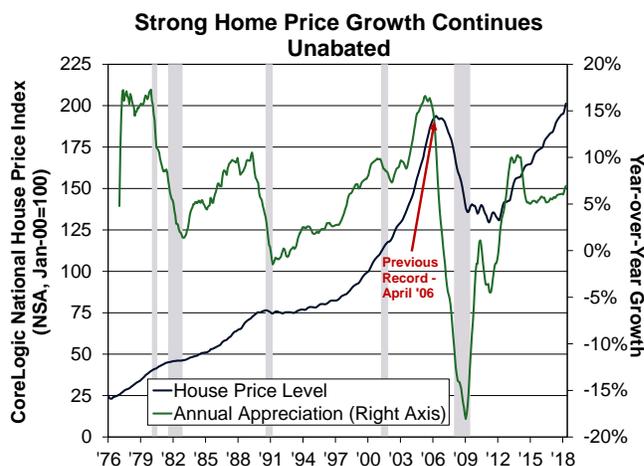
Housing: Real Estate Wealth Boosts Household Net Worth

Housing data released this week featured good news for households' net worth in the first quarter, boosted by strengthening home price appreciation. The Federal Reserve's Financial Accounts of the United States reported household net worth rose for the tenth consecutive quarter to reach \$100 trillion for the first time. Gains in real estate wealth and other components outweighed the first drop in stock market wealth in 10 quarters. Single-family mortgage debt outstanding climbed to the highest level since the third quarter of 2010, but the quarterly increase was the smallest in two years. Owners' equity in real estate posted the largest gain in almost five years, pushing homeowners' equity as a share of real estate value to the highest level since the end of 2005. The Federal Reserve uses the CoreLogic Home Price Index to estimate the value of real estate assets. The index increased 6.4 percent on an annual basis in the first quarter, the strongest gain in nearly four years. In April, annual growth in the index accelerated for the third consecutive month to the fastest pace since May 2014. Nominal home prices are now 3.9 percent higher than their pre-crisis peak in April 2006; however, real home prices remain 14.2 percent below their prior peak. In other news this week, the April Job Openings and Labor Turnover survey reported the construction job openings rate (construction job openings as a share of total construction employment) slipped slightly, but remained only four-tenths below the expansion high hit last July. The construction hires rate, on the other hand, rose for the first time in three months. The construction quits rate, a proxy for workers' confidence in their job prospects, also ticked up during the month to 2.2 percent, remaining within a tight range of between 2.1 percent and 2.3 percent since last July. Mortgage demand improved last week for the first time in seven weeks, helped by gains in purchase and refinance applications, with the latter climbing from the lowest weekly level since December 2000. Finally, the average 30-year fixed mortgage rate slipped two basis points to 4.54 percent, marking the lowest level in seven weeks, according to Freddie Mac.

- **U.S. household and nonprofit organization net worth**—the value of assets minus liabilities—rose \$1.0 trillion in the first quarter to \$100 trillion, according to the Federal Reserve. **Owners' equity in real estate** increased \$509 billion to \$15.0 trillion. **Owners' equity in real estate as a percentage of household real estate value** improved 0.8 percentage points to 59.7 percent. **Single-family mortgage debt outstanding** rose 1.4 percent annualized.
- **The CoreLogic National Home Price Index**, a repeat sales measure, increased 1.2 percent in April and 6.9 percent from a year ago (not seasonally adjusted). Prices in the lowest price tier (75 percent or less of the median) increased 9.3 percent on an annual basis, compared with 8.5 percent for prices in the low-to-middle price tier (between 75 and 100 percent of the median). The middle-to-moderate price tier (between 100 and 125 percent of the median) and the high price tier (greater than 125 percent of the median) posted 7.1 percent and 5.7 percent annual gains, respectively.
- **The Job Openings and Labor Turnover Survey** showed that **construction job openings** fell 1.3 percent to 232,000 in April, according to the Bureau of Labor Statistics. The construction job openings rate dropped one-tenth to 3.1 percent. The hires rate ticked up one-tenth to 4.9 percent. The quits rate increased one-tenth to 2.2 percent.
- **Mortgage applications** increased 4.1 percent for the week ending June 1, according to the Mortgage Bankers Association (MBA). Purchase applications rose 4.2 percent, and refinancing applications improved 3.8 percent. The MBA survey's average 30-year fixed mortgage rate fell nine basis points to 4.75 percent.



Source: Federal Reserve Board



Source: CoreLogic

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