

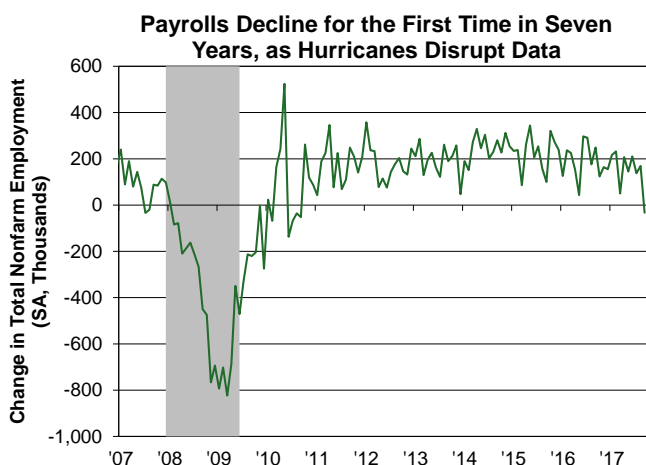


Weekly Note – October 6, 2017

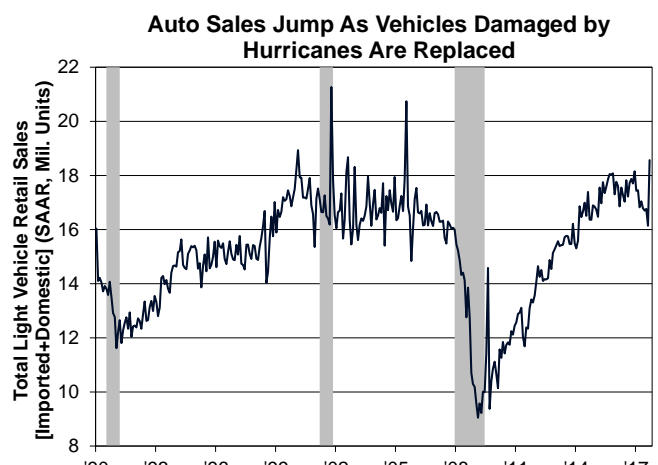
### Economics: Hurricanes Disrupt Jobs Report

The headline-grabbing decline in payrolls from the September establishment survey should not come as a surprise given the timing of Hurricane Irma’s landfall. In an indication of potential distortions from the storm, the Bureau of Labor Statistics noted that the number of workers who had a job but were not at work due to bad weather jumped to a two-decade high. The hurricane impact will dissipate over time, as has occurred in the aftermaths of previous major storms. Looking past the headline noise, there were many positives in the household survey, which was less likely to be affected by the hurricanes. (In the household survey, people are still counted as employed even if they temporarily can’t get to their jobs due to bad weather.) A decline in the unemployment rate to a 16-year low was accompanied by a rise in the labor force participation rate. Furthermore, the broadest measure of labor force underutilization (the U-6 rate) and the employment-to-population ratio both posted recovery bests. The establishment survey showed that average hourly earnings jumped in September and posted the biggest annual gain this year; however, hurricane-related job disruptions in the relatively low-paying food services and drinking places industry likely contributed to the strong gain. Replacement demand in hurricane-affected parts of the country helped boost auto sales in September to a 12-year high. This marks the largest monthly gain since the “cash for clunkers” program was created in July 2009 as part of a stimulus effort coming out of the Great Recession. The factory orders report points to a positive outlook for business fixed investment in equipment for the second half of the year, as core capital goods orders, a leading indicator, was revised upward and has now risen during four of the last five months to reach a two-year high. Optimism continues to grow in the manufacturing sector, as a survey of purchasing managers reported expansion at the fastest pace in 14 years in September. A similar survey for the service sector showed the best expansion in 12 years. Hurricane-related surges in supply delivery time and prices paid components helped drive the gains in both indices, however.

- **Nonfarm payroll employment** contracted by 33,000 in September, according to the Bureau of Labor Statistics. The three-month average gain slowed to 91,000 from 172,000 in August. Job gains from the prior two months were revised downward by 38,000, on net. The average workweek was unchanged at 34.4 hours. Average hourly earnings rose 0.5 percent from August and 2.9 percent from a year ago. The unemployment rate fell two-tenths to 4.2 percent and the labor force participation rate rose two-tenths to 63.1 percent. The U-6 rate fell three-tenths to 8.3 percent.
- **The Institute for Supply Management (ISM) Manufacturing Index** increased 2.0 points to 60.8 in September (any reading above 50 indicates expansion). A jump in the supplier deliveries component drove the gain, while inventories was the only component to decline. **The ISM Nonmanufacturing Index**, a gauge of service sector activity, jumped 4.5 points to 59.8 in September. All four subcomponents rose during the month.
- **Factory orders** rose 1.2 percent in August, according to the Census Bureau. New orders for nondurable goods edged up 0.4 percent, while factory shipments rose 0.5 percent. Previously reported gains in August durable goods orders and shipments were both revised upward by three-tenths. Both core capital goods orders and shipments were also revised upward.
- **Light vehicle sales** increased 15.0 percent to an 18.6 million annualized rate in September, according to Autodata.
- **Initial claims for unemployment insurance** decreased by 12,000 to 260,000 in the week ending September 30, according to the Department of Labor. The four-week moving average decreased by 9,500 to 268,250.



Source: Bureau of Labor Statistics



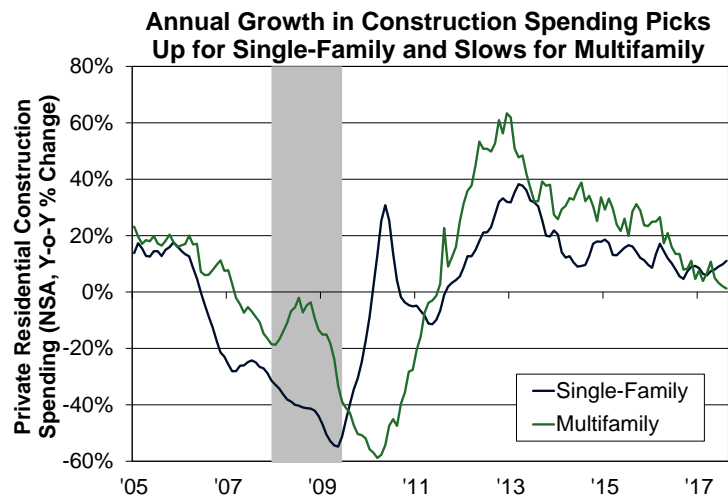
Source: Autodata



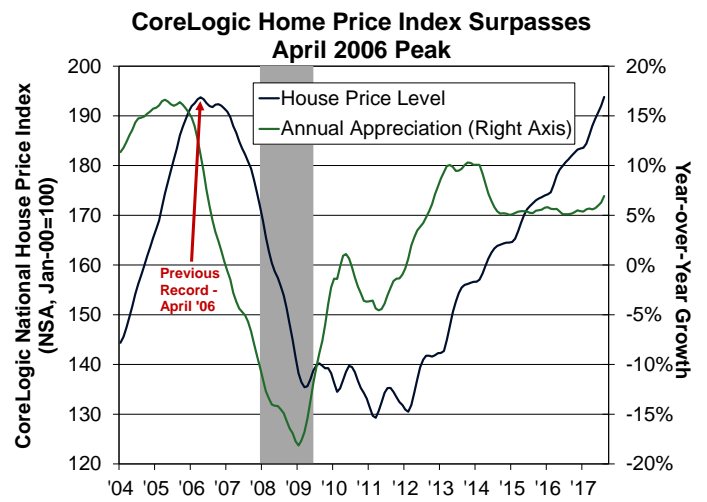
# Housing: Home Prices Surpass 2006 Peak

In housing data released this week, spending on home construction continued to expand at a modest pace, and the CoreLogic National Home Price Index reached a new all-time high. Residential construction spending improved for the fourth consecutive month in August. Spending on new single-family homes edged up for the third straight month to reach a new expansion high. Multifamily spending increased for the first time in four months, rising off of a seven-month low. On an annual basis, the two sectors are moving in opposite directions. The pace of growth in single-family spending has accelerated every month since March to reach the fastest year-over-year growth rate since May 2016. In contrast, annual multifamily spending growth has declined since May and by August had reached the slowest pace since June 2011. After a long, steady climb from a post-crisis trough in March 2011, nominal home prices in August finally surpassed the previous peak from April 2006, posting the strongest annual gain since May 2014. However, adjusting for inflation, prices were still 15.8 percent below their peak. Homes priced below the median continue to appreciate faster than homes priced above the median. In addition, the lowest price tier (75 percent or less of the median) is the only price tier to have surpassed its pre-crisis peak (by 17 percent). Regionally, prices in 35 states, including Washington, D.C., have seen prices rise above their pre-crisis peaks. Mortgage demand fell during the last week of September, as a drop in refinance applications outweighed a gain in purchase applications. However, for all of September, total application improved 2.5 percent. Purchase applications rose 1.0 percent during the month after falling about 4.0 percent in each of the preceding two months. Refinance applications increased 3.8 percent, marking the second consecutive monthly gain. Mortgage rates rose to a six-week high this week, with the average 30-year fixed mortgage rate edging up 2 basis points to 3.85 percent, according to Freddie Mac.

- **Private residential construction spending** rose 0.4 percent in August, according to the Census Bureau. New single-family construction spending increased 0.3 percent, while spending on new multifamily construction gained 0.9 percent. Spending on improvements also increased 0.5 percent. Year-over-year, single-family spending rose 11.0 percent, as multifamily spending increased 1.2 percent.
- **The CoreLogic National Home Price Index**, a repeat sales measure, increased 0.9 percent in August (not seasonally adjusted). The index rose 6.9 percent from a year ago. Since hitting its trough in March 2011, the index has increased 49.9 percent. Prices in the lowest price tier increased 9.4 percent from a year ago, while prices in the low-to-middle tier (between 75 and 100 percent of the median) rose 8.2 percent annually. The middle-to-moderate tier (between 100 and 125 percent of the median) and the high price tier (greater than 125 percent of the median) posted 7.3 percent and 5.8 percent annual gains, respectively.
- **Mortgage applications** edged down 0.4 percent for the week ending September 29, according to the Mortgage Bankers Association. Refinance applications dropped 1.8 percent, while purchase applications rose 1.0 percent. The survey's average 30-year fixed mortgage rate ticked up one-tenth to 4.12 percent.



Source: Census Bureau



Source: CoreLogic

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