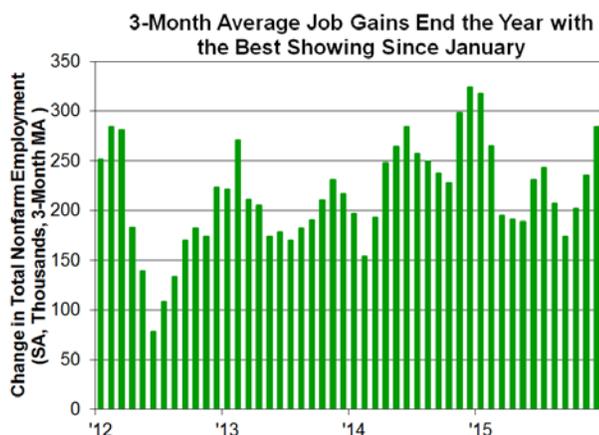


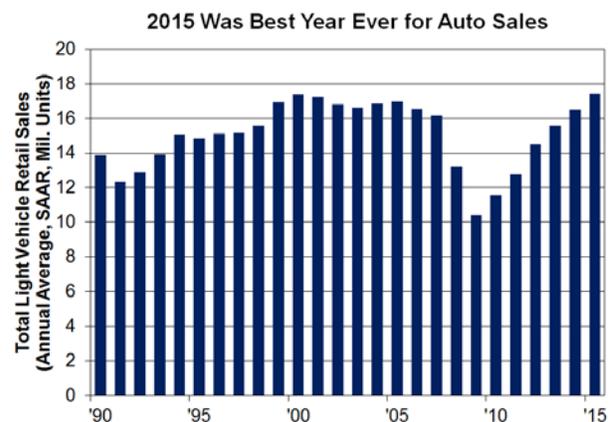
Economics: Jobs Report Supports March Rate Hike Expectation

Economic data released this week showed the U.S. economy is on solid footing despite concerns about turmoil in global financial markets and weak incoming domestic data. The [minutes](#) from the December 15-16, 2015 Federal Open Market Committee (FOMC) meeting revealed the decision to increase the fed funds target was unanimous, although some committee members expressed concerns over continued below-target inflation. The FOMC cited the possibility of continued low oil prices and further strengthening in the dollar as downside risks to inflation. Also, participants emphasized the need to adjust the policy path as economic conditions evolved, making clear that the pace of tightening would be gradual and data-dependent. The strong jobs report released this morning provided one such data point supporting change in monetary policy and demonstrating the health of the domestic economy, as a strong employment gain in December and upward revisions to the past two months led to the best three-month average gain since January. The unemployment rate held steady at the end of the year as the labor force participation rate ticked up. However, even though annual wage growth moved to the upper end of the range witnessed during the expansion, it remains uninspiring relative to the sizable job gains and the reduced slack in the labor market. Another piece of good news came from vehicle sales, which posted the best annual average pace on record, even after a dip in December following three strong consecutive months. The strong dollar continued to influence international trade, as the deficit narrowed, but only because imports fell more than exports. Manufacturing showed further signs of malaise, as factory orders fell in November and a survey of purchasing managers for December suggested the sector contracted for the second month in a row. Globally, China took center stage at the beginning of the week as selloffs on the Shanghai Stock Exchange caused trading to be halted Monday and again on Thursday, when trading lasted only 29 minutes, the shortest day in the market's 25-year history.

- **Nonfarm payroll employment** expanded by 292,000 jobs in December, according to the Bureau of Labor Statistics. The unemployment rate held steady at 5.0 percent for the third consecutive month as the labor force participation rate crept up one-tenth to 62.6 percent. Average hourly earnings fell one cent during the month, but grew 2.5 percent from a year ago. The average workweek was unchanged at 34.5 hours. The broadest measure of the unemployment rate (U-6) remained at 9.9 percent.
- **Factory orders** decreased 0.2 percent in November, marking the third decline in four months, according to the Census Bureau. Nondurable goods, the new piece of data in the report, fell for the fifth consecutive month, dropping 0.4 percent. Core capital goods orders (non-defense excluding aircraft), were revised upward one-tenth to a 0.3 percent decline.
- **The Institute for Supply Management (ISM) Manufacturing Index** fell for the sixth consecutive month in December, dropping 0.4 points to 48.2, the lowest reading since June 2009 (any reading above 50 indicates expansion). **The ISM Non-Manufacturing Index**, a gauge of service-sector activity, remained in expansionary territory but slipped 0.6 points to 55.3 points in December, marking a fourth fall in the past five months.
- **Light vehicle sales** fell 4.6 percent in December to a 17.3 million annualized rate, according to Autodata.
- **The U.S. trade deficit** narrowed \$2.2 billion to \$42.4 billion in November, as a 1.7 percent fall in imports outweighed a 0.9 percent drop in exports, according to the Census Bureau. The inflation-adjusted goods deficit, used in the calculation of net exports in the GDP estimate, narrowed \$1.4 billion to \$59.6 billion.



Source: Bureau of Labor Statistics

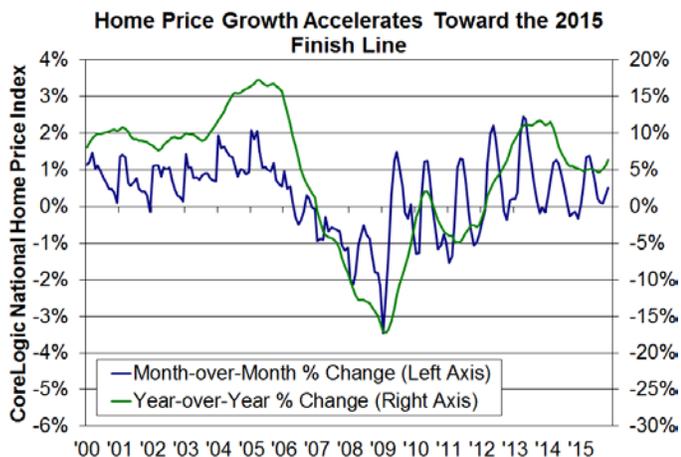


Source: Autodata

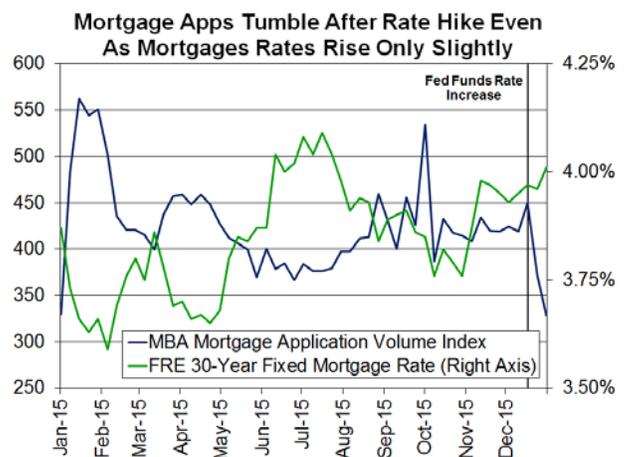
Housing: Weak Activity Outside of Home Prices

Housing data released this week were bearish for residential investment and mortgage demand, but upbeat for home prices. New total residential construction spending disappointed in November, showing a modest increase in single-family spending amid a decline in multifamily spending despite an earlier report of surging single-family and multifamily starts during the month. Single-family construction spending, not adjusted for inflation, edged up to a new expansion best after eight consecutive monthly rises, but remains at less than half its peak in 2006. Multifamily construction spending, which accounts for only 20 percent of spending on new housing, slipped slightly from the all-time high reached in October 2015. Home purchase demand, as measured by purchase mortgage applications, improved in 2015, rising 15.5 percent from 2014, more than offsetting the 12.9 percent drop in the prior year. Low mortgage rates throughout the year boosted refinance applications, which rose 19.6 percent in 2015, the first gain in three years. New regulations heightened volatility in mortgage applications. Early in the year, the reduction in FHA's mortgage insurance premium in late January boosted FHA refinancing, with the gains outpacing the increase in the conventional segment. In the fall, the new TILA-RESPA Integrated Disclosure (TRID) rules created large swings in applications as lenders rushed to submit applications before the regulation's effective date. Most recently, applications for both purchase and refinance mortgages jumped in mid-December when the Federal Reserve met to raise short-term interest rates, but posted steep drops in the last two weeks of the year, with refinancing applications falling 37 percent and purchase applications sliding 15 percent. Lean inventories continued to boost home prices in November, which registered the fourth consecutive acceleration in annual home price gains, according to CoreLogic. Worsening affordability looms as a potential constraint for the housing market in 2016 if home price appreciation continues to outpace income growth, especially if mortgage rates trend up meaningfully. After rising to just over 4.0 percent for the first time since July during the last week of 2015, the 30-year fixed mortgage rate dropped four basis points this week to 3.97 percent in Freddie Mac's survey, as the global equity selloff led to a flight to quality.

- **Private residential construction spending** edged up 0.3 percent in November, marking the tenth rise over the first 11 months of 2015, according to the Census Bureau. Spending on new single-family homes rose 0.6 percent to \$226.7 billion annualized, the highest nominal level since January 2008, while spending on new multifamily homes fell for the first time in three months, declining 0.7 percent to \$56.9 billion. From a year ago, spending on single-family construction increased 9.3 percent, compared to a 24.5 percent gain for multifamily. Spending on improvements edged up 0.1 percent from the prior month, ending four months of decline.
- **The CoreLogic National Home Price Index**, a repeat sales measure (not seasonally adjusted), is yet to post a monthly decline in 2015, rising 0.5 percent in November. On a year-over-year basis, home prices increased 6.3 percent, the biggest gain since July 2014. However, the faster rate of appreciation is not nationwide, as some markets in Texas and California are experiencing slowdowns in price growth.
- **Mortgage applications** fell sharply for the second week in a row, dropping 11.6 percent in the week ending January 1, after a 17.4 percent tumble in the prior week, according to the Mortgage Bankers Association. Purchase applications declined 11.1 percent, the largest fall since the week following the implementation of the new TRID regulation at the beginning of October. Refinance applications continued their descent that began when the Federal Reserve raised short-term interest rates in mid-December, decreasing 12.4 percent after a 27.8 percent fall during the previous week.



Source: CoreLogic



Source: Mortgage Bankers Association



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