

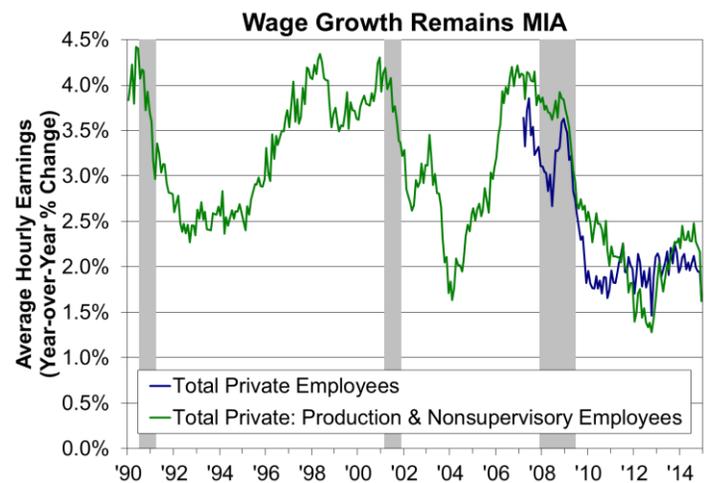
Economics: More Jobs, Tighter Market, Muted Wage Gains

The mixed December jobs report capped off the best year of job growth since 1999 and the lowest unemployment rate in six and a half years. Unfortunately, the diminishing slack has yet to trigger net new entrants into the labor force or acceleration in wage growth. Other economic data were, on balance, supportive of economic growth. This includes the healthy pace of vehicle sales in December—wrapping up the best year since 2006—and the slimmest November trade deficit since the end of 2013. However, weakness in November core capital goods orders suggests that the rapid pace of business capital investment is likely to stall in the near term. Overall, we are upbeat about the macro economy in 2015, as we expect continued labor market improvement to slowly lead to stronger wage growth, rising consumer confidence, and solid growth in consumer spending. The momentum in the overall economy should be enough to drag housing upward, continuing a broad-based albeit cautious recovery. Monetary policy will be an area to watch closely this year as the Fed is likely to begin the process of hiking interest rates. Even as the market anticipates a mid-year rate hike, long-term treasury yields continue to move lower, with the 10-year Treasury yield hovering at 1.95 percent by mid-day.

- **Nonfarm payroll employment** rose 252,000 in December, according to the Bureau of Labor Statistics. Full-year job growth came in at just under 3 million, though other aspects of the report were underwhelming. A decline in average hourly earnings left year-over-year wage growth at just 1.7 percent, the smallest since late 2012, while the drop in the unemployment rate to 5.6 percent, the lowest level since June 2008, accompanies a slip in the labor force participation rate to 62.7 percent, which tied for the worst since October 1977.
- **Light vehicle sales** declined 1.7 percent in December to 16.9 million annualized units, according to Autodata. The 16.5 million units sold in 2014 was an increase of nearly one million units from the 15.6 million units sold in 2013.
- **Consumer (non-mortgage) credit outstanding** increased 5.1 percent annualized in November, according to the Federal Reserve Board. A 7.5 percent rise in non-revolving consumer credit outstanding (largely auto and student loans) drove the headline gain, while revolving debt outstanding (primarily credit card debt), dropped 1.3 percent.
- **The Institute for Supply Management (ISM) nonmanufacturing index** dropped 3.1 points to 56.2 in December (a reading above 50 indicates expansion in the service sector). Declines were broad based among sub-indices, with business activity, new orders, employment, and supplier deliveries all falling on the month, though all remained well above 50.
- **Factory orders** declined 0.7 percent in November for a second consecutive month, according to the Census Bureau. Nondurable goods orders, the fresh data in the report, declined 0.5 percent while the previously reported 0.7 percent drop in durable goods orders was revised lower to show a 0.9 percent fall. Nondefense capital goods orders excluding aircraft, a proxy for business capital investment in the GDP report, fell 0.5 percent during the month and have plunged 12.9 percent annualized over the three months ending in November.
- **The U.S. trade deficit** narrowed \$3.2 billion in November to \$39.0 billion, according to the Census Bureau. A \$5.2 billion decline in imports offset a \$2.0 billion drop in exports. The nominal petroleum deficit was the lowest in more than 10 years. The real goods deficit—an input to estimate GDP—narrowed \$2.2 billion to \$47.8 billion.



Source: Bureau of Labor Statistics

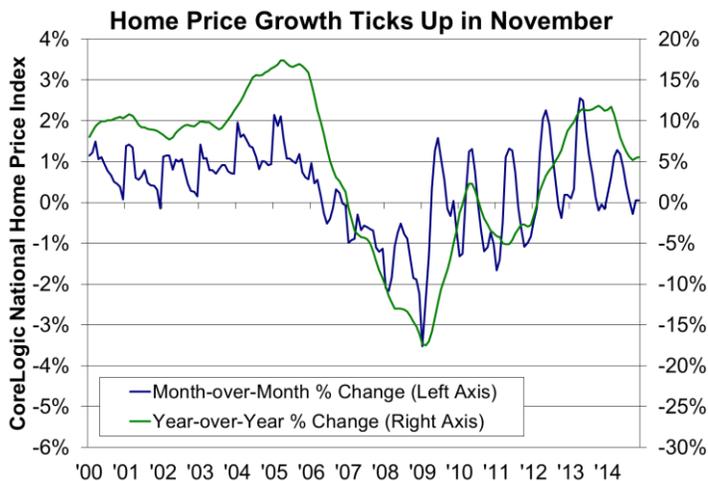


Source: Bureau of Labor Statistics

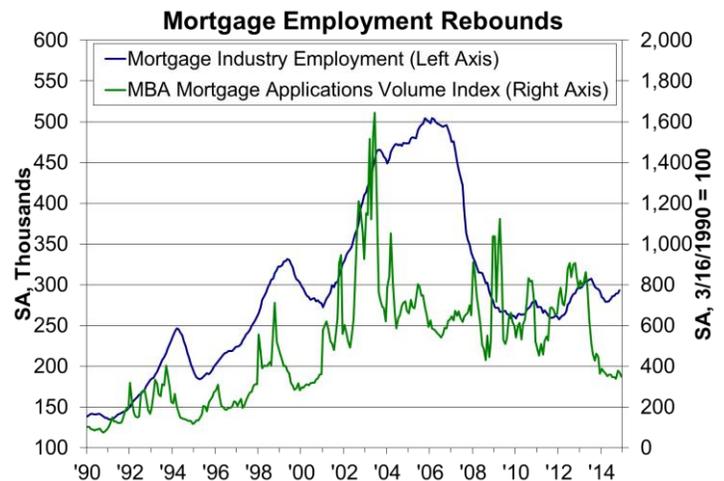
Housing: Stubborn Home Price Growth Unfazed by Weak Demand

A quiet week of housing data to start 2015 featured an increase in home prices in November and a pickup in mortgage applications from a 14-year low. The admittedly small monthly increase in prices occurred in a particularly cold and snowy November, a testament to home price momentum in an environment of tight supply. Even as mortgage rates continue to slide (the Freddie Mac contract interest rate for 30-year mortgages sank 14 basis points to 3.73 percent this week), purchase mortgage demand remains anemic. While we won't place too much weight on the historically low levels of purchase mortgage demand in the final week of 2014 given the difficulty in seasonal adjustment during holidays, a downward trend has prevailed since mid-2013. The pickup in mortgage industry employment in the second half of 2014, likely spurred by renewed interest in refinancing, is likely to continue in the near term, given the recent trend in mortgage rates and some loosening of lending standards.

- **The CoreLogic national home price index**, a repeat sales measure, ticked up 0.1 percent in November 2014 from October on a non-seasonally adjusted basis. The 5.5 percent year-over-year increase in November was a small upgrade from October's 5.4 percent annual gain, though it remains below the recent peak of 11.9 percent reached in October 2013. Though annual price growth continues to moderate on a regional basis, all 50 states and the District of Columbia registered year-over-year gains in November.
- **Mortgage applications** jumped 11.1 percent in the week ending January 2, but only partially recovered from the 18.2 percent plunge in the prior week, which left applications at their lowest level in over 14 years, according to the Mortgage Bankers Association. Purchase applications increased 4.5 percent from the lowest reading since January 1995 in the prior week. Refinance applications jumped 16.0 percent during the week following a 24.3 percent drop in the prior week. The contract interest rate for 30-year fixed-rate mortgages in the survey fell three basis points to 4.01 percent—the lowest since May 2013.
- **Mortgage industry employment**, composed of real estate credit employees and mortgage and nonmortgage loan brokers, increased on a non-seasonally adjusted basis by 3,800 to 293,000 in November, according to the Bureau of Labor Statistics (these data are released with a one month lag to the headline employment figures). Industry employment is up a cumulative 14,300 jobs since April after nine straight months of decline following the plunge in mortgage production early in 2014.



Source: CoreLogic



Source: Bureau of Labor Statistics, Mortgage Bankers Association

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January 9, 2015

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