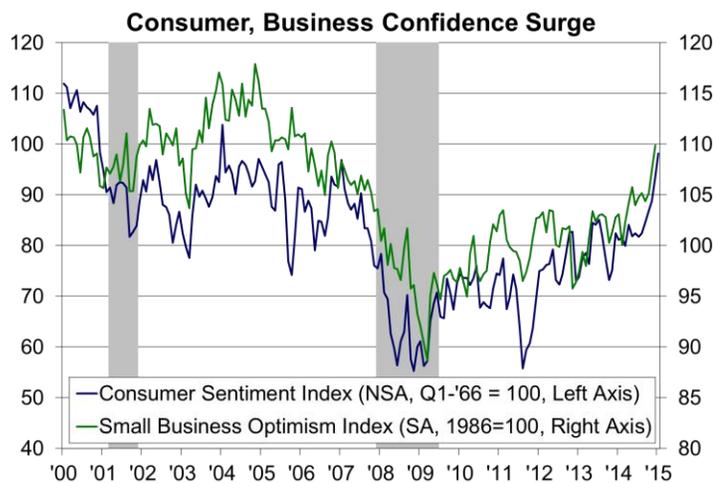


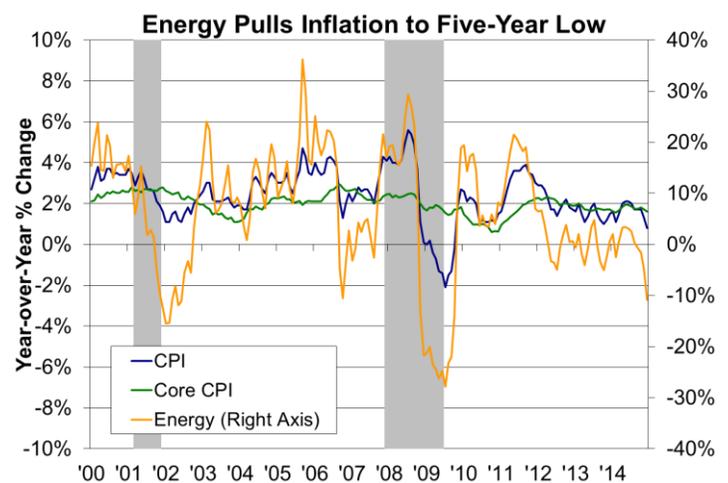
Economics: Upbeat Consumers Ease Concerns over Soft Retail Sales

This week featured a roller coaster ride of data releases. The high points were many, including an eight-year best small business confidence reading in December, and the most optimistic consumers in a decade in early January. Continued strength in manufacturing production in December was also encouraging given the weak factory orders data witnessed in recent months. The low point was the broad-based decline in retail sales in December, suggesting the pace of consumer spending to end 2014 was a bit worse than implied by a slight drop in vehicle sales reported last week. As expected, consumer and producer prices were soft to close the year, posting the smallest annual consumer inflation in five years. The global flight to quality accelerated this week with the 30-year U.S. Treasury yield falling to a record close of 2.40 percent on Thursday, while the 10-year yield hovered around 1.80 percent in Friday morning trading after flirting with 1.70 percent in intra-day trading on Thursday, down from the 1.98 percent close last Friday.

- **Retail sales** sank 0.9 percent in December according to the Census Bureau. A 6.5 percent plunge in gasoline station sales (the seventh consecutive monthly drop) was a primary driver of the decline, though significant sales drops were fairly broad-based during the month, including motor vehicle and parts dealers (-0.7 percent), electronics and appliance stores (-1.6 percent), building materials, garden equipment, and supply dealers (-1.9 percent), clothing and accessory stores (-0.3 percent), and general merchandise stores (-0.9 percent).
- **The Reuters/University of Michigan Consumer Sentiment Index** jumped 4.6 points to 98.2 in preliminary January reading. Both the current economic conditions and the consumer expectations indices reached expansion-highs.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** rose 2.3 points in December to a reading of 100.4. The net shares of firms expecting higher real sales in six months, planning to increase employment, planning to add to inventories, planning capital expenditures in the next three to six months, and indicating that now is a good time to expand the business all reached expansion highs in December.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, edged down 0.1 percent in December, according to the Federal Reserve Board. The decline was entirely due to a 7.3 percent drop in utilities production resulting from a warmer than typical December. Manufacturing production rose 0.3 percent to a record high while mining production jumped 2.2 percent.
- **The Job Opening and Labor Turnover Survey (JOLTS)** showed a 2.9 percent increase in job openings to 4.97 million in November, according to the Bureau of Labor Statistics. Hiring edged down 2.2 percent from an expansion-best 5.10 million in October to 4.99 million in November. Quits fell 3.5 percent to 2.62 million.
- **The Consumer Price Index (CPI)** declined 0.4 percent in December, pushed lower by the sixth consecutive decline in gasoline prices, according to the Bureau of Labor Statistics. Prices have increased 0.8 percent since December 2013. Excluding food and energy, core CPI was flat on the month and up just 1.6 percent over the past 12 months. **The Producer Price Index (PPI)** fell for the fourth time in five months, declining 0.3 percent in December. Over the past 12 months, producer prices are up 1.1 percent.



Source: Reuters/University of Michigan, NFIB

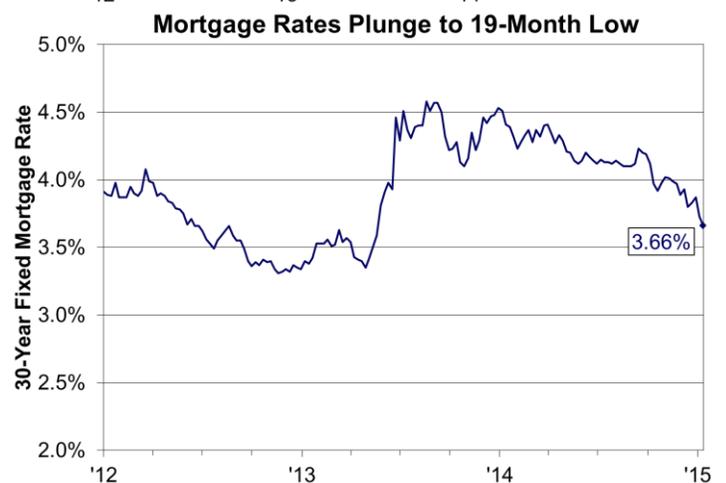
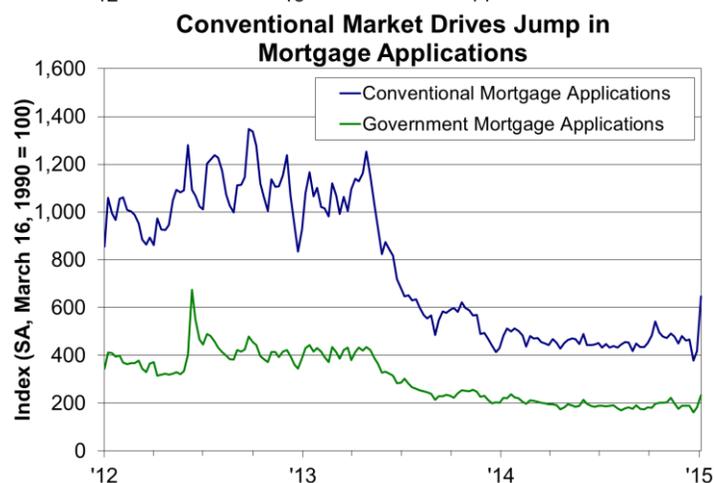
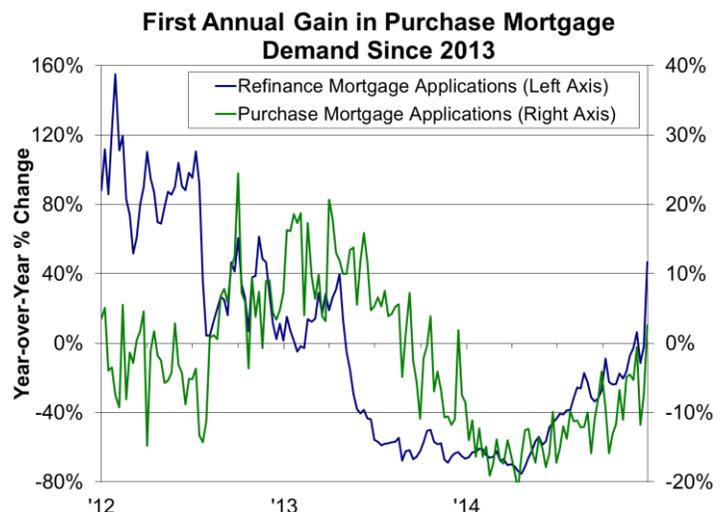
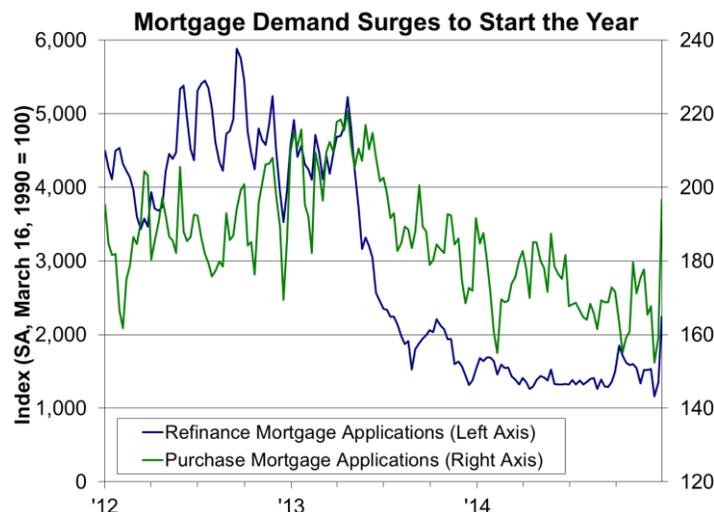


Source: Bureau of Labor Statistics

Housing: Lowest Mortgage Rates since 2013 Breathe Life to the Mortgage Market

Mortgage applications for both purchase and refinance spiked last week in the MBA weekly survey as mortgage rates declined to the lowest level since May 2013. In addition to the drop in rates, FHA's announcement of a 50 basis point decrease in mortgage insurance premiums provided additional positive news for some prospective homebuyers and refinancers. Purchase applications posted a year-over-year increase for the first time since late 2013, and refinance applications showed the biggest weekly gain since November 2008, albeit remaining well below the levels witnessed in 2013. The latest surge in applications likely reflected some seasonal payback from the holiday weeks in December and may have overstated the impact of the drop in mortgage rates during last week. This week's Freddie Mac weekly survey showed mortgage rates sliding further, with the contract interest rate for 30-year fixed mortgages dropping seven basis points to 3.66 percent, its lowest since May 2013. Overall, conditions have been more favorable to the housing and mortgage market at the start of 2015. Lending standards continue to ease modestly, according to both the latest Fannie Mae Mortgage Lender Sentiment Survey and the Federal Reserve Senior Loan Officer Opinion Survey. Combined with an expected stronger backdrop of economic growth in the current quarter, incoming housing and mortgage data continue to support our view of a broad-based increase in housing activity and a stronger mortgage market in 2015.

➤ **Mortgage applications** increased 49.1 percent for the week ending January 9, according to the Mortgage Bankers Association (MBA), amid a 12 basis point decline in the average rate for 30-year fixed-rate mortgage to 3.89 percent. The lowest mortgage rates since May 2013 supported the refinance index, which jumped 66.4 percent, reaching the highest level since July 2013. The purchase index was up 23.6 percent to the highest reading since September 2013. The increase in purchase applications was broad-based across most loan size categories, with stronger growth for conventional applications than for government loans.



Source: Mortgage Bankers Association, Freddie Mac

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January 16, 2015

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