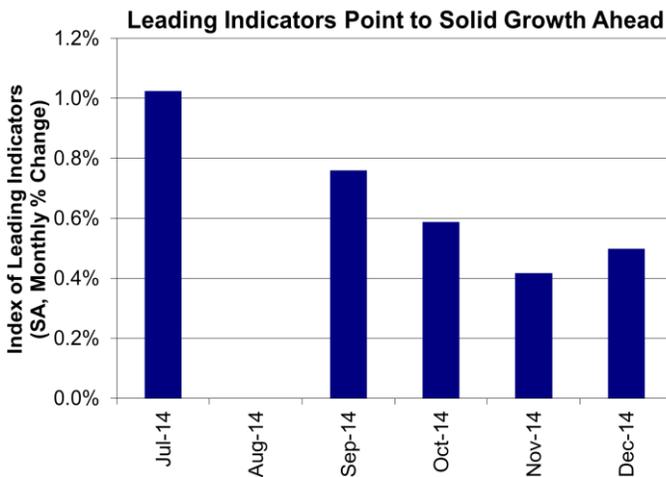


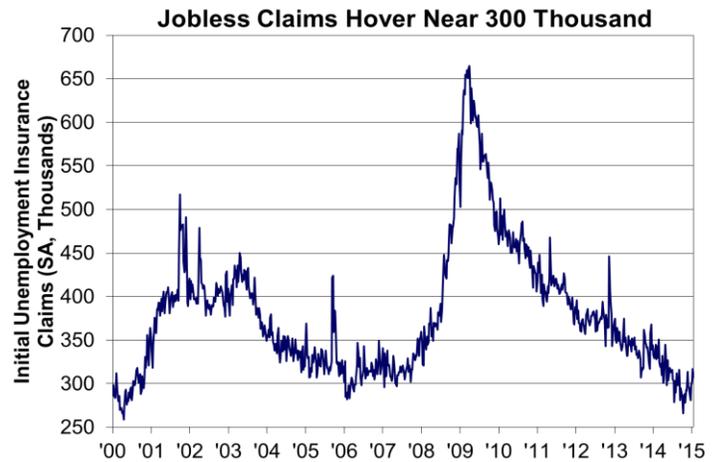
Economics: Stormy Markets, Calm Data

The sparse economic data released this week showed continued momentum in the U.S. economy and a modest decline in jobless claims after a pickup at the turn of the year. The big news this week once again focused on the international monetary policy realm, producing a worthy sequel to last week's opus sparked by the Swiss National Bank's surprise decision to de-peg the Swiss franc from the euro. On Thursday, the European Central Bank (ECB) followed through on a promise made by president Draghi more than two years ago to "do whatever it takes to preserve the euro," announcing a quantitative easing program that will purchase €60 billion per month of European sovereign debt, beginning in March and extending through September 2016. Market reaction was swift, pushing the euro to a 12-year low against the U.S. dollar. European yields plunged across the board, with 10-year yields reaching all-time lows and shorter term yields turning negative in Germany. Closer to home, the Bank of Canada unexpectedly cut its own policy rate 25 basis points to 0.75 percent, anticipating economic weakness from sagging oil prices—its first policy rate change since September 2010. Stateside, the 10-year U.S. Treasury yield sank to 1.81 percent on Friday morning, down 2 basis points from last Friday's close. Next week will provide insight into the Fed's thinking, courtesy of the January 27-28 Federal Open Market Committee (FOMC) meeting, though we may have to wait until the minutes are released in mid-February to get the juicy details.

- **The Conference Board Index of Leading Economic Indicators**, a gauge of the economic outlook over the next three to six months, rose 0.5 percent in December and increased in 15 of the past 17 months. Eight of the 10 components improved during the month.
- **Initial claims for unemployment insurance** declined by 10,000 to 307,000 in the week ending January 17, according to the Department of Labor. The four-week moving average increased by 6,500 to 306,500.



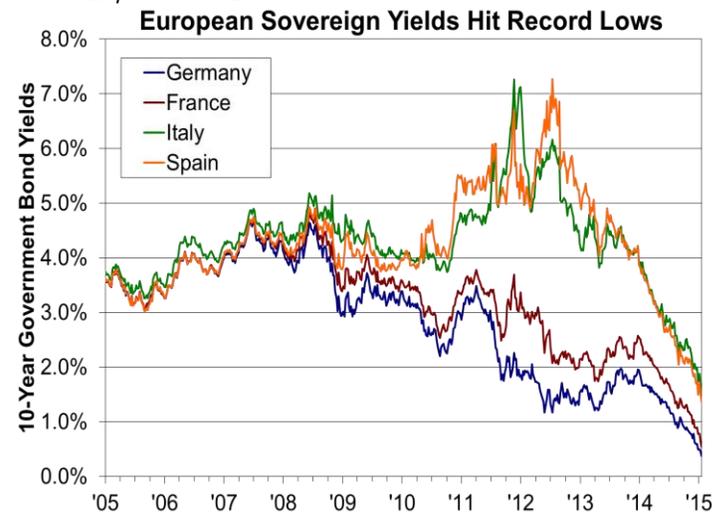
Source: Conference Board



Source: Department of Labor



Source: Reuters/University of Michigan, NFIB

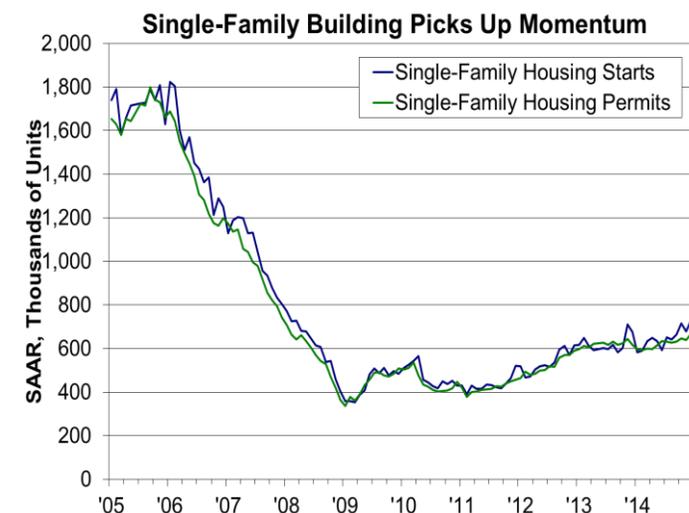


Source: Bureau of Labor Statistics

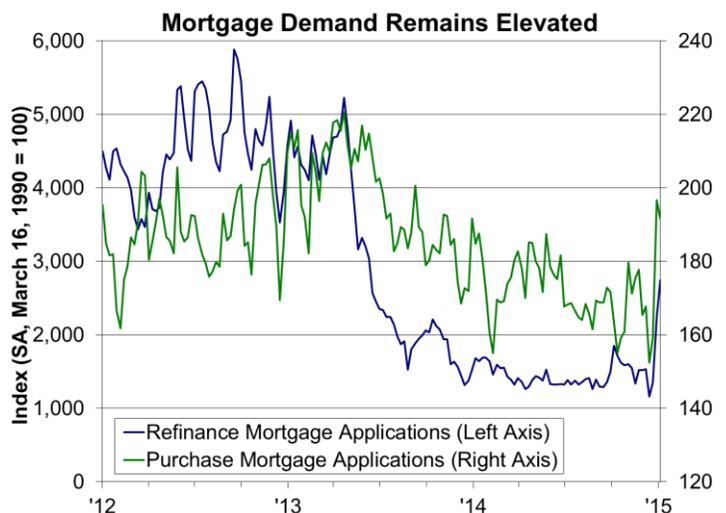
Housing: A Disappointing 2014

December data came in this week for existing home sales and housing starts, capping off a year of disappointment for the housing sector. Though home sales rebounded in December, they failed to recoup even half of the prior month's loss. For all of 2014, existing home sales posted the first annual decline since 2009. Homebuilding activity fared better last year. Housing starts moved in the right direction, though the majority of improvement was due to a booming multifamily sector, which reached pre-recession levels of activity mid-year before moderating. After a lackluster first half, single-family starts showed signs of life, rising in four of the final six months of the year. Still, the 1.01 total million housing units started last year was lower than in any year on record prior to the housing bust, spanning from 1959 through 2007. Despite a soft 2014, we remain cautiously optimistic for the housing sector in 2015. Home price growth moderated as expected last year, but has recently shown a pickup in momentum supported by continued tight supply. The surge in mortgage demand in the first week of January carried into last week, and the 3.63 percent 30-year fixed mortgage rate reported this week by Freddie Mac—the lowest since May 2013—should support housing demand going forward.

- **Existing home sales** increased 2.4 percent in December to a seasonally adjusted annual rate of 5.04 million units, according to the National Association of REALTORS®. For all of 2014, sales totaled 4.93 million, down 3.1 percent from 2013. The 1.85 million homes available for sale in December were the fewest since January 2013, pushing the months' supply, or inventory/sales ratio, down seven-tenths to 4.4—tied for the lowest since 2005. The median existing home price, unadjusted for sales composition, increased 6.0 percent on the year.
- **Housing starts** rose 4.4 percent in December to 1.09 million annualized units, according to the Census Bureau. Single-family housing starts increased 7.2 percent to an expansion-best 728,000 annual units, while multifamily housing starts edged down 0.8 percent. The 1.01 million total private housing units started in all of 2014 represents an 8.8 percent increase from 2013 and the most housing starts since 2007. Single-family housing starts totaled 648,000 units in 2014, a 4.9 percent rise from 2013, while multifamily housing starts jumped 16.4 percent on the year to 357,000 units. Building permits edged down 1.9 percent in December as an 11.8 percent drop in multifamily permits outweighed a 4.5 percent pickup in single-family permits.
- **The National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index** edged down one point in January to 57 (any reading above 50 indicates more builders view the market as good than poor). Sales expectations over the next six months and builder assessments of prospective buyer traffic both moved lower during the month, while the current sales component held firm.
- **The Federal Housing Finance Agency (FHFA) purchase-only home price index** rose 0.8 percent in November on a seasonally adjusted basis, and is up 5.3 percent from November 2013—the largest annual appreciation since May. All nine census divisions showed year-over-year price gains.
- **Mortgage applications** increased 14.2 percent in the week ending January 16, 2014, according to the Mortgage Bankers Association (MBA). The third consecutive double-digit weekly increase in refinance applications (22.3 percent) outweighed a 2.5 percent decline in purchase applications. The contract interest rate for 30-year fixed-rate mortgages fell nine basis points to 3.80 percent—the lowest since May 2013.



Source: Census Bureau



Source: Mortgage Bankers Association



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