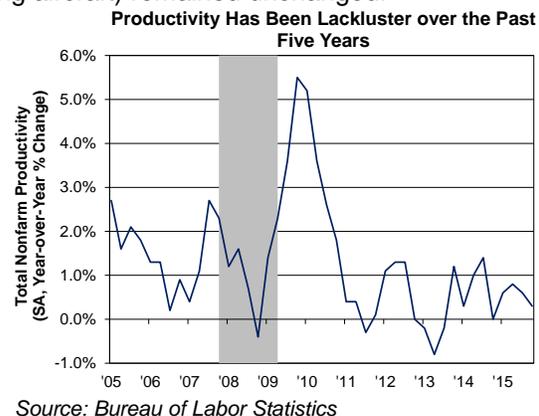
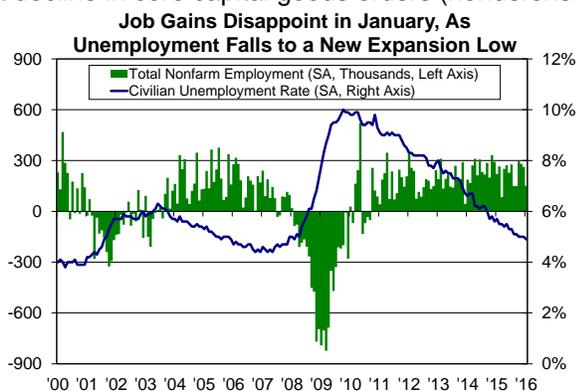


## Economics: More Questions than Answers for the Economy

Economic data released this week gave little clarity about the U.S. economy. This morning's jobs report disappointed with January's weaker than expected headline payroll employment gain, but offered other signs of encouragement. The unemployment rate fell to the lowest level of this cycle, while the labor force participation rate has trended upward over the past four months. Wage gains also offered a pleasant surprise, as average hourly earnings posted the largest monthly increase in a year, and another year-over-year gain at the upper end of their recent narrow band. While the labor market remains relatively healthy, productivity (output per worker) slumped to end 2015 with the largest quarterly decline since Q1 2014. Over the past year, productivity rose just 0.3 percent, continuing the lackluster trend witnessed over the last five years. The large drop in productivity, when combined with even a modest gain in compensation, led to the biggest increase in unit labor costs since Q4 2014. Consumer spending was uninspiring in December despite a decent income gain, sending the saving rate up to tie a two-year best. However, a bounce-back in January vehicle sales suggests strengthening spending during the month. The manufacturing sector cannot escape its current funk, as a survey of purchasing managers indicated that the sector contracted for the fourth consecutive month in January. The largest drop of 2015 in factory orders suggests a turnaround in manufacturing isn't impending, especially as exports kept falling under the weight of the strong dollar and weak global demand. While wages and unit labor costs appear to be trending higher, the price index tied to consumer spending provides little evidence of a pickup in inflation. Overall, this week's economic reports offer little clue about near-term Fed actions.

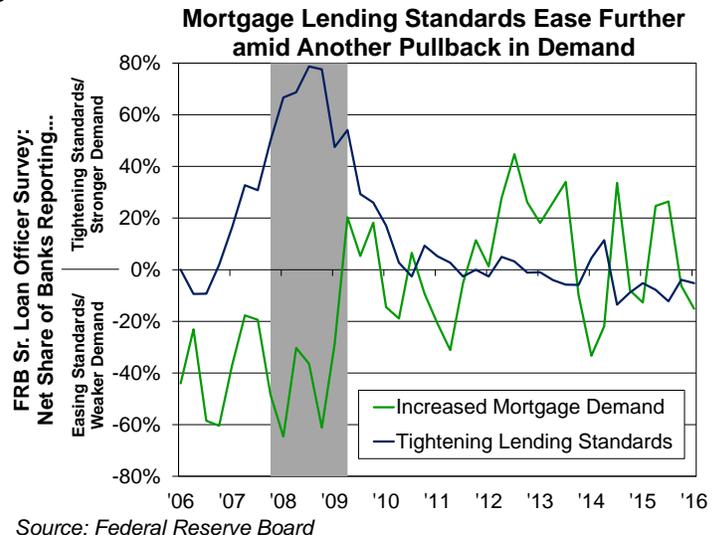
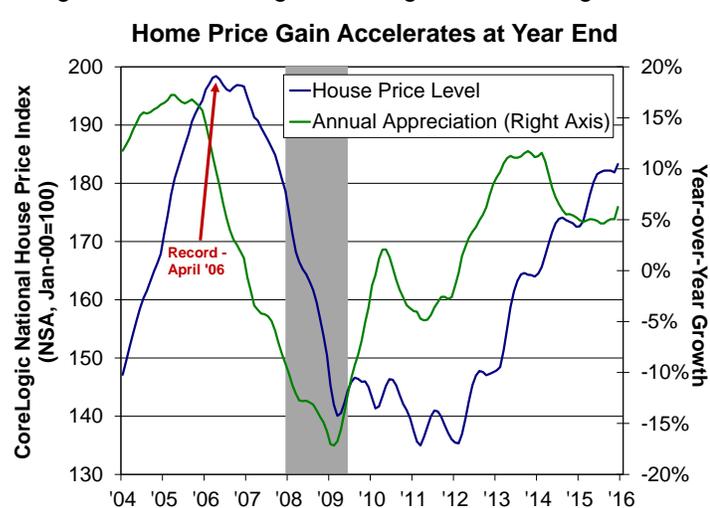
- **Nonfarm payroll employment** expanded by 151,000 jobs in January, according to the Bureau of Labor Statistics. The unemployment rate edged down one-tenth to 4.9 percent, the lowest level since February 2008, as the labor force participation rate crept up one-tenth to 62.7 percent. Average hourly earnings rose 12 cents during the month and 2.5 percent from a year ago. The average workweek increased one-tenth to 34.6 hours. The broadest measure of the unemployment rate (U-6) was flat for the third consecutive month at 9.9 percent.
- **Personal income**, adjusted for inflation, rose 0.4 percent in December, according to the Bureau of Economic Analysis. Real personal consumption expenditures (PCE) ticked up 0.1 percent. The savings rate increased two-tenths to 5.5 percent. The PCE deflator posted the largest annual increase of 2015 in December, rising 0.6 percent. The core index, excluding food and energy, was flat from November, and up 1.4 percent from a year ago.
- **Nonfarm business productivity** declined 3.0 percent annualized in Q4 2015 from the prior quarter, according to the Bureau of Labor Statistics. Compensation per hour rose 1.3 percent while unit labor costs surged 4.5 percent.
- **The Institute for Supply Management (ISM) Manufacturing Index** edged up 0.2 points to 48.2 in January (any reading above 50 indicates expansion). **The ISM Nonmanufacturing Index** fell 2.3 points to 53.5 in January.
- **Light vehicle sales** increased 1.4 percent to a 17.6 million annualized rate in January, according to Autodata.
- **The U.S. trade deficit** widened by \$1.1 billion to \$43.4 billion in December, according to the Census Bureau, as imports grew by 0.3 percent and exports fell by 0.3 percent. The inflation-adjusted goods deficit, used in the calculation of net exports in the GDP estimate, narrowed \$1.0 billion to \$60.3 billion.
- **Factory orders** declined 2.9 percent in December, the largest drop in 2015, according to the Census Bureau. Nondurable goods, the new piece of data in the report, decreased for the sixth month in a row, falling 0.8 percent. The 4.3 percent decline in core capital goods orders (nondefense excluding aircraft) remained unchanged.



## Housing: A Solid Support for the Economy

Housing news was light this week. The December construction spending report suggested that the surprisingly strong real residential investment growth in the first print of fourth quarter gross domestic product released last week will likely get a slight downgrade in the second print. Home prices continue to show solid gains as the CoreLogic house price index ended the year on a strong note, posting the fastest year-over-year gain since July 2014. With renewed declines in the stock market since late last year, the strength in home prices becomes a key support for household balance sheets. In addition, strong home price appreciation will help move more underwater properties into a positive equity position, creating a healthier housing market. However, home price appreciation that outpaces income growth is expected to restrain affordability and impede home sales this year. However, declining mortgage rates so far this year have helped support the housing and mortgage market. This week's Freddie Mac survey showed that 30-year fixed mortgage rates fell for the fifth consecutive week to 3.72 percent, the lowest level since the end of April 2015. Another positive for potential homeowners is easing credit standards, according to the latest Federal Reserve survey. While the survey showed signs of further tightening in lending standards for several types of loans, including commercial and industrial loans and commercial real estate loans, lending standards for residential mortgages eased further as demand for mortgages decreased for the second consecutive quarter.

- **Private residential construction spending** rose 0.9 percent in December, according to the Census Bureau. Spending on new single-family homes rose 1.0 percent, while spending on new multifamily homes increased 2.7 percent. From a year ago, single-family construction spending was up 9.1 percent, compared with an 11.9 percent rise for multifamily.
- **The Federal Reserve Board Senior Loan Officer Opinion Survey** for the three months ending in January showed continued easing of lending standards for residential mortgage loans. A moderate net fraction of banks reported having eased standards on GSE-eligible loans and jumbo loans. Lending standards for all other categories of residential real estate loans remained largely unchanged. Meanwhile, demand for residential mortgages declined, but demand for revolving home equity lines of credit strengthened slightly.
- **The CoreLogic National Home Price Index**, a repeat sales measure (not seasonally adjusted), rose 0.8 percent in December. The index was up 6.3 percent from December 2014 but still remains 7.6 percent below its record high in April 2006. Price changes varied significantly across states, with Colorado and Washington posting double-digit annual gains. Louisiana, Mississippi, and New Mexico were the only states showing year-over-year price declines.
- **Mortgage Applications** decreased for the first time in four weeks during the week ending January 29, as the 30-year fixed mortgage rate declined for the fourth consecutive week to 3.97 percent, the lowest level since mid-October 2015, according to the Mortgage Bankers Association. After trending up to the highest level since early October in the prior week, purchase applications dropped 7.0 percent last week. Refinance applications edged up 0.3 percent, marking the fourth straight increase, as a gain in the government segment outweighed a decline in conventional loans.



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February 5, 2016

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