

## Economics: Small Businesses Unsettled by the Rough Start to 2016

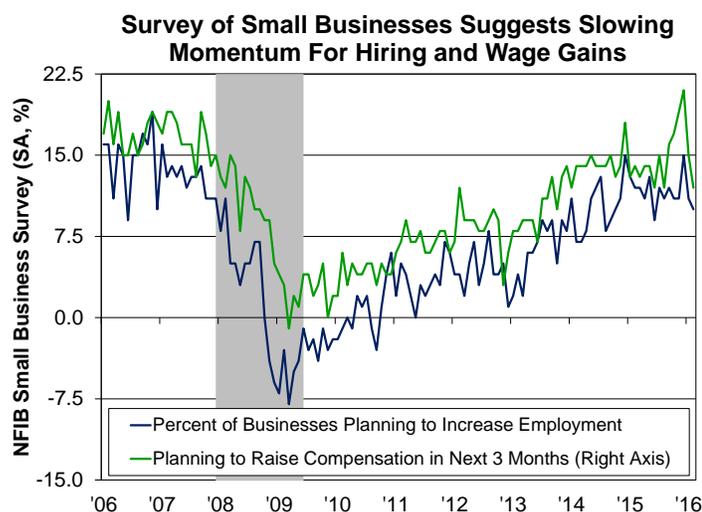
Economic data released this week reflected the recent concerns for the economy during the first two months of the year. A survey of small businesses showed overall sentiment hit a two-year low in February. Firms remain concerned about the state of the economy, as the share expecting the economy to improve remained at the lowest level since November 2013. The survey showed mixed signals regarding the availability of labor. While the share reporting difficulty in finding qualified candidates dropped to the lowest level since March 2015, the share saying they have openings they are unable to fill remained near expansion high. However, the most disappointing aspect is the implication on the labor market outlook as results point to a slowing pace of both hiring and wage growth. The share of small businesses planning to add workers fell to an eight-month low, and the share planning to raise wages has tumbled since reaching a 12-year high in December. Consumer's appetite for debt increased again in January, marking almost four and a half years of consecutive monthly gains. However, the pace of increase was the slowest since March 2013 as revolving credit (largely credit card) fell for the first time in almost a year. Non-revolving credit (primarily auto and student loan debt) continued its steady increase, driven by the strong auto sales in recent months. However, on a year-over-year basis, growth in revolving credit reached a new expansion high. News on import prices has not materially changed. Their eighth monthly fall showed that the impact of the past rise in the dollar and the plunge in oil prices have not fully passed through the economy.

➤ **Consumer (non-mortgage) credit outstanding** rose \$10.5 billion in January, according to the Federal Reserve Board. Non-revolving credit drove the gain, increasing \$11.6 billion, and has not declined since August 2011. Revolving credit dropped for the first time since February 2015, falling \$1.1 billion. From a year ago, consumer credit grew 6.5 percent, the same rate as December. Annual growth in non-revolving credit decelerated to the lowest rate since July 2012 at 6.9 percent, while annual growth in revolving credit reached 5.3 percent, the highest level since July 2008.

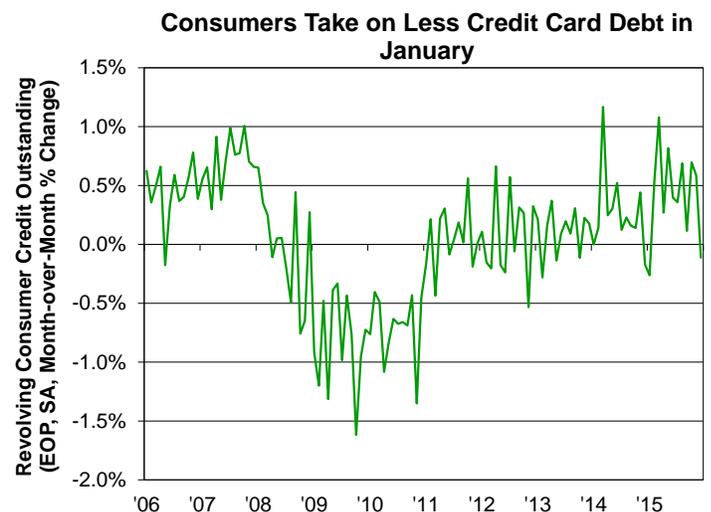
➤ **The National Federation of Independent Business (NFIB) Small Business Optimism Index** dropped one point to 92.9 in February, marking the third fall in the past four months. The weakness in the index was widespread as none of the 10 underlying components improved during the month. The net share of firms reporting difficulty finding qualified job applicants fell three percentage points for the second month in a row to 42 percent while the share reporting positions not able to fill edged down one percentage point from an expansion high to 28 percent.

➤ **Import prices** fell 0.3 percent in February, as crude oil prices dropped for the eighth consecutive month, according to the Bureau of Labor Statistics. From a year ago, import prices declined 6.1 percent and has fallen on an annual basis every month since July 2014. Excluding fuel, prices edged down 0.1 percent from January and 2.7 percent from a year ago.

➤ **Initial claims for unemployment insurance** decreased by 18,000 to 259,000 in the week ending March 5, according to the Department of Labor. The four-week moving average decreased by 2,500 to 267,500, marking the fifth consecutive week of decline to reach the lowest level since the end of October.



Source: National Federation of Independent Business



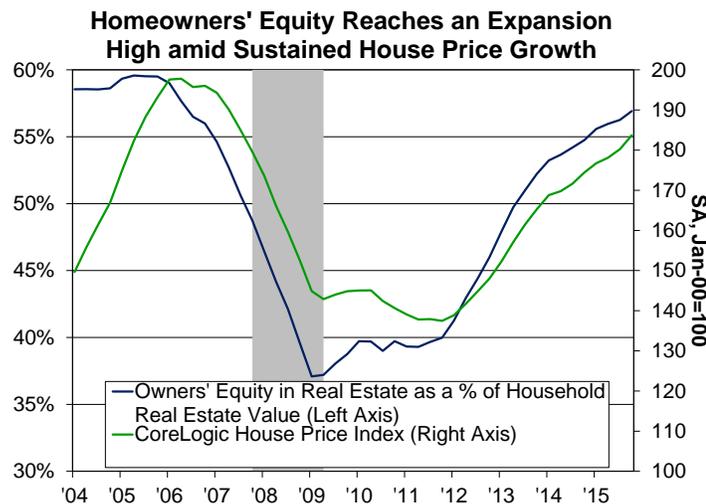
Source: Federal Reserve Board

## Housing: Household Net Worth Rebounds to a Fresh Record High

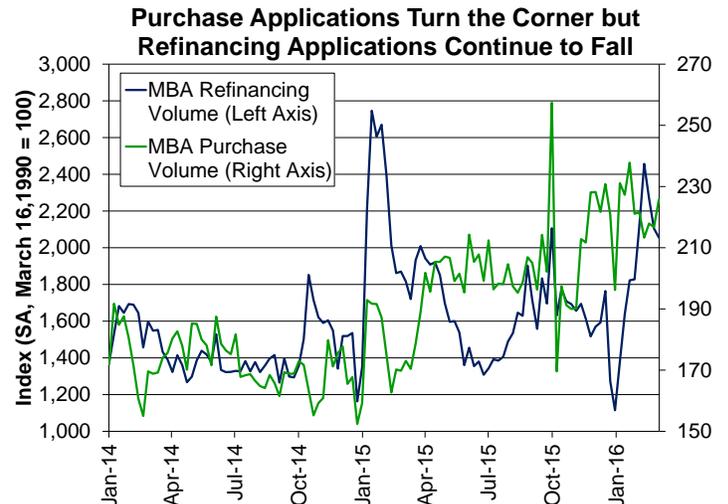
A quiet week in housing data brought the mortgage market onto center stage. After reaching a one-year low at the end of February, mortgage rates rose this week for the second consecutive week, reflecting increased risk appetite as financial market turmoil and volatility receded. The average 30-year fixed mortgage rate rose 4 basis points to 3.68 percent, according to Freddie Mac's Primary Mortgage Market Survey®. Refinance mortgage applications from the Mortgage Bankers Association's Weekly Survey of Mortgage Applications reacted to the rise in rates, dropping for a third consecutive week. By contrast, purchase mortgage demand showed signs of turning the corner. After trending down in January and February, purchase mortgage applications jumped last week, marking the second increase in the past three weeks. The recent improvement in purchase applications is encouraging for home sales during the spring selling season. A report on household finances for Q4 2015 by the Federal Reserve Board was upbeat on household balance sheets. Household net worth rose to a new all-time nominal high in Q4 2015, overcoming a rare drop in the current expansion due to a plunge in the stock market during Q3 2015. Gains in housing wealth accounted for 30 percent of the improvement in net worth. Since Q2 2011, homeowners' equity as a share of real estate value has steadily improved, thanks to strong growth in the CoreLogic house price index, the measure used by the Fed to estimate the value of real estate holdings. Despite recent firming home price appreciation, home equity has not fully recovered, remaining 5.5 percent below its pre-recession peak in Q1 2006, according to the Federal Reserve Board. As a share of real estate value, home equity remains nearly three percentage points below its recent high in Q2 2005, but has regained most of the ground lost since bottoming in Q1 2009.

➤ **The net worth of U.S. households and nonprofit organizations**—the value of assets minus liabilities—rose 1.9 percent, or about \$1.6 trillion, in Q4 of 2015 to \$86.8 trillion, according to the Federal Reserve's Financial Accounts of the United States. **Owners' equity in real estate as a percentage of the value of household real estate** rose seven-tenths of a percentage point to 56.9 percent, marking a new expansion high.

➤ **Mortgage applications** edged up 0.2 percent for the week ending March 4 after two weeks of decline, according to the Mortgage Bankers Association. The 4.2 percent rise in purchase applications was the largest gain in six weeks, outweighing the 2.3 percent drop in refinance applications. The average 30-year fixed mortgage rate rose for the second time since the start of the year, increasing 6 basis points to 3.89 percent.



Source: Federal Reserve Board, CoreLogic



Source: Mortgage Bankers Association

Frank Shaw  
Economic and Strategic Research Group  
March 11, 2016

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