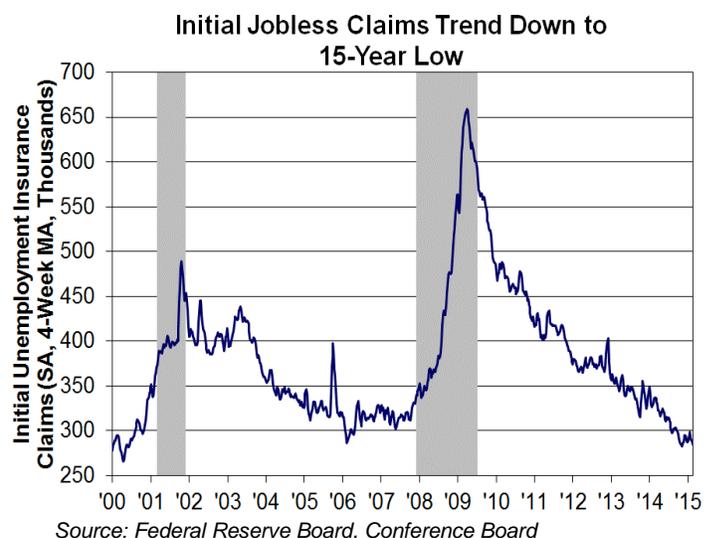
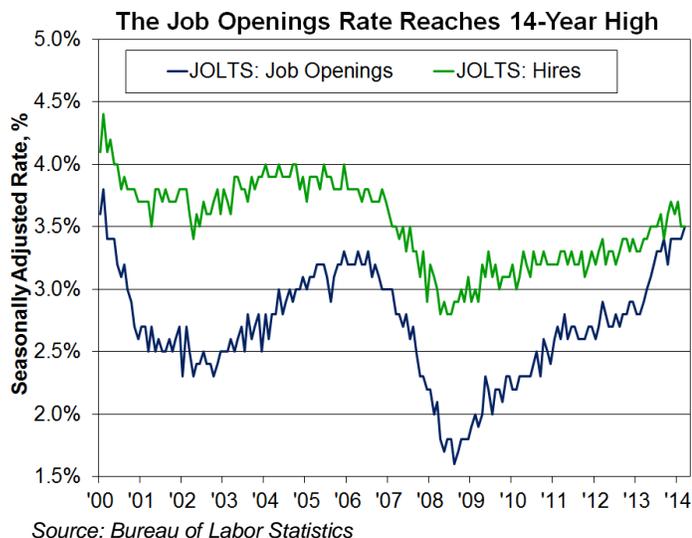


Economics: The Fed is Ready to Raise Rates, Eventually, At Some Point

This week's economic news was relatively uneventful. Two reports related to the labor market suggest that last week's bearish jobs report may overstate the weakness in labor market conditions over the past month. The Job Opening and Labor Turnover Survey (JOLTS), released with a one-month lag to the jobs report, showed that the job openings rate rose to a 14-year high. The number of unemployed workers per available position has fallen to 1.70, approaching the pre-recession low of 1.45, suggesting that employers no longer have the pick of the litter to fill open positions. The recent trend in a high-frequency labor market indicator—initial jobless claims—also points to a healthy market, with the four-week moving average declining to the lowest level in nearly 15 years. February consumer credit outstanding confirmed consumers' caution to spend and their continued reluctance to incur credit card debt, which remains a downside risk to our expectation that consumer spending will bounce back meaningfully in the current quarter. The [minutes](#) from the March Federal Open Market Committee (FOMC) meeting shed little light on the Fed's timing of the first eventual rate hike. It did reveal that the Fed was increasingly concerned that continued appreciation of the dollar could potentially drag U.S. economic activity down further and continue to weigh on the inflation outlook. Thus, some Fed officials favored waiting until later in the year to hike the target rate. The March jobs report, released after the FOMC meeting, underscores the Fed's desire to err on the dovish side. We remain comfortable with our call that the fed funds rate lift-off will occur in September.

- **The Job Opening and Labor Turnover Survey (JOLTS)** from the Bureau of Labor Statistics (BLS) showed that the job openings rate ticked up 0.1 percent to 3.5 percent in February, the highest level since January 2001, after remaining unchanged for four months, while the hiring rate stayed flat at 3.5 percent. The quits rate, an indicator of labor market confidence, fell one-tenth from its post-recession high to 1.9 percent.
- **Consumer (nonmortgage) credit outstanding** increased 5.6 percent annualized in February, up from the 3.9 percent rise in January, according to the Federal Reserve Board. Revolving credit outstanding (composed primarily of credit card debt) fell for the second month running, declining 5.0 percent, while nonrevolving debt outstanding (composed of auto and student loans, and other big-ticket purchases) drove debt growth this month, jumping 9.4 percent. Over the past year, revolving and nonrevolving consumer credit outstanding increased 3.0 percent and 8.3 percent, respectively.
- **Import Prices** edged down in March, falling 0.3 percent, according to the Bureau of Labor Statistics. A 0.4 percent fall in nonpetroleum prices outweighed the 0.8 percent increase in petroleum prices, which was the second consecutive month of increases for petroleum prices following a seven-month stretch of monthly declines. Year-over-year, import prices fell 10.5 percent, while nonpetroleum prices fell 2.7 percent. Both declines are the largest drops since 2009.
- **The Institute for Supply Management (ISM) Nonmanufacturing Index**, a gauge of service sector activity, fell just 0.4 points in March to 56.5 (any reading above 50 indicates expansion in the sector). Declines in the business activity and supplier deliveries indices barely outweighed gains in employment and new orders.
- **Initial claims for unemployment insurance** rose 14,000 to 281,000 in the week ending April 4, according to the Bureau of Labor Statistics. The four-week moving average declined 3,000 to 282,250, the lowest reading since 2000.

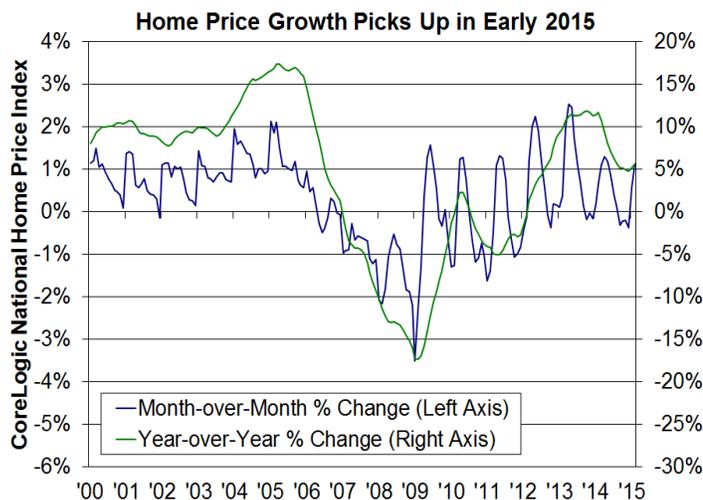


Housing: Demand for Purchase Mortgages Increases with House Prices

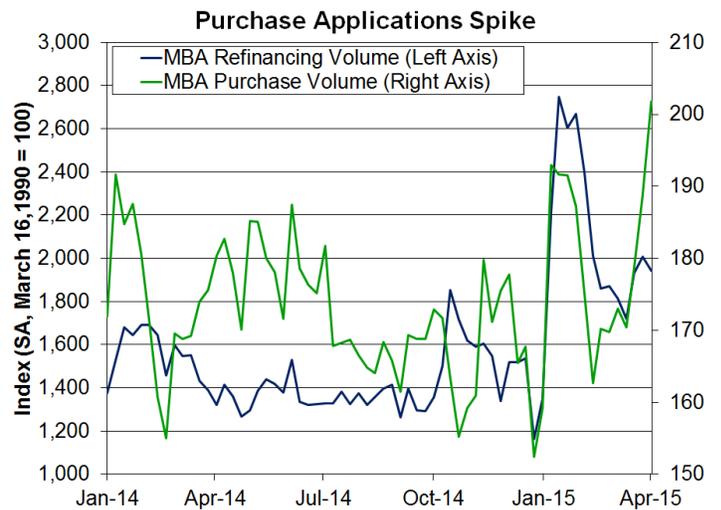
A slow week of housing data featured further gains in house prices in early 2015 and the third weekly increase in purchase mortgage applications. The CoreLogic national home price index posted a three-year string of annual gains through February, although the index level still remains 12.2 percent below its pre-recession peak in April 2006. Following the lackluster March jobs report, the Freddie Mac contract interest rate for 30-year fixed-rate mortgages fell four basis points to 3.66 percent and has remained below 4.0 percent since the second week of November 2014. The ongoing low-rate environment has supported mortgage demand, as purchase mortgage applications rose substantially last week, reaching the highest level since July 2013. The spike in purchase applications—the second one this year after a slightly bigger surge in January—suggests a strong spring buying season and supports our forecast for improving home sales this year. The gains in purchase originations over the past three weeks were broad-based across the conventional, FHA, and VA markets. By contrast, FHA purchase applications drove the January spike, especially at the end of the month, likely boosted by the cut in the FHA mortgage insurance premiums. Meanwhile, refinancing applications remain at high levels even after declining in the latest week, as the drops in conventional and VA applications have more than offset the increase in FHA applications.

➤ **The CoreLogic national home price index**, a repeat sales measure, increased for the second consecutive month, rising by 1.1 percent in February on a non-seasonally adjusted basis. The 5.6 percent year-over-year increase in February was the largest gain in six months, but was substantially below the recent peak of 11.9 percent in October 2013. On a regional basis, annual price gains were broad-based, with six states (New York, Colorado, North Dakota, Oklahoma, and Wyoming) reaching record highs since the inception of the series in January 1976. Connecticut was the only state to exhibit a year-over-year price decline.

➤ **Mortgage applications** were relatively flat last week, according to the Mortgage Bankers Association (MBA). Total applications increased 0.4 percent for the week ending April 3, following two consecutive weeks of strong growth. Purchase applications increased 6.8 percent, outweighing a 3.3 percent drop in refinance applications. The decrease in refinancing applications occurred despite continued declines in mortgage rates. The MBA survey indicated that the contract interest rate for 30-year fixed-rate mortgages fell for the fourth consecutive week to 3.86 percent after surpassing 4.0 percent for the first time in 2015 a month ago.



Source: CoreLogic



Source: Mortgage Bankers Association

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