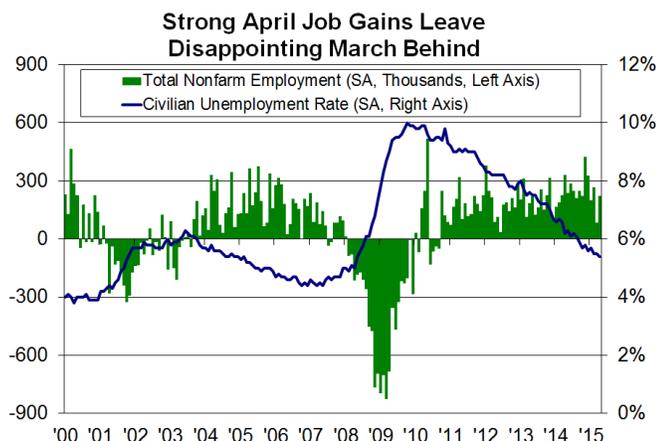


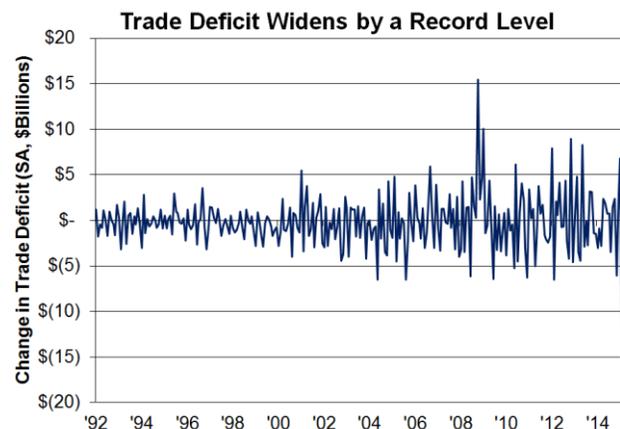
Economics: Job Growth Back on its Feet in April After March Stumble

Economic data this week painted an even gloomier picture for the first quarter than the government's initial estimate of GDP, but did signal early signs of a brighter tomorrow. The focus of the week was a bounce-back of 223,000 jobs added in April, after a lackluster March nonfarm payroll gain that was revised down to 85,000—the weakest since June 2012. The report on initial unemployment claims offered more good news for the labor market, showing claims trending down to a 15-year low. A survey of purchasing managers points to the fastest pace of expansion in the service industry in April since last November, an encouraging sign for the second quarter. However, the March trade deficit widened by more than the government assumed, indicating negative economic growth in the first quarter. The release of the backlog from the west coast port strike flooded the market with imports, while the sustained strength of the dollar appeared to weigh on exports, which edged up only slightly. Productivity also disappointed, falling in Q1 2015 and completing the worst two-quarter slump since 1993. Consumer credit card debt rose in March for the first time in three months but failed to post an increase for the quarter for the first time since Q1 2012. Overall, today's reports support our forecast of a moderate rebound in the second quarter, but worsening activity in the first quarter adds downside risk to our 2015 outlook.

- **Nonfarm payroll employment** rose 223,000 in April, according to the Bureau of Labor Statistics. Average hourly earnings rose 0.1 percent from March and 2.2 percent from a year ago. The unemployment rate fell 0.1 percentage points to 5.4 percent as the labor force participation rate ticked up to 62.8 percent.
- **Consumer (non-mortgage) credit outstanding** increased 7.4 percent annualized in March, according to the Federal Reserve Board. Non-revolving credit (primarily auto and student loans) and revolving credit (primarily credit card debt) rose by 5.9 percent and 7.9 percent, respectively. Despite the rise in March, revolving credit fell 0.3 percent for the quarter.
- **The Institute for Supply Management (ISM) Nonmanufacturing Index**, a gauge of service sector activity, rose 1.3 points in April to 57.8 (any reading above 50 indicates expansion).
- **Factory orders** increased 2.1 percent in March, the first rise in eight months, according to the Census Bureau. Non-durable goods orders, the fresh data in the report, fell for the eighth time in nine months, dropping 2.4 percent. Durable goods orders rose 4.4 percent, an upgrade of 0.4 percentage points from the initial estimate. Core capital goods orders (non-defense orders excluding aircraft), a leading indicator of business investment in equipment in the estimation of GDP, rose 0.1 percent during the month (revised higher from a 0.5 percent drop), the first increase since August.
- **The U.S. trade deficit** widened by \$15.5 billion to \$51.4 billion in March, according to the Census Bureau. The 7.7 percent increase in imports swamped the first increase in exports in five months of 0.9 percent. The inflation-adjusted goods deficit, used in the calculation of net exports in the GDP estimate, rose \$16.0 billion to \$67.2 billion.
- **Nonfarm business productivity** fell 1.9 percent annualized in Q1 2015 from the previous quarter, according to the Bureau of Labor Statistics. Over the past year, productivity has increased by a meager 0.6 percent. A 3.1 percent annualized increase in hourly compensation pushed unit labor costs higher by 5.0 percent in the first quarter.
- **Initial claims for unemployment insurance** increased by 3,000 to 265,000 in the week ending May 2, according to the Department of Labor. However, the four-week moving average decreased by 4,250 to 279,500, a 15-year low.



Source: Bureau of Labor Statistics

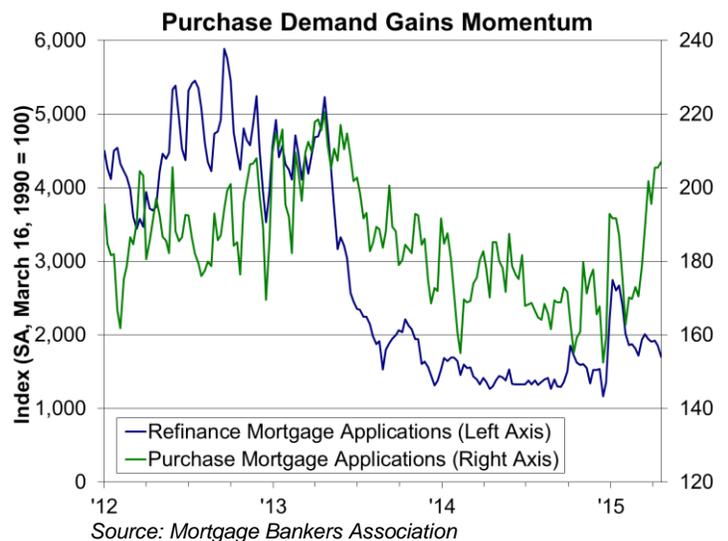
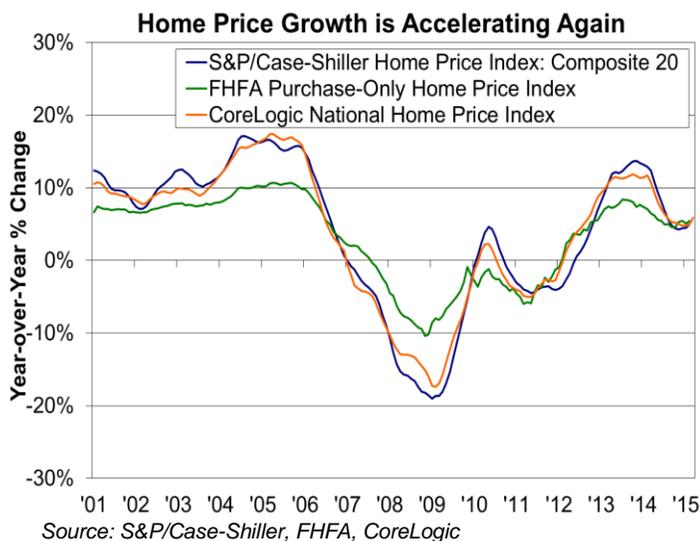


Source: Census Bureau

Housing: Smell the Roses

This week's housing data featured more upbeat news on the spring and summer home selling season. Consistent with recent policy changes for FHA and the GSEs, a Federal Reserve survey of loan officers showed that a large majority of banks indicated loosening lending standards for GSE and government mortgages in the three months ending in April. Also in line with recent incoming data on applications and origination volumes, the survey showed a sharp uptick in demand for GSE and government mortgage products. Purchase mortgage applications edged up last week to a fresh high since June 2013, when a sharp increase in interest rates amid the "Taper Tantrum" curtailed activity. Due to refi-burnout and the recent uptick in mortgage rates, refinance applications dropped sharply, marking the fourth decline over the last five weeks. The 30-year fixed mortgage rate increased 12 basis points to 3.80 percent this week, according to Freddie Mac. Meanwhile, improving housing demand amid tight inventories helped boost home prices. Following moderating price growth reported for much of 2014, the budding acceleration in annual home price appreciation in January and February witnessed in many home price measures firmed in March, according to CoreLogic. Strong home price gains have helped improve equity positions and loan performance of single-family residential properties. A survey from the Mortgage Bankers Association showed that delinquency rates and the share of loans in foreclosure continued to improve during the first quarter, with many measures at or approaching prerecession levels. Early-stage delinquency edged down to the lowest level since 1972, reflecting tightening labor market conditions and the overall current quality of mortgage debt outstanding.

- **The Federal Reserve Board Senior Loan Officer Opinion Survey** showed continued loosening in mortgage lending standards in the three months ending in April, with the exception of subprime borrowers. A net share of 17.6 and 12.7 percent of banks reported loosening lending standards for GSE-eligible and government mortgage loans, respectively, in the three months ending in April. Meanwhile, after a plurality of banks reported weaker demand for both GSE and government mortgages in the prior period, a net 45.6 percent of banks indicated stronger demand for GSE loans and a net 39.7 percent of banks indicated stronger demand for government loans in the three months ending in April.
- **The CoreLogic national home price index**, a repeat sales measure, increased 2.0 percent in March (not seasonally adjusted)—the largest monthly increase since May 2013. Over the past 12 months, prices are up 5.9 percent, up from 5.0 percent in February and the fastest annual appreciation since last July.
- **The Mortgage Bankers Association National Delinquency Survey** for Q1 2015 showed that the total mortgage delinquency rate declined 14 basis points from Q4 2014 to 5.54 percent, the lowest since Q2 2007. Foreclosure starts fell one basis point to 0.45 percent, which, according to the MBA, is at its long-run average. The serious delinquency rate (not seasonally adjusted)—the percentage of loans that are 90 days or more past due or in the process of foreclosure—was 4.24 percent, declining 28 and 80 basis points from the prior quarter and from Q1 2014, respectively.
- **Mortgage applications** declined for a second consecutive week, falling 4.6 percent in the week ending May 1, according to the Mortgage Bankers Association. Refinance applications dropped 8.3 percent to the lowest level since the final week of 2014 amid an eight-basis-point increase in the contract 30-year fixed mortgage rate to 3.93 percent. Purchase applications edged up 0.8 percent to the highest level since June 2013.



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