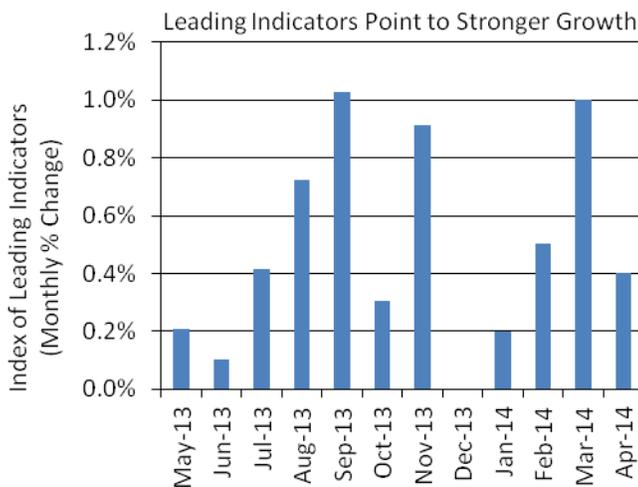


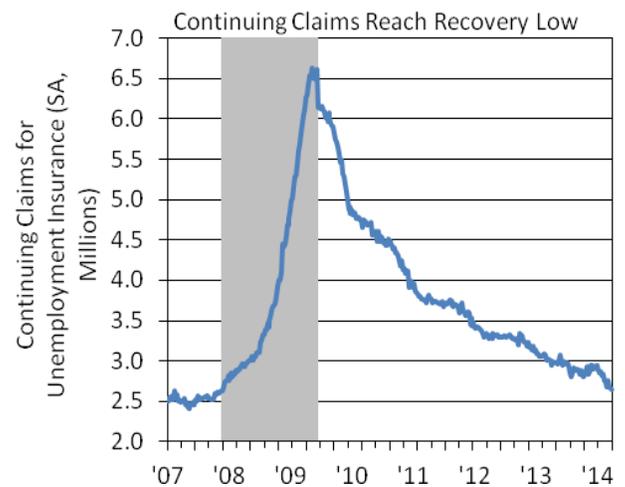
Economics: All Quiet on the Macro Front

A quiet week of macroeconomic data left our view of the current state of the economy intact, while continued strength in the Conference Board index of leading indicators reassured our expectation for firming growth through the remainder of the year following the flat lining in the first quarter. This view is shared by members of the Federal Open Market Committee (FOMC) who expressed the view that, “the unanticipated weakness in economic activity in the first quarter would be largely transitory and implied little revision to its projection for second-quarter output growth,” in the minutes of the April 29-30, 2014 FOMC meeting. Members discussed potential strategies for eventually normalizing monetary policy and effectively communicating those changes to the public, but were clear that a change in policy was not imminent. We maintain our expectation that the first Fed rate hike is still at least a year out. Meanwhile, the uptick in jobless claims last week is not of particular concern, as the more stable four-week moving average remains near the lowest levels witnessed in the current recovery while the number of continuing claims continues its downward trend. Next week’s flurry of economic data will provide additional insight on the state of the economy in the current quarter.

- **The Conference Board index of leading indicators**—a gauge of economic activity over the next three to six months based on 10 economic indicators—rose 0.4 percent in April 2014 after a robust 1.0 percent gain in March 2014. Strengthening financial indicators and a pickup in building permits boosted the index, while a pullback in average hours worked in the manufacturing sector served as a modest drag. In the three months ending in April 2014, the index jumped at a 7.9 percent annual rate, a sizable pickup from the 4.5 percent gain reported in the prior three-month period.
- **Initial claims for unemployment insurance** jumped 28,000 to 326,000 in the week ending May 17, 2014, the highest since the final week of April 2014. The four-week moving average, a better measure of the underlying trend, edged down 1,000 to 322,500. Continuing claims fell 13,000 to 2.65 million in the week ending May 10, 2014, the lowest level since November 2007 (the month preceding the start of the Great Recession).



Source: The Conference Board



Source: Department of Labor

Housing: Signs of Life amid Reasons for Concern

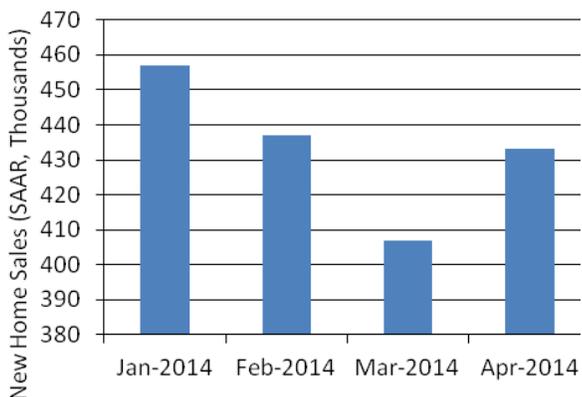
After a disappointing March 2014, home sales data were positive in April, supporting our view that the housing market will see a modest rebound throughout the spring. Existing home sales increased in April 2014 as new home sales rebounded nicely after March's weak reading raised concerns that the spring buying season would not be as strong as expected. While these data are encouraging they remain below levels seen last year, and mortgage applications for purchase suggest that demand for home mortgages remains volatile. Next week's pending home sales report may hint at whether the improving home sales trend will continue.

➤ **Existing Home Sales** improved modestly in April 2014 after sliding for three consecutive months, increasing 1.3 percent to a seasonally adjusted annual rate of 4.65 million units thanks in large part to condo sales, which increased 7.2 percent from March 2014, while single-family homes increased by a more modest 0.5 percent. The gain was concentrated in the West and South regions where sales increased by 4.9 percent and 1.0 percent respectively. Sales were flat in the Northeast region and fell 1.0 percent in the Midwest region. The months' supply of existing homes increased for the fourth straight month to 5.9 months. Although the April 2014 increase is a welcomed change, year-over-year existing home sales were 6.8 percent below April 2013 and remained negative year-over-year for the sixth consecutive month.

➤ **New Home Sales** rebounded to 433,000 annualized units in April 2014, improving 6.4 percent from a disappointing 407,000 reading in March 2014. Although the April sales pace was down 4.2 percent from a year ago, it is an improvement from down 7.5 percent year over year in March. New homes available for sale came in at 192,000, relatively flat compared to March's 191,000. The combination of more sales and flat inventories helped to tighten the months' supply of new homes, which ticked down from 5.6 months in March to 5.3 months in April. The median sales price of new homes (not seasonally adjusted) dropped 2.09 percent month over month to \$275,800.

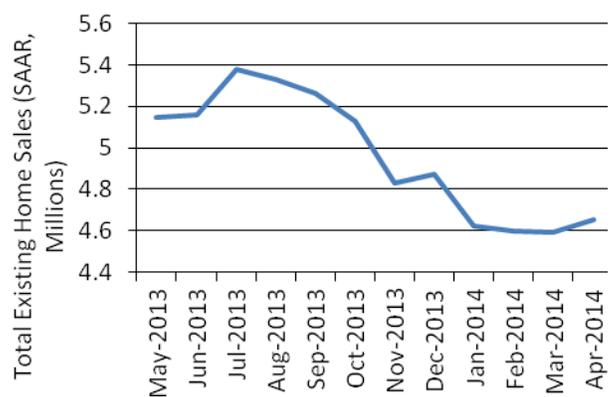
➤ **The Mortgage Bankers Association Mortgage Applications Survey** showed a rebound in mortgage application activity last week. The composite index increased by 0.9 percent thanks to a 3.8 percent increase in refinance activity brought about by a decline in mortgage rates. The purchase index, however, was down 2.8 percent, declining for the second straight week. Year over year, the purchase index and refinance index were down 12.3 percent and 66.11 percent respectively.

New Home Sales Rebounded in April After a Disappointing March



Source: Census Bureau

Total Existing Home Sales Increased in April but Remain Below Last Year's Levels



Source: National Association of REALTORS®

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May 23, 2014

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