



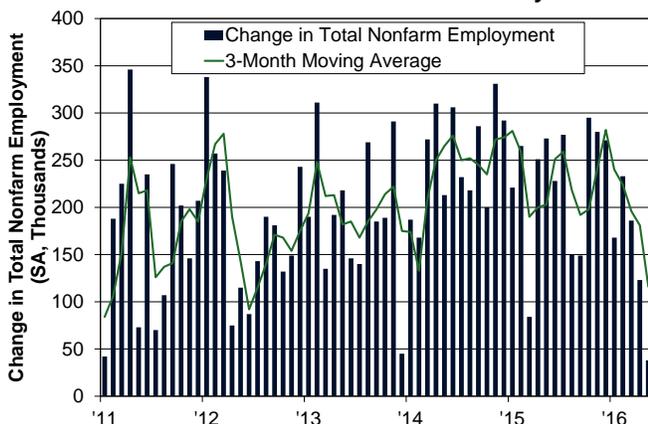
Weekly Note – June 3, 2016

Economics: The Labor Market Loses Momentum

The May jobs report was the center of attention this week, and it delivered quite a blow, as it fell well short of already low expectations. Even after accounting for the striking Verizon workers, private job gains were a paltry 60,000, a puzzling downshift from their recent trend. Other aspects of the report provided no offset to the bearish headline. The prior two months' payroll gains were revised lower by a total of 59,000, the average workweek was flat, the monthly gain in average hourly earnings moderated, temporary hiring fell for the fourth time in five months, and the labor force participation rate fell to a five-month low. The report heightens uncertainty surrounding the uneven performance of the domestic economy amid downside risks abroad. Markets reacted strongly, as the fed funds futures market saw the odds of a June rate hike plummet from above 20 percent to just 4 percent, and the 10-year yield fell 10 basis points, hovering around 1.70 percent. In other news this week, consumers finally opened up their wallets in April, as consumer spending saw the largest jump since August 2014 and the saving rate receded from a more than three-year high in March. Auto sales remained resilient in May. The trade deficit widened further as the rise in imports outweighed the gain in exports. Manufacturing continued to keep its head above water – a survey of purchasing managers reported the sector expanded for a third straight month and factory orders improved for the third time in the last four months. However, a survey of the service sector showed the slowest expansion since February 2014.

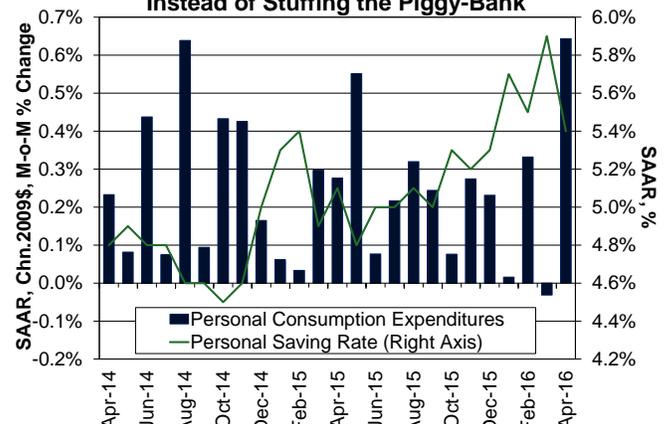
- **Nonfarm payroll employment** expanded by 38,000 jobs in May, according to the Bureau of Labor Statistics. The three-month average gain of 116,000 is the lowest level since June 2012. The unemployment rate fell three-tenths to 4.7 percent as the labor force participation rate fell two-tenths to 62.6 percent. Average hourly earnings increased 0.2 percent from April and 2.5 percent from a year ago. The average workweek was unchanged at 34.4 hours. The broadest measure of the unemployment rate (U-6) remained at an expansion-best of 9.7 percent.
- **Personal income**, adjusted for inflation, increased 0.1 percent in April, according to the Bureau of Economic Analysis. Real personal consumption expenditures (PCE) jumped 0.64 percent. The saving rate fell half of one percentage point to 5.4 percent. The PCE deflator rose 0.3 percent from March and 1.1 percent from last April. Excluding food and energy, the core PCE deflator increased 0.2 percent on a monthly basis and 1.6 percent annually.
- **The Institute for Supply Management (ISM) Manufacturing Index** rose half a point to 51.3 in May (any reading above 50 indicates expansion). **The ISM Nonmanufacturing Index**, a gauge of service sector activity, fell 2.8 points during the month to 52.9.
- **The Conference Board Consumer Confidence Index** slipped 2.1 points to 92.6 in May, marking the third fall in the past four months. Both the present situation and future expectations components fell.
- **Light vehicle sales** edged up 0.2 percent in May to a 17.4 million annualized rate, according to Autodata.
- **The U.S. trade deficit** widened by \$1.9 billion to \$37.4 billion in April, according to the Census Bureau. The \$4.5 billion increase in imports outweighed the \$2.6 increase in exports. The inflation-adjusted goods deficit, used in the calculation of net exports in the GDP estimate, widened \$1.5 billion to \$57.6 billion.
- **Factory orders** increased 1.9 percent in April, according to the Census Bureau. Nondurable goods, the new piece of data in the report, edged up 0.4 percent. Both core capital goods orders and shipments were revised upwards slightly.

Job Creation Has Slowed Dramatically in 2016



Source: Bureau of Labor Statistics

Consumers Finally Open Up Their Wallets Instead of Stuffing the Piggy-Bank



Source: Bureau of Economic Analysis

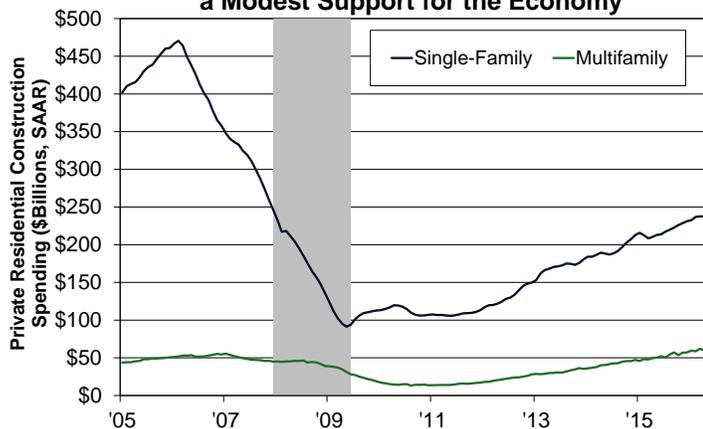


Housing: Weakening Construction Spending; Solid Prices

Housing and mortgage data were mixed this week. Private residential construction spending disappointed in April with flat spending on new single-family homes and declining spending on new multifamily construction, in contrast to an earlier report of increases in both single-family and multifamily starts during the month. The April decline came after a strong first quarter performance that contributed to a double-digit gain in real residential investment during the quarter. We expect new residential construction to add to gross domestic product through the rest of the year, though its contribution should remain modest as the current housing expansion is relatively subdued, especially for the single-family segment. While nominal multifamily construction spending has surpassed its pre-recession peak in January 2007, single-family construction spending is still about 50 percent below its February 2006 peak. Meanwhile, annual home price appreciation remained strong in March, with the gain in the Case-Shiller index remaining within the narrow range of 5.0 to 5.4 percent witnessed since last October. Compared with other main measures of home prices for March released earlier, the trend in the Case-Shiller index has been more conservative. Both purchase and refinance mortgage applications softened during the last week of May. For the average monthly reading, purchase applications fell 2.3 percent in May after solid gains in March and April, while refinance applications dropped 3.5 percent following a 7.3 percent rise in April. The average 30-year fixed mortgage rate from Freddie Mac's survey rose this week for the third consecutive week, edging up two basis points to 3.66 percent, the highest level since late April. Interest rates have moved higher following the release of the minutes to the April Federal Open Market Committee (FOMC) meeting on May 18 and a barrage of speeches from Fed officials suggesting that a second hike in the fed funds rate could come as soon as this month.

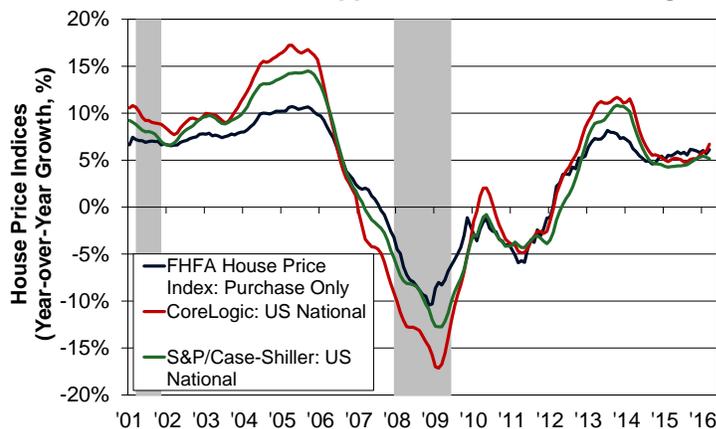
- **Private residential construction spending** fell 1.5 percent in April, the first drop in three months, according to the Census Bureau. New single-family construction spending was flat, while spending on new multifamily construction fell 3.1 percent. From a year ago, new single-family and multifamily construction spending rose 12.8 percent and 20.6 percent, respectively. Spending on home improvements fell 3.2 percent from March and 0.8 percent from last April.
- **The S&P/Case-Schiller National Home Price Index** (not seasonally adjusted) rose 0.7 percent in March. The annual gain moderated from 5.3 percent to 5.2 percent, sizably stronger than the 4.3 percent increase recorded a year ago.
- **Mortgage applications** fell 4.1 percent for the week ending May 27, according to the Mortgage Bankers Association. Purchase applications dropped 4.7 percent, largely reversing the prior week's increase. Refinance applications decreased 3.9 percent, marking the first drop over the last four weeks. The survey's average contract interest rate for 30-year fixed rate mortgages was unchanged at 3.85 percent; however, the average rate for 15-year mortgages rose six basis points to 3.12 percent, as increased market expectations for a June rate hike led to a flattening of the yield curve.

New Residential Construction Should Provide a Modest Support for the Economy



Source: Census Bureau

Home Price Appreciation Remains Strong



Source: S&P/Case-Shiller, CoreLogic, Federal Housing Finance Agency

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