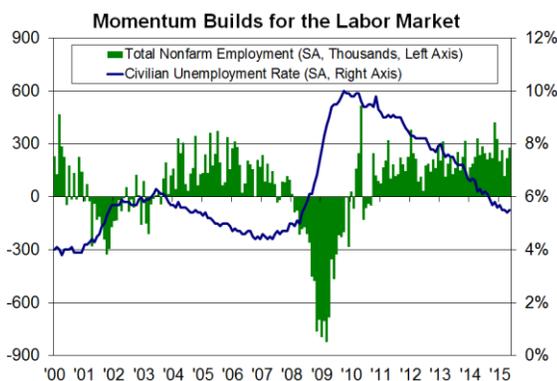


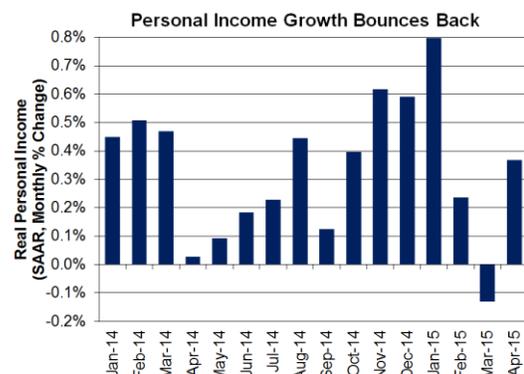
Economics: A New Hope—Job Growth Strengthens the Case for Q2 Rebound

Economic data released this week added evidence of a building second quarter turnaround, as May job growth was the largest this year and personal income increased in April after falling in March. Year-over-year wage growth, as measured by average hourly earnings, picked up to tie the strongest pace since August 2009. The strength in earnings implies more growth in wages and salaries in May. The unemployment rate edged up, but so did the participation rate, hinting that more people are returning to the workforce as the labor market improves. In addition, the April trade deficit shrank by the largest amount in six years, suggesting that the spike in the prior month was temporary, largely caused by the unwinding backlogs at West Coast ports. May car sales also impressed with the strongest annual sales rate in almost 10 years. Inflation pressure remains muted in April, as the Fed's preferred measure—the personal consumption expenditures chain price index—is little-changed on the year, well below the Fed's target of 2.0 percent. Though hiring more, businesses remain reluctant to invest, as the factory orders report downgraded core capital goods orders from a solid gain in April to a modest loss, marking the third drop in the last four months.

- **Nonfarm payroll employment** rose 280,000 in May, according to the Bureau of Labor Statistics. Gains were broad-based among industries, except for a sharp decline in mining and logging. Average hourly earnings increased 0.3 percent from April and 2.3 percent from a year ago. The unemployment rate rose 0.1 percentage points to 5.5 percent as the participation rate ticked up again in May, to 62.9 percent.
- **Personal income**, adjusted for inflation, increased 0.4 percent in April and 4.0 percent from last year, according to the Bureau of Economic Analysis. Real personal consumption expenditures (PCE) was flat during the month for the second time this year. The personal savings rate rose four-tenths of one percentage point to 5.6 percent. The PCE chain price index remained unchanged, leaving year-over-year inflation at just 0.1 percent, the weakest inflation since October 2009. Core PCE, which excludes food and energy, rose 0.1 percent in April, and 1.2 percent from a year ago.
- **The Institute for Supply Management (ISM) Manufacturing Index** rose 1.3 points in May to 52.8 (any reading above 50 indicates expansion). Increases in the inventory, employment, and new orders sub-indices outweighed a fall in production. **The ISM Nonmanufacturing Index**, a gauge of service sector activity, fell 2.1 points to 55.7 in May, as all four sub-indices fell during the month.
- **Light vehicle sales** increased 7.8 percent in May to a 17.8 million annualized rate, according to Autodata, which is the largest monthly increase since March 2010.
- **The U.S. trade deficit** narrowed by \$9.7 billion to \$40.9 billion in April, according to the Census Bureau. A 1.0 percent increase in exports combined with a 3.3 percent fall in imports to shrink the deficit. The inflation adjusted goods deficit, used in the calculation of net exports in the GDP estimate, fell \$9.2 billion to \$57.2 billion, and remains at its lowest level since February 2008.
- **Factory orders** edged down 0.4 percent in April, according to the Census Bureau, making it eight months of decline in the past nine months. Nondurable goods orders, the fresh data in the report, rose a meager 0.2 percent, while durable goods orders fell 1.0 percent. Core capital goods orders, a leading indicator of business investment in equipment in the estimation of GDP, were revised lower to a 0.3 percent drop from a 1.0 percent gain.
- **Initial claims for unemployment insurance** decreased by 8,000 to 276,000 in the week ending May 30, according to the Department of Labor. The four-week moving average edged up 2,750 to 275,000.



Source: Bureau of Labor Statistics



Source: Bureau of Economic Analysis

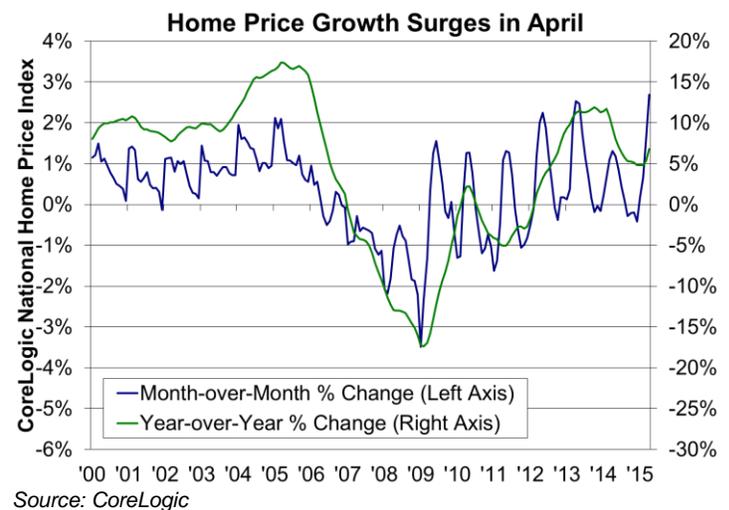
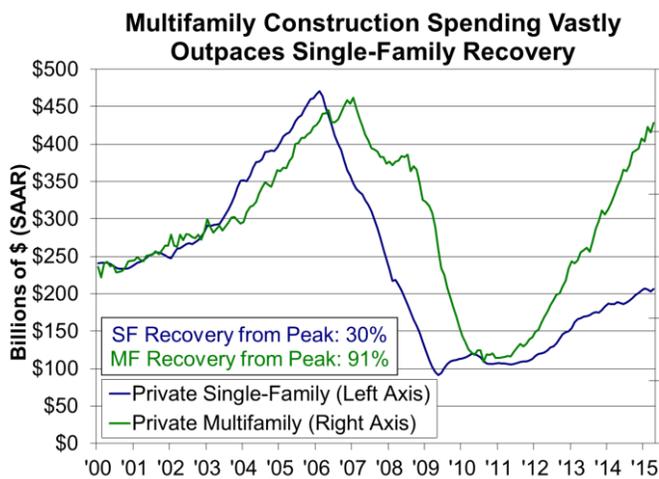
Housing: Price Acceleration Resumes Amid Sluggish Single-Family Construction

Housing data released this week were light but impactful, highlighting recurring themes of the ongoing housing expansion. Private spending on new housing construction resumed its expansion in April following a decline in March, which was the first drop in 10 months. Though year-over-year growth in private single-family construction spending remains near double-digit territory, it pales in comparison to the robust expansion in the multifamily sector witnessed over the past four years. In fact, private spending on single-family construction has recovered just 30 percent of the decline during the “Great Recession,” compared to a 91-percent recovery in the multifamily space. After a pair of home price measures showed annual appreciation stabilizing near 5.0 percent in March, a broader measure of home prices from CoreLogic showed the largest monthly increase in home prices in April since February 1978, pushing year-over-year price growth near 7.0 percent. Data on mortgage applications for last week continued the recent trend of moderating purchase demand and sinking refinance demand—the latter falling to a fresh 2015 low. The 30-year fixed mortgage rate was unchanged this week at 3.87 percent, according to Freddie Mac, holding at the highest level witnessed this year.

➤ **Private residential construction spending** increased 0.6 percent in April, partially reversing a 1.0 percent decline in March, according to the Census Bureau. Single-family and multifamily private residential construction spending increased 1.6 and 3.1 percent, respectively. Through the first four months of the year, private spending on single-family and multifamily construction was up 9.9 and 26.8 percent, respectively, with the latter reaching a fresh expansion-high in April.

➤ **The CoreLogic national home price index**, a repeat sales measure, jumped 2.7 percent (not seasonally adjusted) in April. From a year ago, the index has increased 6.8 percent—the fastest annual appreciation since last June. Four states (Massachusetts, Louisiana, Connecticut, and Maryland) showed negative year-over-year price growth in April, while eight states and the District of Columbia reached new all-time highs in home prices (Alaska, Colorado, Nebraska, New York, Oklahoma, Tennessee, Texas, and Wyoming).

➤ **Mortgage Applications** fell for a sixth consecutive week, sinking 7.6 percent in the week ending May 29, according to the Mortgage Bankers Association. Even as the 30-year fixed mortgage rate edged down five basis points to 4.02 percent off the survey high for 2015, refinance applications plunged 11.5 percent during the week and are down a cumulative 50 percent from their recent peak in mid-January. Purchase applications declined 3.0 percent—the third drop in four weeks—but remain higher than any period last year.



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