

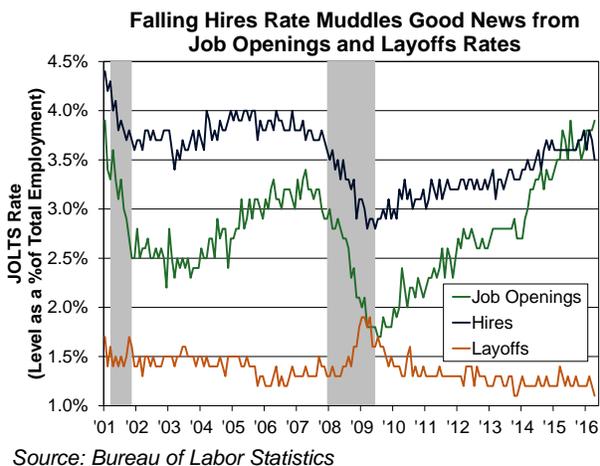
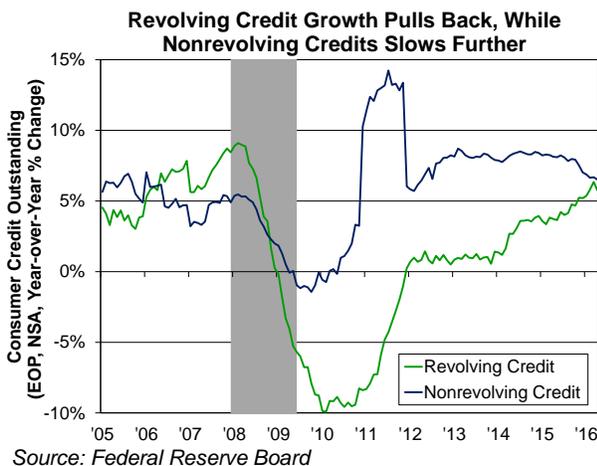


Weekly Note – June 10, 2016

Economics: Consumers Remain Upbeat

Economic data released this week further support our view that consumers will lead a rebound in economic growth this quarter. Consumer credit outstanding grew at a solid pace in April and, more importantly, the jump in March held up after revision. Growth in revolving credit (largely credit card debt) fell back to a more sustainable pace after spiking to an expansion-best last month. However, revolving credit outstanding remains 7.0 percent below its April 2008 peak, suggesting more room to grow. Year-over-year growth in non-revolving credit (primarily auto and student loan debt) continued its recent downward trend, but remains the main driver of overall credit growth. Consumers' willingness to take on debt reflects confidence in their financial situation, pointing to a pickup in consumer spending growth. In addition, confidence in current economic conditions in early June is near an 11-year high, according to the University of Michigan Survey of Consumer Sentiment. After the dismal May jobs report last week, this week's news showed that many aspects of the labor market remain healthy. Continued low initial unemployment claims indicate that recent weakness in the labor market did not stem from rising layoffs. In addition, the April Job Openings and Labor Turnover Survey suggested that firms were keen to expand their workforce, but had difficulty finding qualified candidates. Job openings as a share of total employment climbed back to tie the all-time high, although the ease with which employers can post job openings online today could be inflating the number of job openings. Firms appeared content with their current workforce, as the rate of layoffs fell to tie an all-time low. The looming negative in the report was the sharp drop in the hires rate to near a two-year low. Another concern for the economy is the continued lackluster growth in productivity. On a quarterly basis, productivity declined for the second quarter running, while annual growth has been less than 1.0 percent for six consecutive quarters. One possible explanation for the recent loss of momentum in payroll job gains is that firms are getting less bang for their buck per employee as productivity languishes, compressing their profit margins and weighing on hiring.

- **Consumer (non-mortgage) credit outstanding** grew \$13.4 billion in April, according to the Federal Reserve Board. Non-revolving credit drove the gain, rising \$11.8 billion, and has not declined on a monthly basis for over four years. Revolving credit expanded \$1.6 billion, marking the third consecutive monthly rise. From one year ago, consumer credit grew 6.3 percent. Non-revolving and revolving credit grew 6.5 percent and 5.7 percent, respectively.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings increased 2.1 percent in April to 5.8 million, according to the Bureau of Labor Statistics. As a share of total employment, the job openings rate edged up one-tenth to 3.9 percent. The hires rate dropped again to 3.5 percent after tying an expansion best of 3.8 percent in February. The quits rate, a gauge of worker confidence in the labor market, slipped one-tenth to 2.0 percent.
- **Nonfarm business productivity** decreased 0.6 percent in Q1 2016 from the prior quarter, according to the Bureau of Labor Statistics, an upward revision of four-tenths of a percentage point from the initial estimate. On an annual basis, productivity growth remained sluggish at only 0.7 percent. With compensation rising 2.6 percent from a year ago, unit labor costs grew 3.0 percent, marking the fastest annual increase in two years.
- **The University of Michigan Consumer Sentiment Index** slipped four-tenths of a point to 94.3 in the June preliminary reading. The fourth drop in the last five months in the expectations component drove the slight decline in the headline index, as the current economic conditions component rose for the third consecutive month.
- **Initial claims for unemployment insurance** decreased by 4,000 to 264,000 in the week ending June 4, according to the Department of Labor. The four-week moving average decreased by 7,500 to 269,500.

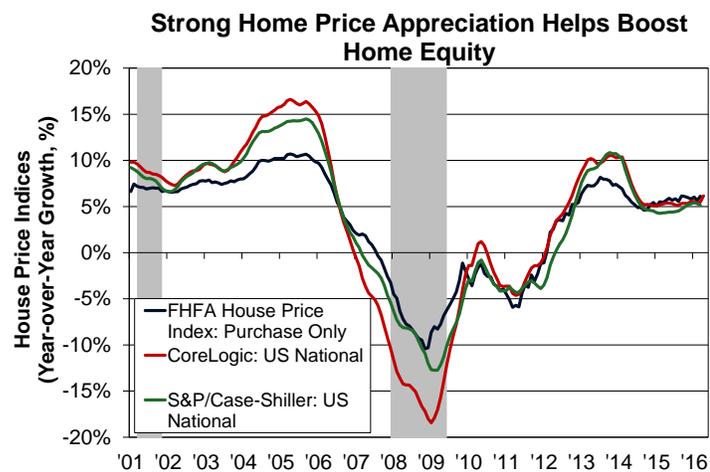




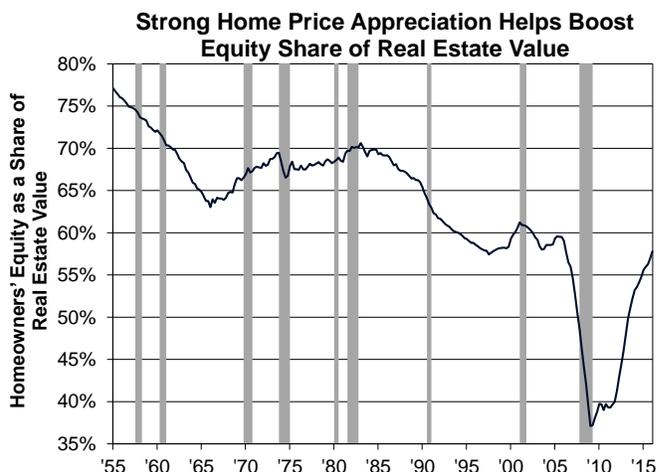
Housing: Strong Home Price Appreciation Boosts Equity

This week's housing data were positive. The CoreLogic House Price Index, a measure used by the Federal Reserve to estimate the value of households' real estate holdings, continued to show strong year-over-year appreciation in April, posting the fastest increase since June 2014. Solid home price gains contributed to a healthy increase in housing wealth during the first quarter amid weak growth in financial assets. Meanwhile, mortgage debt outstanding rose for the fourth consecutive quarter, continuing to heal gradually as the pace of foreclosures slows. Housing equity as a share of real estate assets continued to climb, reaching the highest level in a decade. The job openings rate for construction workers edged down in April from its expansion high in the prior month, but continued to indicate ample demand for labor. Mortgage demand for both purchase and refinance received a boost from declining mortgage rates, posting the biggest jump last week since early April. Rates should help support housing demand going into the summer season, with the rate on 30-year fixed-rate mortgages dropping six basis points this week to 3.60 percent, as the bearish May jobs report essentially took a June Fed rate hike off the table.

- **The CoreLogic Home Price Index** (not seasonally adjusted) rose 1.8 percent in April, its fifth consecutive gain, sending the index to the highest level since May 2007. Prices rose 6.2 percent from one year ago. The index remains 7.9 percent below its peak in April 2006.
- **The net worth of U.S. households and nonprofit organizations** — the value of assets minus liabilities — increased \$837.4 billion in the first quarter of 2016, according to the Federal Reserve Board. Assets rose \$855.1 billion, boosted by the \$498.5 billion gain in housing assets, the biggest increase since Q4 2013. Declining values of assets tied to bond and equity prices restrained growth in financial assets. Household liabilities rose \$17.7 billion, the smallest increase in a year. **Owners' equity in real estate as a percentage of household real estate value** rose 0.8 percentage points to 57.8 percent, the highest level since Q1 2006. **Single-family mortgage debt outstanding** rose 0.8 percent annualized from Q4 2015 and 1.5 percent from one year ago.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that construction job openings and hiring fell in April, according to the Bureau of Labor Statistics. The job openings rate fell 0.2 percentage points to 2.9 percent. The hiring rate edged down one-tenth to 5.1 percent. The quits rate retraced its jump in the prior month, falling 0.7 percentage points to 1.7 percent.
- **Mortgage applications** increased 9.3 percent for the week ending June 3, according to the Mortgage Bankers Association. The survey results include an adjustment to account for the Memorial Day holiday. Purchase applications jumped 11.7 percent, the biggest gain since early this year to the highest level since late September 2015, when lenders rushed to file applications before the *TILA-RESPA Integrated Disclosure* (TRID) rule became effective. Refinance applications were up 7.4 percent, the fourth rise in five weeks. The average contract interest rate for 30-year fixed-rate mortgages edged down two basis points to 3.83 percent, marking the first drop in four weeks.



Source: CoreLogic



Source: The Federal Reserve Board

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Economic and Strategic Research Group
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