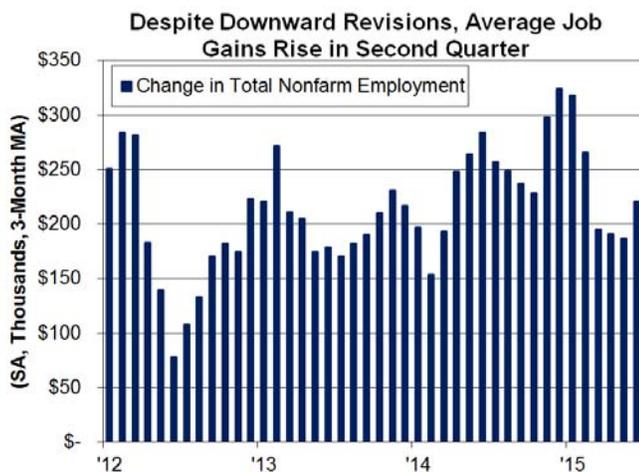


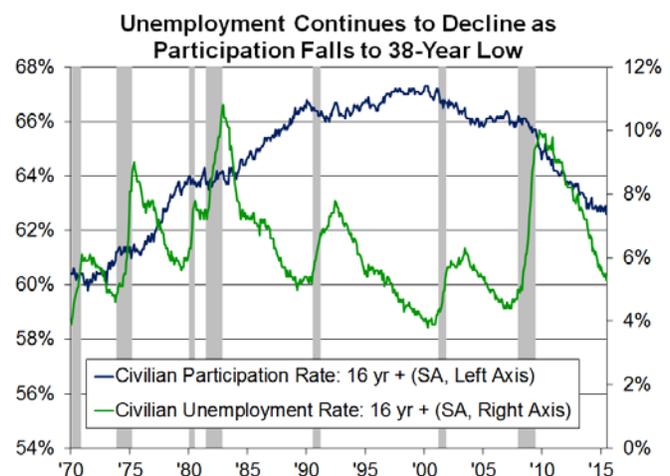
Economics: The Labor Market Takes the Slightest of Stumbles

Economic data released this week centered on the June jobs report, which was mildly disappointing in both the headline and the details. Negative revisions to April and May of 60,000 jobs, combined with flat average hourly earnings and average workweek, dampened the mood. The unemployment rate reached its lowest level since April 2008; however, that is mainly due to a drop in the labor force participation rate to its lowest level since 1977. An average monthly gain of about 208,000 jobs through the first six months implies 2.5 million jobs for the year—not as strong as last year but still a solid number. Consumers were more positive about the economy in June, as the consumer confidence index rose to tie an eight-year high. The other area of focus was the manufacturing sector, which had a number of indicators come out this week. Factory orders continue to struggle, declining again in May. Details showed a downgrade of core capital goods orders, a leading indicator of business investment in equipment, from a gain in the advance estimate to a loss. Vehicle sales fell in June, but from an expansion-high in the prior month. At odds with hard data in manufacturing, a survey of purchasing managers showed a faster expansion in manufacturing activity in June for a second consecutive month, driven by a jump in the employment component (a statistic not supported by the jobs report), which showed a modest gain in manufacturing payrolls.

- **Nonfarm payroll employment** rose 223,000 in June, according to the Bureau of Labor Statistics. Gains were concentrated in the service sectors, with retailers adding 33,000 jobs and healthcare providers adding 40,000. The manufacturing sector continued its lackluster job growth, with only 4,000 jobs gained in June. Average hourly earnings were flat after rising during the first five months of the year, but rose 2.0 percent from a year ago—down from the 2.3 percent annual growth recorded in May. The unemployment rate fell 0.2 percentage points to 5.3 percent as the participation rate decreased three-tenths of a percent to 62.6 percent.
- **The Institute of Supply Management (ISM) Manufacturing Index** rose 0.7 points to 53.5 in June (any level above 50 indicates expansion). The employment index drove the gain, rising by more than three points for the second consecutive month.
- **Factory orders** fell for the fourth time this year and the ninth time in the last 10 months, decreasing 1.0 percent in May, according to the Census Bureau. Nondurable goods, the fresh data in the report, rose 0.2 percent, while durable goods decreased 2.2 percent. Core capital goods orders, which exclude defense and aircraft orders, were revised from a 0.4 percent increase to a 0.4 percent drop.
- **Light vehicle sales** decreased 3.5 percent in June to a 17.2 million annualized rate, according to Autodata, falling from a post-recession high in May of 17.8 million.
- **The Conference Board Consumer Confidence Index** jumped 6.8 points in June to 101.4. Both the present situation and expectations components rose together for the first time since January.
- **Initial claims for unemployment insurance** increased by 10,000 to 281,000 in the week ending June 27, according to the Department of Labor. The four-week moving average increased by 1,000 to 274,750.



Source: Bureau of Labor Statistics



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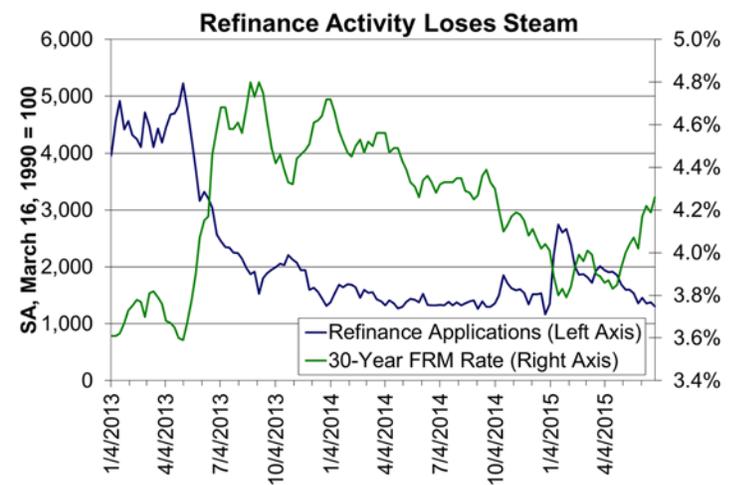
Housing: On Track for a Strong Summer Selling Season

The ongoing resurgence in home sales is likely to continue, at least through the summer, according to data released this week. Pending home sales hit a nine-year high in May, suggesting the rapid pace of existing home sales in May (to a more than five-year high) should hold in the near term. In addition, though purchase applications slipped last week they remain well above any level reported during all of 2014, and the average for June was near the level witnessed in June 2013, which ultimately lead to the best summer selling season since 2007. However, rising interest rates have sharply curtailed refinance applications, which dropped to a 2015-low last week. Financial market turbulence over a potential Greek exit from the Eurozone and market expectations regarding the timing of the Fed's target rate liftoff could spark elevated interest rate volatility, posing downside risk to home sales in the second half of the year. The near-term outlook for residential construction is less rosy than the home sales picture. The multifamily sector, which has been responsible for the majority of homebuilding growth in the current expansion, appears to be approaching pre-crisis levels. The single-family sector, however, remains at late-1990s levels. Spending on private single-family construction was flat in May, remaining below the January 2015 expansion-high. The meager level of new single-family construction has kept inventory tight, supporting home price appreciation. The S&P/Case-Shiller 20-city home price index in April showed consistent annual price growth near 5.0 percent. Mortgage rates moved higher this week, rising six basis points to 4.08 percent, according to Freddie Mac.

- **Private residential construction spending** edged up 0.3 percent in May, according to the Census Bureau. Spending on private new residential housing was little changed, with single-family spending flat amid a 0.2 percent increase in spending on multifamily construction. From a year ago, private spending on single-family and multifamily construction is up 11.4 percent and 19.5 percent, respectively.
- **Pending home sales**, which record contract signings of existing homes, increased for a fifth consecutive month in May to reach the highest level since April 2006, according to the National Association of REALTORS®. The index edged up 0.9 percent from April and 10.4 percent from May 2014. All four regions increased from a year ago.
- **The S&P/Case-Shiller composite 20-city home price index** (not seasonally adjusted) increased 1.1 percent in the three months ending in April, up from an increase of 0.9 percent in March. From a year ago, prices have increased 4.9 percent—little changed from the 5.0 percent annual appreciation reported in the prior month. All 20 cities registered annual price growth in April, ranging from 1.1 percent in Washington, D.C. to 10.3 percent in Denver.
- **Mortgage applications** declined for the second time in three weeks, falling 4.7 percent in the week ending June 26, according to the Mortgage Bankers Association. Refinance applications fell 5.2 percent as the 30-year fixed mortgage rate rose seven basis points to 4.26 percent—the highest since the first week of October 2014. Purchase applications also fell, dropping 4.1 percent.



Source: National Association of Realtors®



Source: Mortgage Bankers Association

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