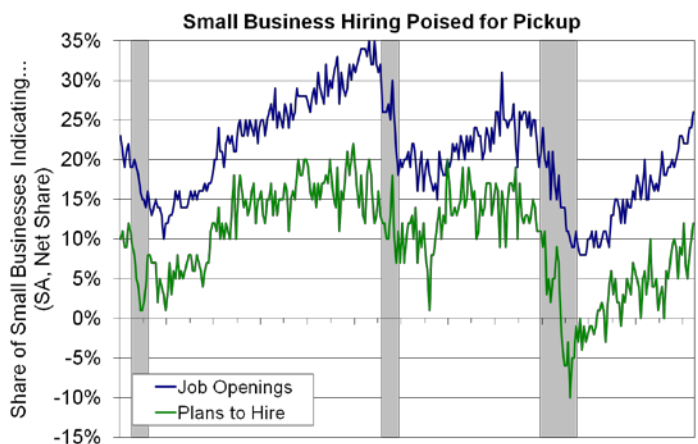


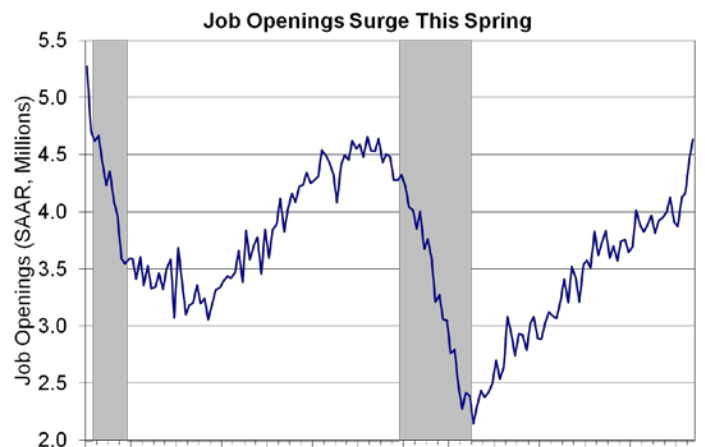
Economics: It's Time to Get to Work

After last week's strong June employment report, a number of economic indicators released this week point to additional labor market strength. Though small business confidence edged lower in June 2014—due primarily to concerns around the economy—firms signaled their intention to add workers with a conviction previously unseen in the five-year-old economic expansion. Meanwhile, after a slow start in January 2014, job openings surged at a remarkable 71 percent annual rate in the four months ending in May, approaching highs witnessed in the previous 2001-2007 economic expansion. Perhaps reflecting the improving jobs picture, the recent pickup in revolving consumer debt outstanding, after years of flat-lining, indicates a more confident consumer. On the monetary policy front, the minutes to the “no surprises” June Federal Open Market Committee (FOMC) meeting hinted that the Fed is likely to maintain its policy of re-investing maturing debt in its portfolio until after it enacts its first hike in the policy rate. Of note was the discussion around the preferred monetary policy tool the Fed will use during its eventual exit, with members seemingly favoring the use of interest paid on excess reserves (IOER) rather than its reverse-repo facility as the potential replacement for the federal funds rate, though members expressed a desire to maintain a role for the funds rate in its longer-run policy framework. The 10-year U.S. treasury yield was 2.54 percent at the time of this writing, down 10 basis points from last week's close.

- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** dropped 1.6 points to 95.0 in June, as fewer firms expect the economy to improve or that now is a good time to expand the business. Labor indicators were positive, however, as a net share of 12 percent of firms plan to increase employment—tied for the recovery-high share. In addition, a net share of 26 percent of firms indicated they have open positions that they are unable to fill. Taxes and government requirements remain the two most common responses when firms are asked their single most important problem, while the share choosing poor sales has trended down to 13 percent since peaking at 34 percent in late 2009 and early 2010.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that the number of job openings increased from 4.5 million to 4.6 million in May 2014, the highest level since June 2007, and nearly 20 percent above May 2013 levels. Hiring and separations (including quits and layoffs) both edged down modestly following April 2014 gains, with 4.7 million hires and 4.5 million total separations.
- **Consumer (non-mortgage) credit outstanding** increased at a 7.4 percent annual rate in May 2014, continuing a streak of 33 consecutive monthly gains. Non-revolving credit (composed primarily of auto and student loans and other financed big box purchases) increased by 9.3 percent, while revolving credit outstanding (mostly credit card debt) registered a 2.5 percent gain in May 2014 following a more than 10-year high 12.3 percent jump in April 2014. Revolving debt is up 2.2 percent from a year ago—the fastest annual gain since 2008.
- **Initial claims for unemployment insurance** declined in the week ending July 5, dropping by 11,000 from the previous week to 304,000, while the four-week moving average (a better gauge of the underlying trend) declined to its recovery-low.
- **Wholesale inventories were up 0.5 percent** in May 2014, and 7.9 percent from a year ago. Durable goods inventories rose 1.0 percent, overcoming a 0.3 percent decline in nondurable inventories.



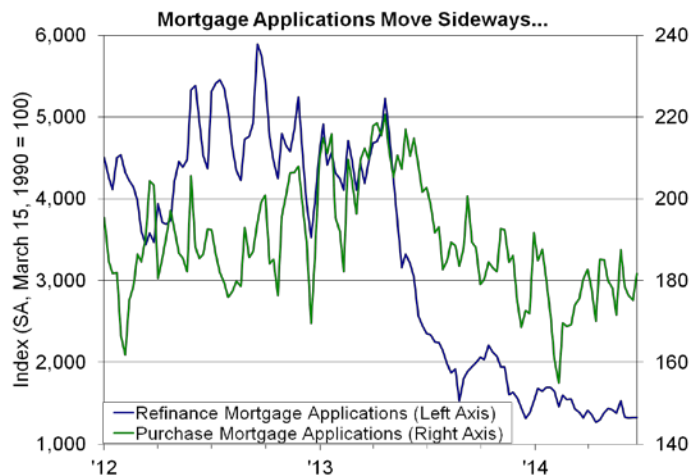
Source: National Federation of Independent Business



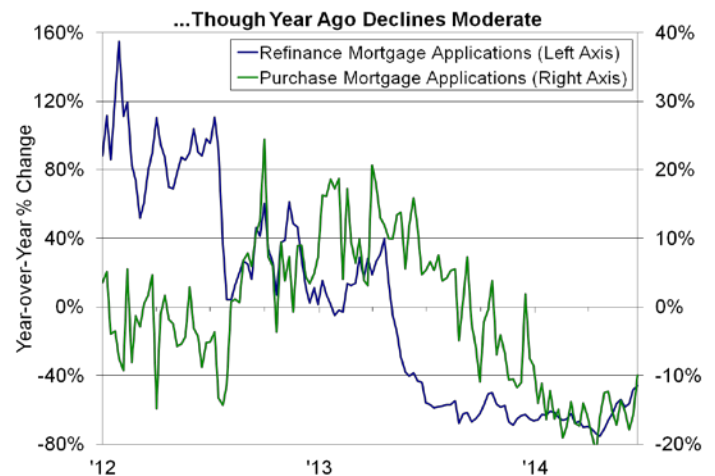
Source: Bureau of Labor Statistics

Housing: Praying for Purchase Demand, Mourning Refinance

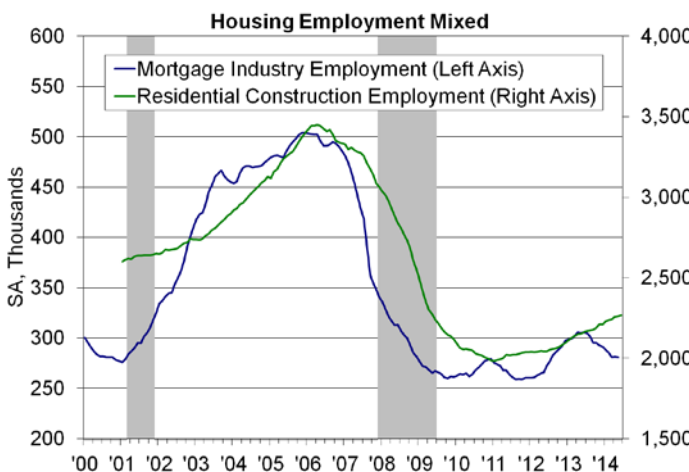
With no major housing reports this week, we review recent mortgage applications data from the Mortgage Bankers Association in addition to recent trends in housing market employment. Despite a strong pickup in home sales in May 2014 and strength in pending home sales (which typically lead closings by one to two months), purchase applications trended sideways in June and early July 2014. Meanwhile, even as the contract interest rate for 30-year fixed-rate mortgages hovers near nine-month lows (4.15 percent this week, according to Freddie Mac), refinance applications have failed to move off their recent floor, remaining near six-year lows. Recent data on housing employment were upbeat, with last week's June employment report showing further improvement in residential construction employment (residential construction and residential specialty trade contractor employees), posting the 25th consecutive monthly gain. This week's JOLTS report showed that construction job openings and hires picked up in May 2014. However, mortgage industry employment (real estate credit and mortgage and nonmortgage loan broker employees) has flat-lined in recent months. Mortgage industry employment in May 2014 was 8.0 percent below the recovery high reached in June 2013, in line with the sharp drop in mortgage volumes in response to the rise in mortgage rates last year.



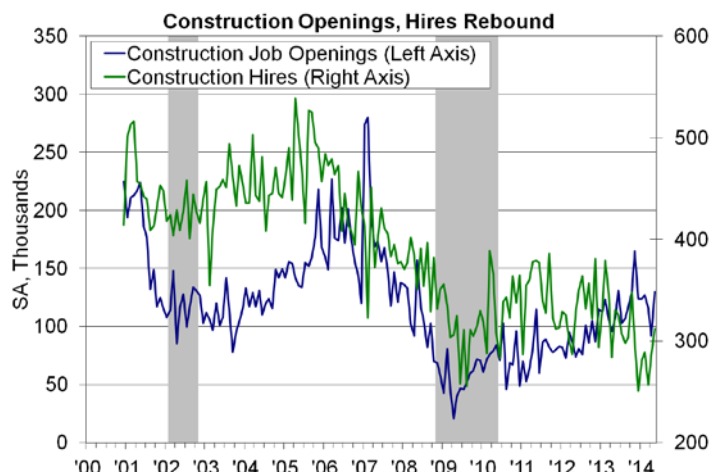
Source: Mortgage Bankers Association



Source: Mortgage Bankers Association



Source: Bureau of Labor Statistics



Source: Bureau of Labor Statistics

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