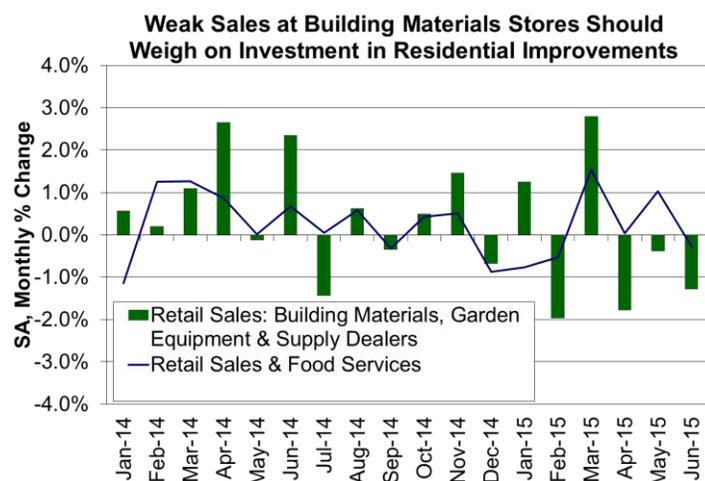


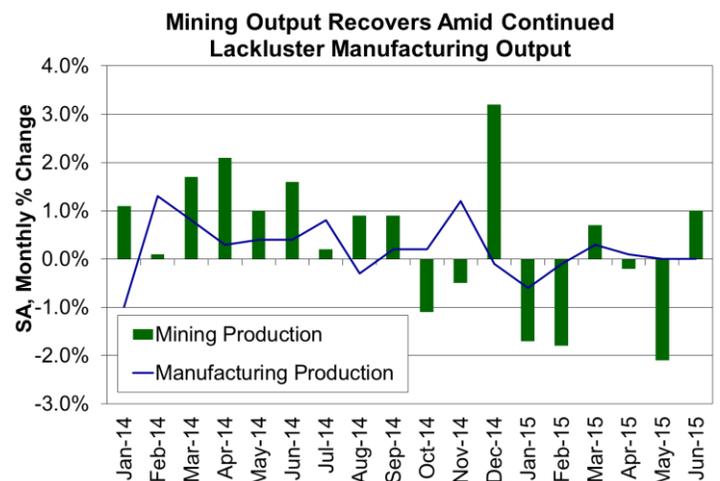
Economics: Consumption Growth Likely Picked Up Despite Weak End of Quarter

This week's biggest news was the drop in June retail sales following a solid gain in May. Despite the disappointing development, real consumer spending growth likely accelerated by about one-half of a percentage point to 2.6 percent annualized in Q2 2015, in line with our June forecast. Industrial production rose in June for the first time in three months, lifted by the first gain in mining output in three months and by a jump in utility output, as record heat waves hit parts of the country. However, manufacturing output was flat, continuing the lackluster trend witnessed so far this year. Business confidence was bearish in June, and consumer sentiment pulled back in early July but remains elevated. Meanwhile, June price data showed building pressure, supporting the Fed's forecast of inflation moving up gradually toward target. In her semiannual testimony before Congress, Fed Chair Janet Yellen reiterated that the Fed expects to raise the target rate "at some point this year."

- **Retail sales** fell 0.3 percent in June, according to the Census Bureau. The weakness was broad-based. Notably, sales at building materials stores fell for the third consecutive month, which bodes poorly for the home improvement component in residential investment. Core sales (excluding food services, gasoline, autos, and building materials), which are an input used to estimate consumer spending, slipped 0.1 percent after a 0.7 percent gain in the prior month.
- **The Consumer Price Index (CPI)** rose 0.3 percent in June. From a year ago, the CPI rose 0.1 percent, the first increase since last December. Excluding food and energy, core CPI firmed slightly, rising 0.2 percent from May and 1.8 percent from June 2014. The tight housing market continues to push shelter costs higher, with owners' equivalent rents posting the biggest monthly gain since 2006. **The Producer Price Index (PPI)** for final demand rose 0.4 percent in June, while core PPI jumped 0.3 percent, the biggest increase since last October. **Import prices** dropped 0.1 percent from May and 10.0 percent from June 2014. Rising fuel prices were outweighed by declining nonfuel prices, with the latter trend having persisted largely since last March. (All price data are released by the Bureau of Labor Statistics).
- **Industrial Production**, a gauge of output in the manufacturing, utility, and mining sectors, edged up 0.3 percent in June, according to the Federal Reserve Board. Despite a 1.0 percent rebound in June, mining output remains 4.1 percent below the level at the end of 2014. Utility output rose 1.5 percent. Manufacturing output, which accounts for about three quarters of industrial production, was flat, weighed down by a sharp drop in auto production after three consecutive gains.
- **The National Federation of Independent Business (NFIB) Small Business Index** fell 4.2 points to 94.1 in June, the lowest reading since March 2014. While 9 of the 10 components declined, weaker spending plans amid pessimism over earnings were the biggest drags.
- **The University of Michigan Consumer Sentiment Index** dropped 2.8 points in early July to 93.3. Both the current conditions and expectations sub-indices deteriorated.
- **Initial claims for unemployment insurance** plummeted 15,000 to 281,000 in the week ending July 11, more than offsetting the 14,000 surge in the prior week, according to the Department of Labor. The four-week moving average edged up to 282,500. Claims tend to be volatile around early July due to summer auto plant retooling schedules, which can result in seasonal adjustment issues.



Source: Census Bureau



Source: Federal Reserve Board

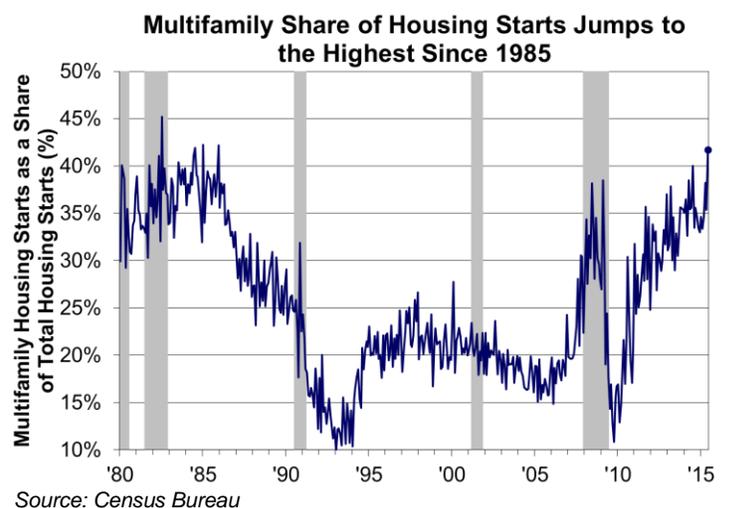
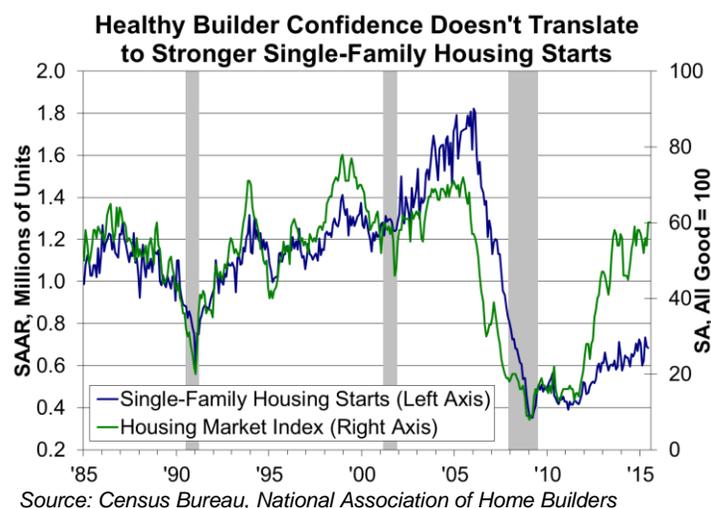
Housing: The Rental Market Resurgence Continues

During the six-year economic expansion, a dominant trend in the housing market continues to be the shift away from homeownership toward renting. A broad array of demographic and housing data bear this trend out, including the persistent decline in the homeownership rate, the rapid decline in rental vacancy rates, and corresponding acceleration of both rent growth and consumer expectations of rent growth. While household formation has picked up in recent quarters, rental households accounted for all of the net increase. Builders have responded to the market shift, and this week's residential construction data underscore that trend. Multifamily starts jumped in June to the fastest pace since April 1988, sending the multifamily share of housing starts to a three-decade high. The near-term outlook continues to be positive, as multifamily permits posted double-digit percentage gains each month of the second quarter. The sector has been supported by an outbreak of activity in the Northeast, a development that bears watching. Meanwhile, single-family building activity remains relatively subdued, declining for a second consecutive month in June. Future prospects were brighter, however, with single-family permits edging up for a fourth consecutive month to an expansion high, and builder confidence holding firm in July at its expansion best. Purchase mortgage demand took a breather last week, with purchase applications dropping sharply from their second-highest level since June 2013 to a six-week low. Refinance applications increased for a second consecutive week from a 2015 low. The 30-year fixed mortgage rate increased five basis points this week to 4.09 percent, according to Freddie Mac.

➤ **Housing starts** rebounded in June, increasing 9.8 percent to 1.17 million annualized units, according to the Census Bureau. Multifamily housing starts drove the increase, surging 29.4 percent to 489,000 units. Single-family housing starts edged down 0.9 percent to 685,000. Through the first half of 2015, single-family and multifamily housing starts have increased 9.1 percent and 14.4 percent, respectively, over the same period a year ago. New residential permits jumped 7.4 percent to a new expansion best of 1.34 million. Details of housing permits mirrored housing starts data, with multifamily permits surging 15.3 percent to a 25-year high compared to a modest 0.9 percent increase in the single-family sector. Halfway through 2015, single-family and multifamily building permits are up 6.4 percent and 27.2 percent, respectively, over the first six months of 2014.

➤ **The National Association of Home Builders/Wells Fargo Housing Market Index** was unchanged in July at 60—its highest reading since November 2005 (a reading above 50 indicates more builders view the market as “good” than “poor”). Both the current sales and sales expectations components increased to new expansion highs, while buyer traffic ticked down one point.

➤ **Mortgage applications** edged down 1.9 percent in the week ending July 10, according to the Mortgage Bankers Association. Purchase applications sank 7.5 percent while refinance applications rose 3.7 percent. The survey's 30-year fixed mortgage rate was unchanged at 4.23 percent.



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