



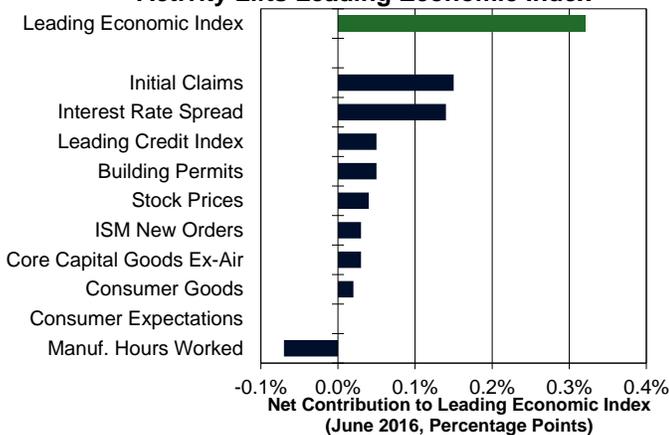
Weekly Note – July 22, 2016

Economics: Outlook Improves Broadly

The week's sparse economic data paint a positive picture of recent economic activity and the near-term outlook. The Conference Board Leading Economic Index showed broad-based improvement in June, with a decline in initial jobless claims being the biggest contributor. While recent weeks' initial jobless claims have been distorted by the Fourth of July holiday and the annual retooling by domestic auto manufacturers, the underlying trend has been improving. The four-week moving average in claims fell last week for the third consecutive week and for the seventh time over the last eight weeks, sending claims to the second lowest reading of the expansion. Overall, economic data in recent weeks are consistent with our forecast of a pickup in economic growth in the second quarter to 2.4 percent annualized from 1.1 percent in the first quarter. (The Bureau of Economic Analysis will release the first estimate of second quarter gross domestic product on July 29, along with its annual revisions for the data between 2013 and Q1 2016). Despite positive domestic economic news, we expect next week's Federal Open Market Committee meeting to be uneventful as Brexit most likely took a July rate hike off the table. Fed funds futures are now assigning only an 8.0 percent probability of a July rate hike. Because of the heightened uncertainty surrounding the global financial market, we expect the Fed to exercise caution and do not anticipate the next increase in the target rate until June 2017.

- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, rose 0.3 percent in June following a 0.2 percent drop in the prior month. Eight out of 10 components made positive contributions, led by average weekly initial claims for unemployment insurance, financial components, and building permits. The average workweek of production workers in manufacturing detracted from the index, while average consumer expectations for business conditions was neutral.
- **Initial claims for unemployment insurance** decreased 1,000 to 253,000 in the week ending July 16, according to the Department of Labor. The four-week moving average decreased 1,250 to 257,750.

Broad-Based Improvement in Economic Activity Lifts Leading Economic Index



Source: The Conference Board

Initial Jobless Claims Trend Down to Near Expansion Best



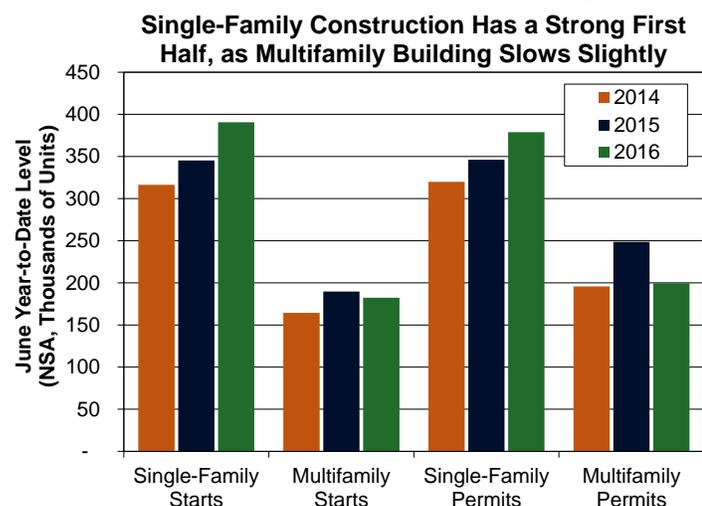
Source: The Department of Labor



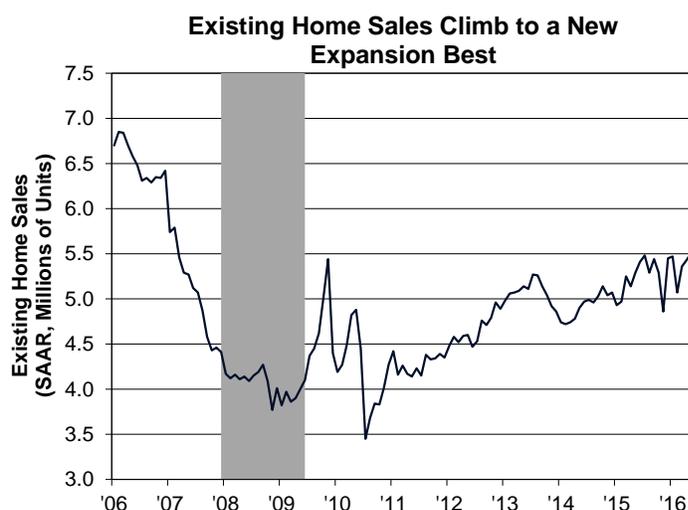
Housing: Starts and Existing Sales Find Some Q2 Mojo

This week's data showed continued progress for the housing market in the second quarter. Home construction increased in June for the second time in three months, climbing to a level just below the expansion best. Single-family starts reached the highest level since February, and multifamily building rose further to hit a nine-month high. Construction permits for both sectors improved as well, suggesting the recent mojo could be sustained in the short term. However, the slowing hiring trend in construction over the last three months looms as a downside risk for homebuilding. The sluggish hiring amid elevated job openings may have contributed to home builders' less optimistic view in July. Existing home sales surprised on the upside in June, rising for the fourth consecutive month to a high for the expansion. Encouragingly, the first-time homebuyer share reached 33 percent, the highest level since July 2012. Yet, the thirteenth consecutive annual decline in for-sale inventory is a concern for a market starved of supply. Lean inventory continues to support home prices, with annual growth in the FHFA Purchase-Only House Price Index remaining robust in May. Demand for both refinance and purchase mortgages fell last week for the first time in three weeks. Freddie Mac's survey showed that the average 30-year fixed mortgage rate edged up this week for a second straight week, rising three basis points to 3.45 percent.

- **Housing starts** rose 4.8 percent in June to 1.19 million annualized units, according to the Census Bureau. Single-family building increased 4.4 percent to 778,000 units, and multifamily building improved 5.4 percent to 411,000 units. Through the first six months of the year, single-family starts are 13.1 percent higher than the same period one year ago; in contrast, multifamily starts are 3.8 percent lower. New residential permits increased 1.5 percent to 1.15 million annualized units. Single-family permits rose 1.0 percent and multifamily permits increased 2.5 percent. On a year-to-date basis, single-family permits are up 9.4 percent, while multifamily permits are down 19.7 percent.
- **Existing home sales** climbed 1.1 percent in June to 5.57 million annualized units, driven by sales in the West and the Midwest, according to the National Association of REALTORS®. Year-to-date sales are 4.7 percent higher than the same period last year. The number of homes for sale (not seasonally adjusted) fell 5.8 percent from one year ago. The months' supply (inventory-sales ratio) was 4.6 months, compared with 5.0 months one year ago. The median price, which does not control for changes in the mix of sales, increased 4.8 percent from June 2015.
- **The National Association of Home Builders / Wells Fargo Housing Market Index** edged down one point to 59 in July. A reading above 50 indicates more builders view the single-family market as "good" rather than "poor". All three components – present sales, sales expectations for the next six months, and traffic of prospective buyers – declined.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally adjusted basis, edged up 0.2 percent in May. From one year ago, prices rose 5.6 percent, slowing from the 6.0 percent pace of the prior month.
- **Mortgage applications** fell 1.3 percent for the week ending July 15, according to the Mortgage Bankers Association. Purchase and refinance applications decreased by 2.0 percent and 0.9 percent, respectively. The drop in refinance activity was driven by a 6.6 percent fall in government applications, outweighing a slight rise in the conventional applications. The average 30-year fixed mortgage rate rose five basis points to 3.65 percent.



Source: Census Bureau



Source: National Association of REALTORS®

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