

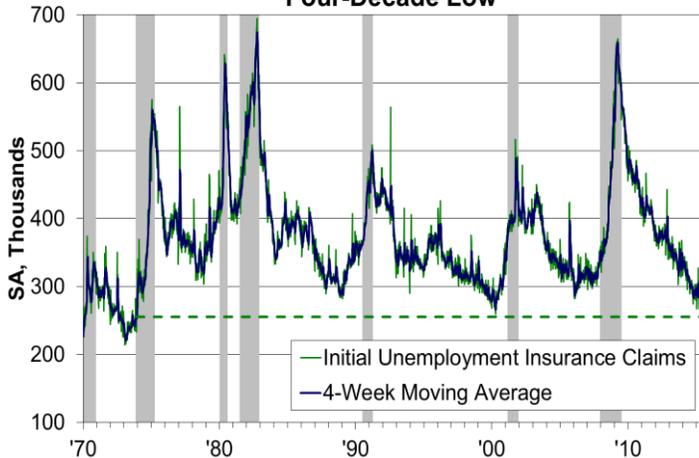
Economics: Momentum Builds

A quiet week for economic data brought some good news on the labor market front and on the near-term outlook for the economy. Initial jobless claims plunged last week to the lowest level in decades. While week-to-week claims are typically choppy in July amid the summer auto plant shutdowns, the recent trend points to continuing improvement in the jobs outlook, in line with other labor market indicators. A leading indicator of near-term economic growth—the Conference Board Leading Economic Indicator (LEI)—showed another strong gain in June thanks to the strength in housing permits, which were a sizable contributor in the LEI for the third consecutive month. June permits data, released last week, showed that Q2 2015 housing permits posted the strongest quarterly increase since Q1 1983. The recent uptrend in the LEI offered further evidence that, similar to last year, the weakness in overall economic activity during the first quarter was an aberration, and that the economy will likely continue to build momentum into the current quarter. In our July forecast released earlier this week, we forecast a rebound in economic growth to 2.8 percent annualized in the second quarter and expect it to average about 3.0 percent during the second half of the year. The Bureau of Economic Analysis (BEA) will release its advance estimate of the second quarter gross domestic product (GDP) next Thursday, along with its annual benchmark revision, which will revise data back to 2012. The BEA has stated that the annual revision will contain improvements to the seasonal adjustment of GDP components, and thus could potentially impact GDP growth in Q1 2015 and Q1 2014, each of which is now in negative territory.

➤ **Initial claims for unemployment insurance** dropped 26,000 to 255,000 in the week ending July 18, according to the Department of Labor. This brings the cumulative decline over the past two weeks to 41,000, leaving claims at their lowest level since November 1973. Weekly initial claims tend to be volatile this time of year due to annual shutdowns of auto plants for retooling, which present seasonal adjustment challenges as the exact timing and magnitude of shutdowns vary from year to year. Recent trends suggest that the labor market continued to improve. The four-week moving average decreased 4,000 to 278,500.

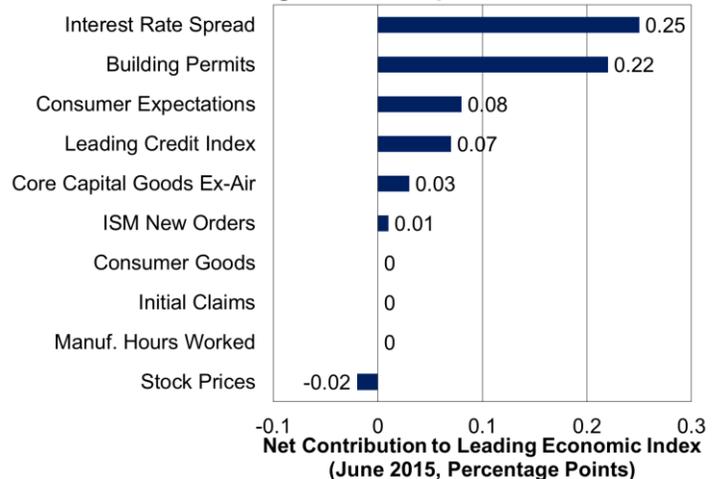
➤ **The Conference Board Leading Economic Index (LEI)** increased 0.6 percent in June, following a gain of 0.8 percent in May (revised higher from 0.7 percent), and an increase of 0.6 percent in April. Six of the 10 components increased, with the interest rate spread and housing permits as the biggest drivers. Three components were unchanged, while stock prices were the only component with a negative contribution. Building permits added 0.22 percentage points to headline LEI growth in June, after contributing 0.28 and 0.29 in May and April, respectively.

Initial Jobless Claims Move Down to Four-Decade Low



Source: Department of Labor

Housing Permits Help Boost LEI

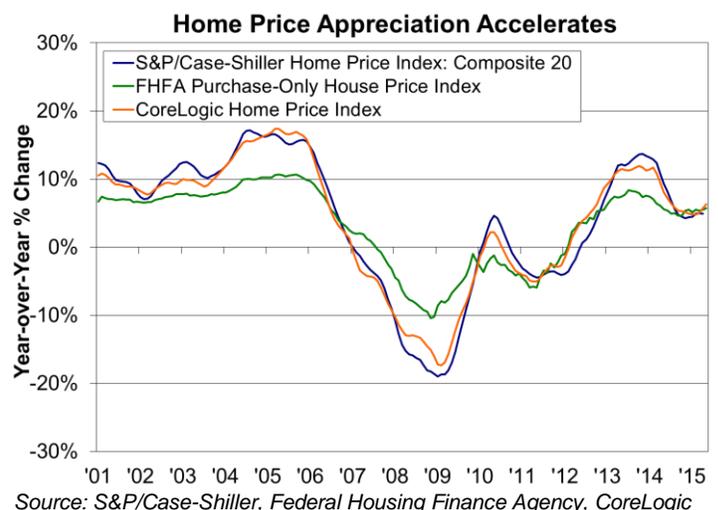
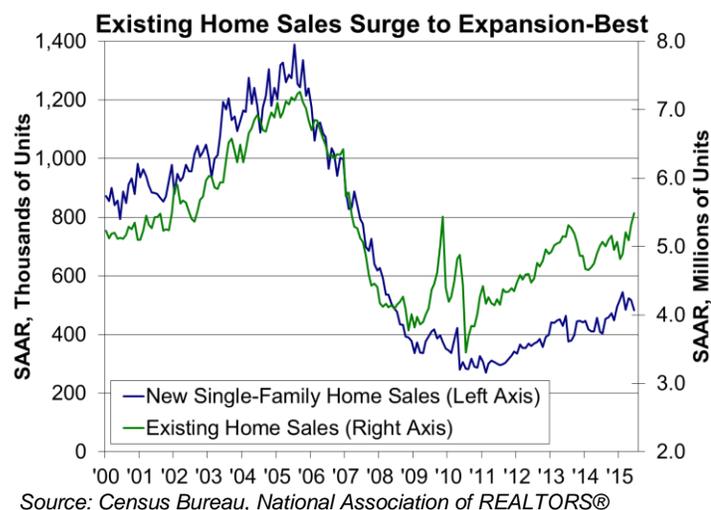


Source: Conference Board

Housing: Existing Home Sales Off to the Races Amid Tight Supply

Housing data released this week were broadly upbeat and supportive of our outlook of strengthening activity this year amid improving economic fundamentals. Existing homes sales improved from a five-and-one-half-year best in May to an eight-year high in June. The second quarter pace of 5.3 million annualized units also was an eight-year high and in line with our recently released outlook. Existing inventory has not kept pace with the growth in sales, as properties typically stayed on the market for just 34 days in June, down from 40 in May and the lowest since the National Association of REALTORS® began tracking in May 2011. This has put upward pressure on home price growth, which has accelerated this year. The May FHFA purchase-only house price index showed the strongest annual price appreciation in over a year. New single-family home sales data for May proved to be this week's wildcard, bucking the improving trend and falling for the second straight month to a seven-month low. Adding to the surprise, the number of new homes available for sale, often cited as a factor holding back new home sales, rose for a fourth consecutive month. However, these data typically feature large monthly revisions, so we caution against over-interpretation. New home sales have still posted strong year-over-year gains so far this year. The 30-year fixed mortgage rate edged down five basis points to 4.04 this week, according to Freddie Mac.

- **Existing home sales** rose 3.2 percent to 5.49 million annualized units in June, according to the National Association of REALTORS®. Halfway through 2015, year-to-date sales are up 7.7 percent from the same period last year. The number of homes available for sale, which is not seasonally adjusted, increased 0.9 percent from May and just 0.4 percent from June 2014. The months' supply, or inventory/sales ratio, ticked down one-tenth to 5.0. The median sales price of existing homes, which is not adjusted for the composition of sales, increased 6.5 percent from a year ago.
- **New single-family home sales** fell 6.8 percent to 482,000 annualized units in June, according to the Census Bureau. Year-to-date through June, new home sales are up 20.3 percent from the same period last year. The number of new single-family houses available for sale jumped 3.4 percent (seasonally adjusted) to its highest level in over five years. The months' supply jumped six tenths to 5.4—a seven-month high. The median sales price, which is not adjusted for the composition of sales, declined 1.8 percent from a year ago.
- **The FHFA purchase-only house price index**, reported on a seasonally adjusted basis, increased 0.4 percent in May following a 0.4 percent gain in the prior month. Annual price appreciation was 5.7 percent and has trended up since falling to 4.6 percent in October, but remains below the recent peak of 8.4 percent reached in July 2013. All nine Census divisions had year-over-year gains in home prices.
- **Mortgage applications** were little changed in the week ending July 17, according to the Mortgage Bankers Association. Purchase applications increased 1.0 percent, barely offsetting a 0.6 percent decline in refinance applications. According to the survey, the 30-year fixed mortgage rate was unchanged for a second consecutive week at 4.23 percent.



Brian Hughes-Cromwick and Orawin Velz
Economic and Strategic Research Group
July 24, 2015

Opinions, analyses, estimates, forecasts and other views of Fannie Mae's Economic and Strategic Research (ESR) Group included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the ESR group bases its opinions, analyses, estimates, forecasts and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts and other views published by the ESR group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.