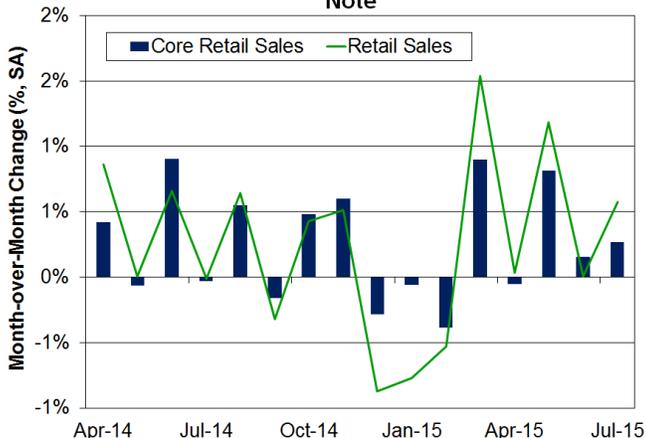


## Economics: Consumer Spending Picture Brightens

This week's barrage of economic reports showed positive news in the labor market and consumer spending. The June hire rate from the JOLT Survey edged up, matching an expansion high, and the trend in initial jobless claims edged down to the lowest level since December 1973. Small business confidence rebounded in July, as hiring plans improved. The July retail sales report points to an upward revision in Q2 2015 consumer spending growth, putting spending on a better trajectory heading into this quarter amid little-changed consumer sentiment in early August. Manufacturing output jumped in July, but likely because of a seasonal adjustment distortion amid plant shutdowns. The retail sales and June business inventories reports suggest that Q2 economic growth is tracking slightly stronger than 3.0 percent annualized, compared with the government's first estimate of 2.3 percent. On a weak note, Q2 productivity rose just 0.3 percent from a year ago, and annual growth in the three years ended in 2014 was revised down to just 0.5 percent from 0.8 percent. The decline in import prices accelerated in July as the recent decline in crude prices weighed on import costs. The overall import prices trend is consistent with past dollar appreciation. China shocked the financial markets by devaluing the yuan this week, though the dollar's appreciation against the yuan translated into a very small additional increase in trade-weighted terms.

- **Retail sales** rose 0.6 percent in July, according to the Census Bureau. Core sales (excluding autos, gasoline, and building materials), an input to consumer spending, increased 0.3 percent, and the prior two months were revised higher.
- **Nonfarm business productivity** rebounded 1.3 percent annualized in Q2 following back-to-back declines, according to the Bureau of Labor Statistics. Compensation per hour rose 1.8 percent [annualized in Q2], implying growth in unit labor costs of 0.5 percent.
- **Industrial production** rose 0.6 percent in July, according to the Federal Reserve Board, as manufacturing output, boosted by vehicle assemblies, jumped 0.8 percent, and mining output rose 0.2 percent. Utility output fell 1.0 percent.
- **The University of Michigan Consumer Sentiment Index** edged down 0.2 points to 92.9 in early August.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** advanced 1.3 points in July to 95.4, following June's 4.2-point decline. Hiring plans improved 3 points to 12 percent, and the share of firms reporting difficulty finding qualified job applicants tied a record high of 48 percent.
- **The Job Opening and Labor Turnover Survey (JOLTS)** showed that the job opening rate remained at 3.6 percent in June, a cyclical high, according to the Bureau of Labor Statistics. The hire rate ticked up to 3.7 percent, while the separation rate edged up to 3.5 percent. The quits rate—an indicator of workers' confidence in the market—remained at 1.9 percent.
- **Business inventories** rose 0.8 percent in June, according to the Census Bureau, indicating that actual Q2 2015 private inventory investment was more than the government had assumed in its first estimate of Q2 2015 GDP.
- **The Import Price Index** fell 0.9 percent in July, with declining energy prices driving most of the drop. Non-petroleum import prices fell 0.3 percent, reflecting in part the ongoing impact of the stronger dollar. **The Producer Price Index (PPI)** rose 0.2 percent from June but fell 0.8 percent from a year ago. (Both indices are from the Bureau of Labor Statistics.)

**Consumer Spending Starts Q3 on a Better Note**



Source: Census Bureau

**Small Businesses Have Difficulties Filling Openings**



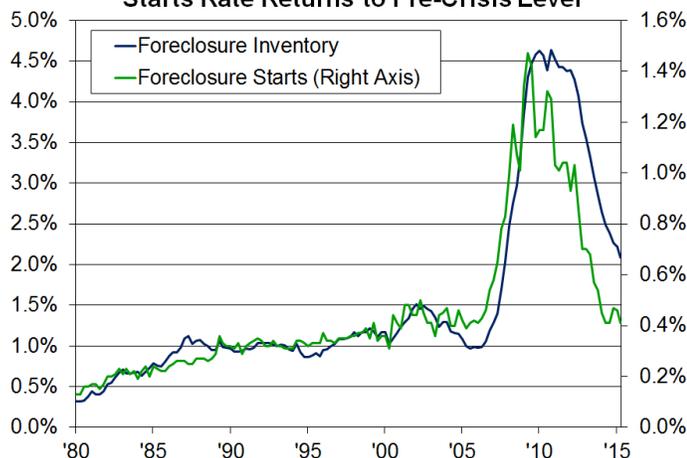
Source: National Federation of Independent Business

## Housing: Mortgage Performance is Almost Out of Rehab

A quiet week for housing data provided the latest update on the rehabilitation of mortgage credit quality. The total market delinquency rate—loans at least one payment past due but not in the foreclosure process—has trended down to the lowest level since the second quarter of 2007. The overall serious delinquency rate, which includes loans that are 90 days or more past due or in foreclosure, fell below 4.0 percent for the first time since the fourth quarter of 2007. Some states have seen significant improvements over the past year, with serious delinquency rates in 12 states falling below their Q3 2007 levels, compared with only four states a year ago. The downward trend in new foreclosures is another indicator of the housing market's improving health amid a strong job market. The foreclosure starts rate fell to match the rate a year ago, which was the lowest reading in nine years. However, the pace of decline in the foreclosure inventory lags behind, albeit showing gradual improvement, with states with judicial foreclosure processes contributing to higher foreclosure inventory. As the housing sector continues to deal with pains from legacy mortgages, recent demand for new mortgages has been a mixed bag. Refinancing applications picked up over the past month after trending downward from a two-year high in January. The average 30-year fixed mortgage rate has been below 4.0 percent for the past three weeks, though it edged up three basis points this week to 3.94 percent, according to Freddie Mac. Purchase applications, on the other hand, reversed their gains from the previous week, but have remained at elevated levels since the start of the spring and summer buying season.

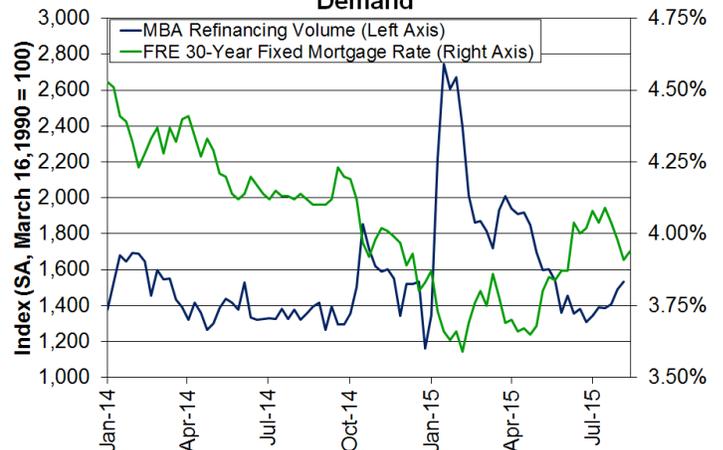
- **The Mortgage Bankers Association National Delinquency Survey** for Q2 2015 showed that the total mortgage delinquency rate declined 24 basis points to an eight-year low of 5.3 percent. Foreclosure starts fell for the second consecutive quarter, dropping 5 basis points to 0.4 percent, tying a nine-year low reached last year. The serious delinquency rate (not seasonally adjusted) was 3.95 percent, down 0.29 percentage points from the first quarter and 85 basis points from a year ago. For states where the judicial process is more frequently used, 3.41 percent of loans serviced were in the foreclosure process, compared to 1.15 percent in non-judicial states. States that utilize both judicial and non-judicial foreclosure processes had a foreclosure inventory rate of 1.36 percent.
- **Mortgage applications** edged up 0.1 percent in the week ending August 7, marking four straight weeks of increases, according to the Mortgage Bankers Association. Refinance applications rose 3.1 percent to the highest level since late May, as the average contract 30-year fixed mortgage rate stayed flat at 4.13 percent after falling the previous two weeks. Purchase applications fell 3.5 percent to the lowest level in four weeks.

**Foreclosure Inventory Continues to Shrink as Starts Rate Returns to Pre-Crisis Level**



Source: Mortgage Bankers Association

**Falling Mortgage Rates Spark Refinance Demand**



Source: Mortgage Bankers Association, Freddie Mac

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August 14, 2015

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