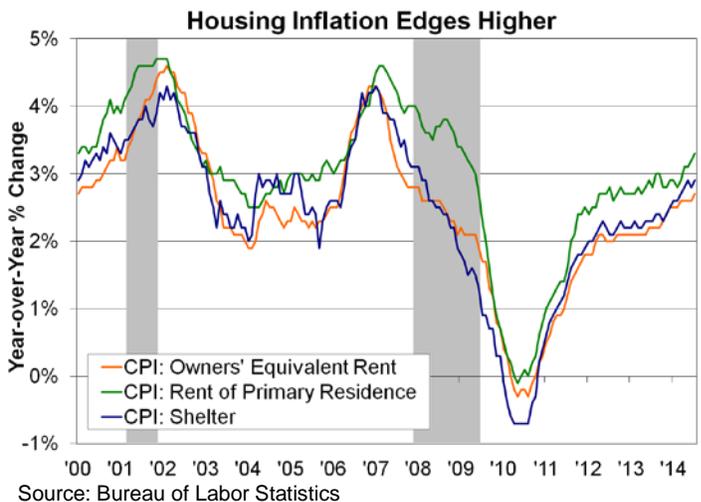
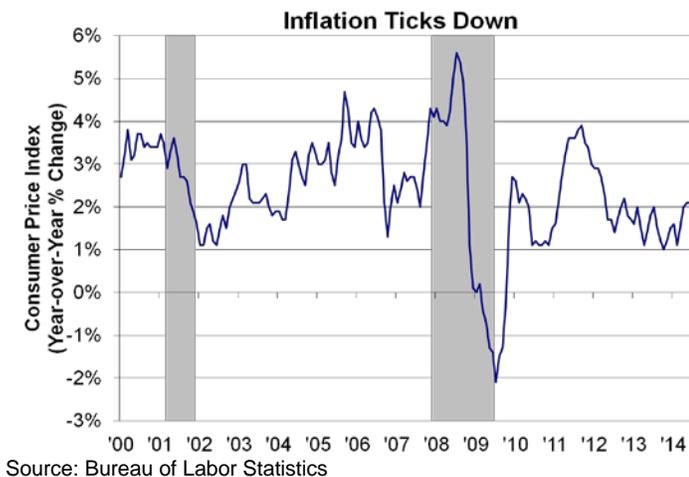


Economics: Near-term Growth Picture Remains Solid

Economic news was positive this week. Retail prices posted only a modest rise in July, held back by a drop in energy prices. Although geopolitical events still pose a threat to the economy, the odds of a spike in headline inflation due to supply shocks have receded, as crude oil prices have declined over the past several weeks amid ample supplies. A gauge of the economic outlook for the next three to six months supports our expectations that growth in the second half of the year will pick up from the pace of the first half. Recent data on weekly initial jobless claims bode well for the August jobs report, to be released Friday, September 5, suggesting another month of more than 200,000 jobs gained. The minutes from the July Federal Open Market Committee showed that Fed officials believe that employment and inflation have moved closer to levels consistent with their dual mandate. They acknowledged that labor market improvement has been better than anticipated, and some members were reluctant to reference labor market underutilization in the post-meeting statement, suggesting that the description of the labor market will likely change soon. Our call for the first hike in the target interest rate remains the early third quarter of 2015, with the risk tilted toward an earlier hike.

- **The consumer price index (CPI)** edged up 0.1 percent in July, as a 0.3 percent decline in energy prices offset a 0.4 percent gain in food costs. Over the past 12 months, consumer prices grew 2.0 percent, down slightly from the 2.1 percent year-over-year pace in May and June. Excluding the volatile food and energy categories, core CPI also edged up 0.1 percent during the month, as gains in shelter, apparel, and new vehicle prices were offset by the largest monthly decline in airline fares since 1995. From one year ago, core CPI is up 1.9 percent. The shelter index continued to be the steadiest driver of core inflation, posting a 0.3 percent gain from June and a 2.9 percent increase from last July.
- **The Conference Board Index of Leading Indicators**—a gauge of future economic growth—rose 0.9 percent in July, following a 0.6 percent increase in June and marking the 11th increase over the past year. In the six months ended in July, the leading economic index increased 8.2 percent annualized, up from 5.9 percent in June.
- **Initial claims for unemployment insurance** fell 14,000 to 298,000 in the week ending August 16, marking the third time in the past five weeks that claims were below 300,000. The four-week moving average rose 4,750 to 300,750, staying within the tight range it's been in since mid-July.



Housing: Picking up Momentum

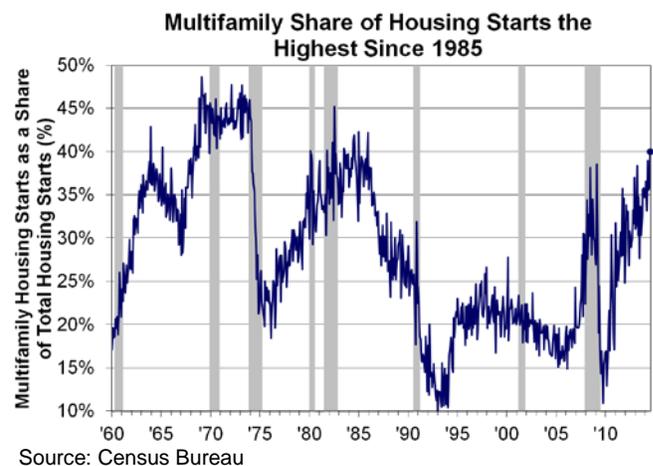
Despite softening pending home sales in June, existing home sales rose in July for the fourth consecutive month to a 10-month high. Notably, the share of distressed sales fell sharply over the past year, posting the first single-digit reading since record keeping began in October 2008, compared with an average share of more than one-third of total sales in 2009. Home building activity also picked up in July, but the improvement continued to favor the multifamily sector, which contributes less to gross domestic product than does the single-family segment. Multifamily starts accounted for 40 percent of total housing starts—the highest share since the mid-1980s and double the share seen during the early 2000s. Homebuilders' confidence continued to improve, rising in August for the third consecutive month to the highest reading since January. One soft spot for the housing and mortgage market remains the trend in purchase mortgage applications, which declined in mid-August for the third consecutive week, reaching the lowest level since February.

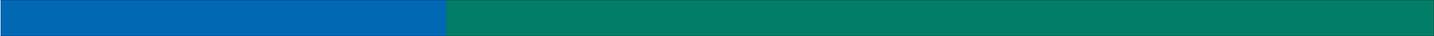
➤ **Housing starts** increased 15.7 percent in July to a seasonally adjusted annual rate of 1.09 million units, the fastest pace since last November. In addition, June data were revised up to show a 4.0 percent decline rather than the initially reported 9.3 percent drop. The multifamily sector drove the headline increase, rising 28.9 percent to 437,000 units—more than an eight-year high. Single-family housing starts increased 8.3 percent in July to 656,000 units annualized. Through July, year-to-date single-family and multifamily housing starts increased 3.2 percent and 21.9 percent, respectively, from 2013. Building permits jumped 8.1 percent in July, boosted by a 21.5 percent gain in multifamily permits, while single-family permits edged up just 0.9 percent. Year to date through July, single-family building permits were down 0.3 percent, in stark contrast to a 9.8 percent increase in the multifamily sector.

➤ **Existing home sales** rose 2.4 percent in July to 5.15 million units annualized—the first time since last October that sales have exceeded 5.10 million. Despite a string of increases, year-to-date sales were 5.3 percent below the same period last year. The inventory of homes available for sale has increased steadily this year, but the housing market remains tight, with months' supply stable at 5.5 months. The median price, which can be biased by the mix of sales, rose 4.9 percent from a year ago. The share of distressed sales fell to 9.0 percent from 15.0 percent a year ago, while the share of cash sales declined to 29.0 percent of transactions, the lowest share since January 2013.

➤ **The National Association of Homebuilders/Wells Fargo Housing Market Index** rose 2 points to 55 in August—the third consecutive monthly increase and the highest reading since January. (Any reading above 50 indicates more builders view the market as good than poor.) For the second straight month, all three sub-indices—current sales, sales expectations, and buyer traffic—posted gains but failed to surpass the recovery-highs reached last year. Historically, the expectations subcomponent of the Housing Market Index, which measures sales expectations over the next six months, tracks well with single-family permits, acting as a near-term leading indicator of single-family activity. However, the two series appear to have decoupled over the past two years, with builders' expectations substantially more rosy than actual building activity.

➤ **Mortgage applications** edged up 1.4 percent in the week ending August 15 according to the MBA. A 2.7 percent increase in refinance applications drove the gain, while purchase applications edged down 0.4 percent.





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