

## Economics: The Devil Is in the Details: The Jobs Report Is Better than It Looks

Economic data released this week centered on the August jobs report, as it is one of the last key data points before the Federal Reserve's September 16-17 meeting. While the headline number was disappointing, the overall report was a solid one, with sizable upward revisions to prior months' gains, a jump in average hourly earnings, and an uptick in the average workweek. The unemployment rate fell to a seven-year low, and for good reasons, as the labor force participation rate held steady. In addition, the number of full-time workers reached its highest level ever, passing its pre-recession peak for the first time. Another source of good news was productivity, which was revised up two full percentage points to its strongest gain since Q4 2013. Consumers continue to demonstrate their confidence in their financial situation with big-ticket purchases, as vehicle sales hit their fastest pace in over a decade. While the Fed could find reasons to delay raising rates, including increased downside risk for inflation and financial instability, we believe that it will not find one in this jobs report or in or the other data released this week. We continue to call for a September lift-off, with a one-and-done hike this year on the way to normalizing monetary policy going forward.

- **Nonfarm payroll employment** expanded by 173,000 jobs in August, according to the Bureau of Labor Statistics. The increase was well below the average monthly gain of 218,000 year-to-date through July. However, August payrolls typically get meaningful upward revisions. The unemployment rate fell by 0.2 percentage points to 5.1 percent, the lowest level since April 2008. The labor force participation rate remained stuck for the third consecutive month at 62.6 percent, a near four-decade low. Average hourly earnings rose 0.3 percent while the average workweek ticked up one-tenth of an hour to 34.6 hours. The broadest measure of unemployment rate (U-6) fell one-tenth to 10.3 percent—its long-term average.
- **Nonfarm business productivity** rose 3.3 percent annualized in Q2 2015, according to the Bureau of Labor Statistics, an upward revision of two percentage points from the initial estimate. Despite the strong revision, productivity improved only slightly from a year ago, rising by 0.7 percent. The strong quarterly increase in productivity outpaced a solid 1.8 percent increase in hourly compensation, causing unit labor costs to fall by 1.4 percent, the first decrease in four quarters.
- **The Institute for Supply Management (ISM) Manufacturing Index** fell 1.6 points in August to 51.1, the lowest reading since May 2013 (any reading above 50 indicates expansion). **The ISM Nonmanufacturing Index**, a gauge of service sector activity, fell 1.3 points from a decade-high in July, but remained elevated at 59.0.
- **Light vehicle sales** rose 1.5 percent in August to a 17.8 million annualized rate, according to Autodata.
- **The U.S. trade deficit** narrowed \$3.3 billion to \$41.9 billion in July, according to the Census Bureau. The improvement resulted from a 1.1 percent decline in imports and a 0.4 percent increase in exports. The inflation-adjusted goods deficit, used in the calculation of net exports in the GDP estimate, fell \$2.8 billion to \$56.2 billion.
- **Factory orders** rose 0.4 percent in July, according to the Census Bureau. Nondurable goods orders—the new piece of the data in the report—fell 1.3 percent, ending three previous months of small gains. Durable goods orders were little changed from the initial estimate, with the strongest gain in core capital goods orders (nondefense excluding aircraft) in 13 months remaining largely intact.
- **Initial claims for unemployment insurance** increased by 12,000 to 282,000 in the week ending August 29, according to the Department of Labor. This marks the fifth increase over the last six weeks to the highest reading since early July. The four-week moving average increased by 3,250 to 275,500.



Source: Autodata



Source: Bureau of Labor Statistics

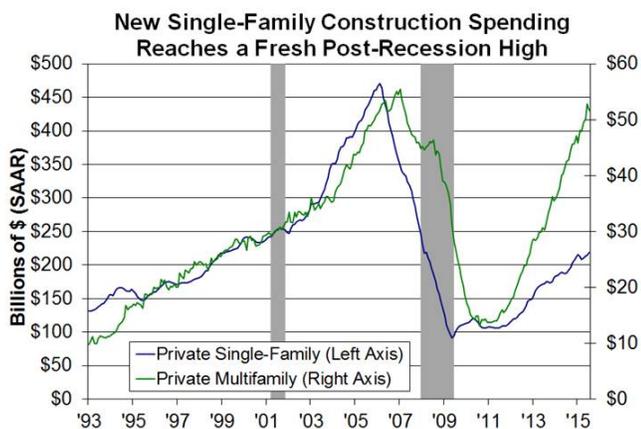
## Housing: Good Start for the Current Quarter

This week's housing and mortgage news was upbeat. New total residential construction spending rose for the fourth consecutive month in July to the highest level since March 2008, as spending on the single-family segment set a fresh high for the expansion and multifamily spending edged down just slightly from its expansion best. The July new construction spending data, when combined with the increase in existing home sales in July (which should generate solid gains in brokers' commissions), suggest that residential investment is off to a good start for the current quarter and will likely contribute to economic growth for the sixth consecutive quarter. A measure of home prices from CoreLogic showed that annual appreciation continued to firm in July to the best showing in more than a year. We should note, however, that the CoreLogic index has shown a more bullish trend in recent months than other indices, including the FHFA purchase-only and the S&P/Case-Shiller indices. Demand surged last week for both purchase and refinance mortgages, thanks to the recent trend of declining mortgage rates. According to Freddie Mac, 30-year fixed-rate mortgages averaged 3.89 percent this week, up five basis points from the prior week, but below the four percent threshold for the sixth consecutive week.

➤ **Private residential construction spending** rose 1.1 percent in July, according to the Census Bureau, as new construction spending and home improvement spending rose 1.2 percent and 0.9 percent, respectively. For new construction spending, the single-family segment rose 2.1 percent to \$218.5 billion annualized, an expansion high. Multifamily construction spending took a breather for the first time in four months, dropping 2.2 percent from June's expansion best to \$51.6 billion in July. July new construction spending was consistent with the jump in single-family housing starts and the drop in multifamily starts during the month. From a year ago, single-family construction spending increased 15.3 percent, compared to a 21.0 percent gain for multifamily. Despite reaching the highest level in the expansion, single-family construction spending remains well below the level witnessed prior to the recession. By contrast, multifamily construction spending is only 6.9 percent below its record high reached in January 2007 (not adjusted for inflation).

➤ **The CoreLogic national home price index** (not seasonally adjusted) rose 1.7 percent in July, marking the seventh consecutive monthly gain. On a year-over-year basis, home prices increased 6.9 percent, the biggest gain since last June. After trending down from the recent peak of 11.9 percent in October 2013 to 4.8 percent in February of this year, annual price appreciation has steadily accelerated.

➤ **Mortgage Applications** jumped 11.3 percent for the week ending August 28, according to the Mortgage Bankers Association. The purchase index increased for the second consecutive week, jumping 4.1 percent, boosted by a 5.2 percent increase in the applications for conventional mortgages and a more modest 1.8 percent gain in the government segment. After dropping 1.0 percent in the prior week for the first time in five weeks, the refinance index resumed its uptrend, surging 16.8 percent to its highest level since April. The survey's average contract interest rate for 30-year fixed-rate mortgages remained unchanged at 4.08 percent.



Source: Census Bureau



Source: CoreLogic

Frank Shaw and Orawin T. Velz  
Economic and Strategic Research Group  
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