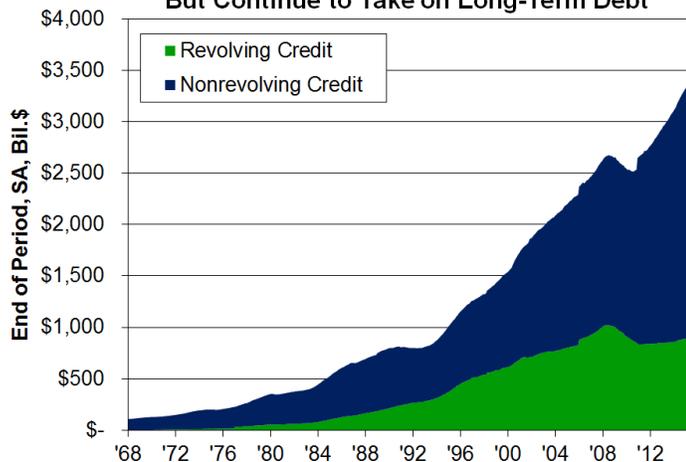


Economics: With a Margin of 9-1 Against, the Fed Vote on Rates Was a Blowout

The main event this week was the release of the [minutes](#) from the September 16-17 Federal Open Market Committee (FOMC) meeting. The minutes provided more clarity on the Fed's decision to maintain its zero interest-rate policy, which has been in effect for nearly seven years. By an overwhelming 9-1 margin, the committee voted against tightening monetary policy, with inflation proving to be the committee's main concern. Several voting members cited the risk that deflationary pressures from lower oil prices or a stronger dollar "could persist and, as a result, delay or diminish the expected upturn in inflation." In the end, Fed officials decided that "it was prudent to wait for additional information" before beginning to tighten. However, with the meeting occurring before the release of the disappointing September jobs report, Fed officials' stated confidence that labor market conditions would continue to improve might now be shaken. Disinflationary pressures continue, as non-petroleum import prices fell in September for the ninth consecutive month. A strong dollar and weak global growth continue to batter international trade, as the U.S. trade deficit widened in August by the fifth largest amount ever. Exports, in particular, are a cause for concern, as they have never recovered from the West Coast port shutdown. On a year-over-year basis, both exports and imports have fallen for the past five months, with August exports posting the largest drop since October 2009. Growth in the service sector showed signs of moderating, as a key gauge of activity in the sector fell again last month after reaching a post-crisis high in July. August consumer credit outstanding posted the smallest gain since January, but has continued to expand since hitting a trough in 2010. Non-revolving debt (such as car and student loans), which is longer-term in nature, has grown at a much more rapid pace than credit card debt since 2010. Consumers continue to show reluctance to incur more credit card debt in the current expansion.

- **Consumer (non-mortgage) credit outstanding** increased 5.6 percent annualized in August, according to the Federal Reserve Board. Non-revolving credit (primarily auto and student loan debt) and revolving credit (primarily credit card debt) rose 5.7 percent and 5.3 percent, respectively. Revolving credit has not fallen since February, while non-revolving credit has not declined since August 2011.
- **The U.S. trade deficit** widened sharply by \$6.5 billion in August to \$48.3 billion, according to the Census Bureau. Exports fell for the third time in four months, while imports rose for the second time in three months. The inflation-adjusted goods deficit, used in the calculation of net exports in the GDP estimate, also widened significantly, as real imports rose 3.1 percent and exports fell 1.5 percent.
- **The Institute for Supply Management (ISM) Non-Manufacturing Index**, a gauge of service sector activity, declined for the second consecutive month in September, dropping 2.1 points to 56.9 (any reading above 50 indicates expansion).
- **Import prices** edged down 0.1 percent in September after a 1.6 percent drop in August, according to the Bureau of Labor Statistics. The decline moderated as crude oil prices rose for the first time in three months. Non-petroleum prices fell 0.2 percent, reflecting weaker global growth and a stronger dollar, which has kept inflation pressures subdued.
- **Initial claims for unemployment insurance** decreased by 13,000 to 263,000 in the week ending October 3, according to the Department of Labor. The four-week moving average decreased by 3,000 to 267,500.

Consumers Remain Wary of Credit Card Debt, But Continue to Take on Long-Term Debt



Source: Federal Reserve

Year-over-Year Decline in Exports Marks the Worst in Nearly Six Years



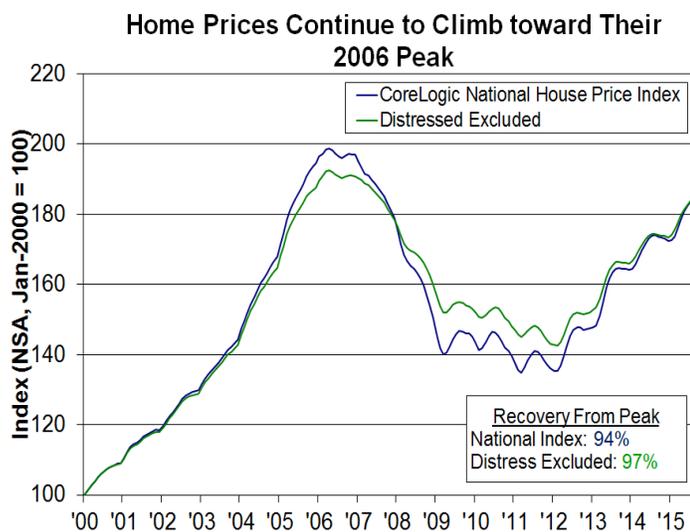
Source: Census Bureau

Housing: A Perfect Storm for Soaring Applications

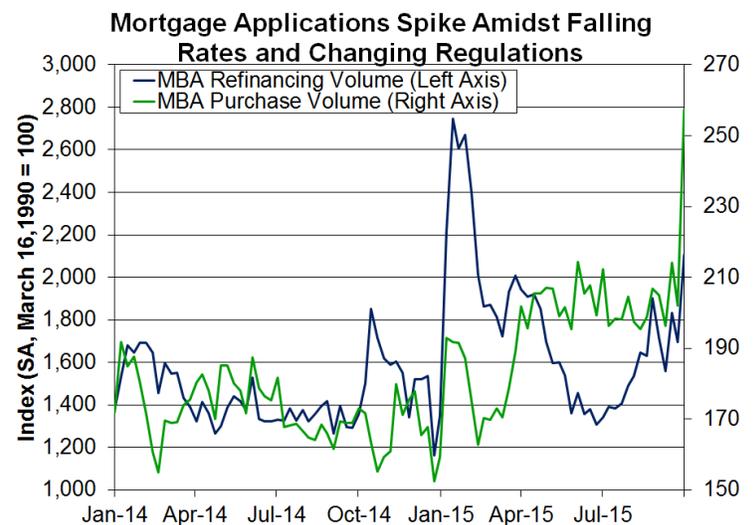
Mortgage applications took center stage this week, skyrocketing to the highest level since January, thanks to a regulatory change and favorable mortgage rates. Purchase mortgage applications experienced their largest weekly increase since November 2008, and refinance applications had their largest spike since the reduction in FHA's mortgage insurance premiums back in January 2015. The sharp rise in applications was due to the combination of the new TILA-RESPA Integrated Disclosure (TRID) rule and a sharp drop in mortgage rates. The TRID rule establishes a single Closing Disclosure that must be given to borrowers at least three business days prior to closing on the loan. The Consumer Financial Protection Bureau implemented the TRID rule on October 3 to establish a more precise timeline prior to closing, giving borrowers ample time to review loan terms and make adjustments. Lenders likely rushed to file applications before the rule change deadline, and thus a payback to last week's surge will likely show up in the data released next week. The drop in interest rates last week also helped fuel increases in mortgage applications. Low mortgage rates should remain supportive for mortgage demand. The 30-year fixed mortgage rate dropped nine basis points to 3.76 percent this week, according to Freddie Mac's survey. Interestingly, mortgage rates have fallen every week since the Fed decided not to raise interest rates at its September meeting. On the home price front, the Home Price Index from CoreLogic showed the largest annual appreciation in over a year, with every state except Mississippi posting gains.

➤ **Mortgage applications** soared 25.5 percent in the week ending October 2 after falling 6.7 percent in the prior week, according to the Mortgage Bankers Association. The purchase index jumped 27.4 percent, reaching the highest level since May 2010. The refinance index posted a second double-digit percentage gain in three weeks, increasing 24.2 percent following a 7.5 percent decrease in the preceding week. Both the conventional and government segments saw their largest increases since the first week of January. The survey's average contract interest rate for 30-year fixed-rate mortgages dropped to 3.99 percent from 4.08 percent.

➤ **The CoreLogic National Home Price Index** (not seasonally adjusted) rose 1.2 percent in August, marking the eighth consecutive monthly gain. On a year-over-year basis, home prices increased 6.9 percent, the largest gain since June 2014. National home prices excluding distressed sales, which include properties sold at a loss and in foreclosure, are almost fully recovered, reaching 96.7 percent of the series peak set in April 2006.



Source: CoreLogic



Source: Mortgage Bankers Association

Frank Shaw and Jack Haerberle
Economic and Strategic Research Group
October 9, 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.