Economics: Signs Point to Continued Domestic Growth Amid Uncertainty

A quiet week for economic data allow for a glimpse into what’s coming around the corner for the economy through various leading indicators. For the labor market, initial claims for unemployment insurance rose in the latest week, but the four-week moving average, used to smooth out week-to-week volatility, continued its decline that started in the first week of September. The falling trend in jobless claims suggests employers are reluctant to cut their workforce, a sign that the labor market is tightening. Fewer layoffs often coincide with increased hiring, but the disappointing September jobs report points to some divergence in that traditional relationship. Eventually, either unemployment claims should trend higher or job creation should pick up. If it’s the former, weakening labor market conditions will add downside risk to our near-term outlook. The other sneak peek into the economy’s outlook came through The Conference Board’s Leading Economic Index (LEI), a composite of 10 components commonly used as leading indicators for various sectors of the economy. Even though the index fell slightly in September from August, it increased 3.0 percent annualized over the past six months, suggesting moderate growth will continue. The interest-rate spread between the 10-year Treasury bonds and federal funds rate was the largest positive contributor, while the recent fall in stock prices was the most significant drag on the index. Outside of the financial markets, unemployment insurance claims and consumer credit were the main contributors, while building permits weighed most on the index.

On the capital markets front, the key development of the week came from Europe as Mario Draghi, the European Central Bank (ECB) President, signaled at yesterday’s ECB meeting that the bank is prepared to undertake another large stimulus program through more bond purchases and another cut to the already negative deposit rate. The signal came as the Eurozone struggles with slowing economic growth and flirts with deflation. In his press conference, he announced that “the degree of monetary policy will need to be re-examined at our December policy meeting,” with a shift in attitude from “wait and see” to “work and assess.” As a consequence, stocks soared Thursday as investors bet on the ECB further expanding monetary policy at its next meeting in December. Eurozone government bond yields fell, as the 10-year German yields fell by the largest amount in a month. In addition, strong U.S. corporate earnings released this week boosted stock prices.

- The Conference Board Leading Economic Index (LEI), a gauge of the economic outlook over the next three to six months, fell 0.2 percent in September, marking the first drop since February. August’s estimate was revised down 0.1 percentage point to no change from July. Four of the 10 components fell during the month, with stock prices and building permits being the two largest drags. The interest-rate spread was the largest positive contributor to the index.

- Initial claims for unemployment insurance increased by 3,000 to 259,000 in the week ending October 17. Claims are often volatile around Columbus Day, according to the Department of Labor. Despite the latest increase, claims continue their downward trend, as the four-week moving average decreased for the sixth week in a row, falling by 2,000 to 263,250, the lowest level since December 1973.

![Trend in Initial Jobless Claims Falls to a New 41-year Low](image1.png)

![German Bund Yield Falls in Reaction to the Hints of Further ECB Stimulus](image2.png)

Source: Department of Labor

Source: Bloomberg
Housing: More Supply Needed
A busy week of housing data offered largely positive news. Home construction rebounded in September after two months of decline, marking the first time housing starts exceeded the 1.2 million-mark since October 2007. However, the improvement might prove temporary, as permits dropped for the second time in three months. Also, residential construction is increasingly lopsided, as multifamily building accelerates while single-family construction lags behind, partly due to the shortage of available lots and skilled labor. Homebuilders remain unfazed, however, as a measure of their confidence is at a level last seen a decade ago. The National Association of Home Builders cites “firm job creation, economic growth, and the release of pent-up demand” as causes for optimism. But for now, with new single-family construction lagging, consumers turned toward already-built homes. Existing home sales bounced back in September from a disappointing August, almost returning to the post-recession high reached in July. The inventory of existing homes fell on an annual basis for the fourth consecutive month. With limited supply of both existing and new homes, home prices continued their steady climb. In August, FHFA’s purchase-only House Price Index was only 0.9 percent below its 2007 peak, as annual appreciation has stayed between 5.0 and 6.0 percent for 10 consecutive months. Mortgage applications continued to be volatile following the implementation of the new TILA-RESPA Integrated Disclosure (TRID) rule, and will likely remain so in the near term as the industry continues to adjust to the new regulations. Mortgage rates remain favorable for potential homebuyers and refinancers, as the Freddie Mac survey’s 30-year fixed mortgage rate dropped three basis points to 3.79 percent.

- **Housing starts** rose 6.5 percent in September to 1.21 million annualized units, according to the Census Bureau. Multifamily starts drove the increase, rising 18.3 percent to 466,000 units, while single-family starts edged up 0.3 percent to 740,000 units. Through the first nine months of the year, single-family starts are 11.1 percent higher than the same period a year ago, while multifamily starts have increased 13.7 percent. New residential building permits, on the other hand, fell 5.0 percent in September to 1.10 million annualized units. Multifamily permits dropped 12.1 percent, while single-family permits edged down 0.3 percent. On a year-to-date basis, single-family and multifamily permits increased 6.8 percent and 18.3 percent, respectively, from the same period a year ago.

- **Existing home sales** jumped 4.7 percent to 5.6 million annualized units in September, according to the National Association of REALTORS®. Through the first nine months of 2015, sales are up 7.9 percent from the same period last year. The number of homes available for sale, which is not seasonally adjusted, dropped 3.1 percent from September 2014. The months’ supply, or inventory/sales ratio, fell three-tenths to 4.8 months, the lowest since March. The median sales price, which is not adjusted for the composition of sales, increased 6.1 percent from a year ago.

- **The Federal Housing Finance Agency purchase-only House Price Index**, reported on a seasonally adjusted basis, increased 0.3 percent in August following a 0.5 percent increase the prior month. House prices were 5.5 percent higher than a year ago, moderating from 5.8 percent in July.

- **The National Association of Home Builders/Wells Fargo Housing Market Index** climbed three points to 64 in October. A reading above 50 indicates more builders view the single-family market as “good” rather than “poor.”

- **Mortgage applications** continued their recent volatility, rising 11.8 percent in the week ending October 16, according to the Mortgage Bankers Association (MBA). Both purchase and refinancing applications bounced back, rising 16.4 percent and 8.8 percent, respectively. The survey’s 30-year fixed-rate mortgage declined four basis points to 3.95 percent.
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