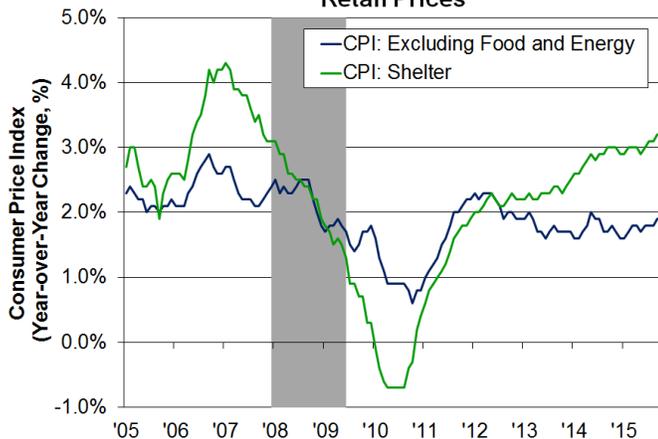


## Economics: Speaking Words of Wisdom, Let It Be a December Hike, Say Most Economists

The Federal Reserve was again the center of attention this week, as it released the [minutes](#) from the Federal Open Market Committee (FOMC) October 27-28 meeting on Wednesday. Based on their assessment of current conditions and the outlook for the labor market and inflation, most participants anticipated that “conditions could well be met by the time of the next [December 15-16] meeting” for the first increase in the fed funds rate since 2006. Even with this strong language, the fed funds futures market’s probability of a December rate hike did not budge from 66 percent on Wednesday. Economists continued to be more aggressive in anticipating a rate hike than the futures market. For example, the October Wall Street Journal survey showed 90 percent of respondents (including us) expected a December rate hike, with 65 percent saying that the Fed’s credibility will be damaged if the hike doesn’t occur. Stocks rallied after the release of the minutes, as investors saw it as a sign of increased confidence that the U.S. economy is strong enough to withstand a rising rate environment. Data released since the FOMC meeting, especially the blockbuster October jobs report, have mostly supported such a belief. This week’s October Consumer Price Index showed the first monthly increase since July, with the year-over-year gain in core prices holding at the strongest pace this year, as shelter costs growth remained at an expansion high. The near-term outlook for the economy looks brighter, as the October Conference Board Leading Economic Index had its largest gain since June. Industrial production continues to be a point of weakness for the economy, however, as oil and gas well drilling fell in October to a 16-year low. However, the much maligned manufacturing sector brought some good news, as output rose for the first time in three months, creeping up to a new expansion best.

- **The Consumer Price Index (CPI)** ended two months of declines with a 0.2 percent rise in October, according to the Bureau of Labor Statistics. Energy prices, which had weighed on the index the past two months, edged up 0.3 percent. The core index, which excludes food and energy, increased 0.2 percent again. From a year ago, headline CPI and core CPI rose 0.2 percent and 1.9 percent, respectively. Growth in shelter costs, which account for more than 40 percent of core CPI, rose 0.3 percent for the second consecutive month, as the gain for both rents of primary residences and owners’ equivalent rents (a proxy for homeowner rents) edged down one-tenth to 0.3 percent and 0.2 percent, respectively. On a year-over-year basis, rents rose 3.7 percent, compared with a 3.1 percent rise for owners’ equivalent rents.
- **Industrial Production**, a gauge of output in the manufacturing, utility, and mining sectors, fell 0.2 percent in October for the second consecutive month, according to the Federal Reserve Board. The decline was driven by a 1.5 percent drop in mining and a 2.5 percent decrease in utilities. However, manufacturing, which accounts for about three-fourths of the index, rose 0.4 percent after falling the previous two months. Within manufacturing, motor vehicles and parts production increased for the second straight month, rising 0.7 percent. Excluding autos, manufacturing output grew 0.4 percent, the largest increase since November 2014. Oil and gas well drilling fell for the second month in a row, dropping 5.0 percent.
- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, rose 0.6 percent in October as the yield spread, stock prices, and building permits drove the increase.
- **Initial claims for unemployment insurance** decreased for the first time in five weeks, falling by 5,000 to 271,000 in the week ending November 14, according to the Department of Labor.

**Strong Growth in Shelter Costs Supports Core Retail Prices**



Source: Bureau of Labor Statistics

**Manufacturing Output Creeps Up to an Expansion Best**



Source: Federal Reserve Board

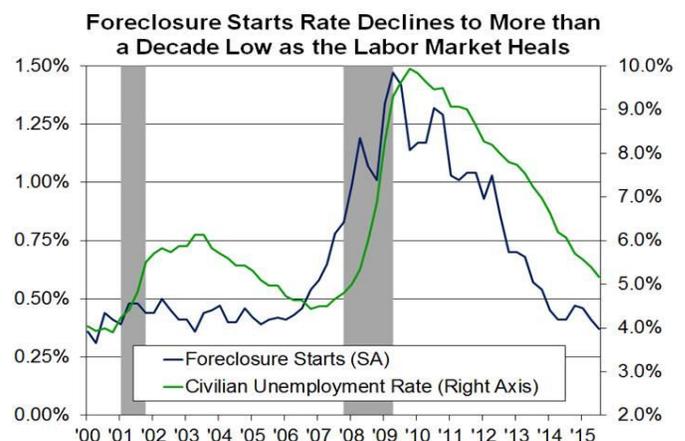
## Housing: Building Activity Cools but Outlook Remains Healthy

This week's positive news on mortgages countered negative news on homebuilding activity. Mortgage performance continued to improve in the third quarter of the year, with the Mortgage Bankers Association National Delinquency Survey showing delinquency and foreclosure rates declining to pre-recession levels. One notable data point is the Survey's rate of new foreclosures, which fell in the third quarter to 0.37 percent, the lowest reading since the second quarter of 2003. A strengthening labor market, indicated by an unemployment rate that averaged just 5.2 percent during the quarter, was partly responsible for the improvement. Mortgage demand also picked up last week, especially for purchase loans, as mortgage rates rose sharply for the second consecutive week, perhaps prompting some potential homebuyers to lock in rates for fear that they will rise further. On a downbeat note, housing starts dropped sharply in October, driven by a substantial fall in the volatile multifamily segment that more than offset a large gain in the prior month. Single-family starts also dropped, resulting in a flat trend over the last three months. However, the near-term outlook is positive, as permits for both the single-family and multifamily segments rose. Homebuilders' confidence pulled back in November but remained at an elevated level of 62, extending the streak of readings of at least 60 to six months, the best showing in a decade. Prospective demand remains healthy, as builders noted more traffic of potential buyers. Supply constraints remain a concern, however, as builders indicated that inventory has been limited by the lack of buildable lots and a shortage of skilled labor. Freddie Mac's survey showed some relief for mortgage rates this week, with fixed mortgage rates edging down one basis point to 3.97 percent after last week's eleven-basis-point jump.

- **Housing starts** dropped 11.0 percent in October, according to the Census Bureau, as multifamily starts plummeted 25.1 percent following the 18.1 percent rise in the prior month. Single-family starts fell 2.4 percent, marking the second decline over the last three months. Year-to-date, housing starts were up 10.2 percent for single-family homes, compared with 10.4 percent for multifamily units. Single-family and multifamily permits rose 2.4 percent and 6.8 percent, respectively.
- **The Mortgage Bankers Association National Delinquency Survey** showed that mortgage delinquency and foreclosure rates continued to drop in Q3 2015. The delinquency rate (seasonally adjusted) for one-to-four-unit residential properties decreased 31 basis points from the prior quarter to 4.99 percent of all loans outstanding, the lowest level since Q1 2007. The foreclosure starts rate fell four basis points from Q2 2015 to 0.37 percent, the best showing since Q2 2003. According to the National Delinquency Survey, the serious delinquency rate (not seasonally adjusted)—the percentage of loans that are 90 days or more past due or in the process of foreclosure—dropped 108 basis points from a year ago to 3.57 percent, the lowest reading since Q3 2007. About 80 percent of the loans that were seriously delinquent were originated before the year 2009.
- **The National Association of Home Builders/Wells Fargo Housing Market Index**, a gauge for homebuilders' confidence, fell three points from October's expansion high to 62 (a reading higher than 50 means more builders see an improving market). The current sales index dropped three points to 67, while expectations for future sales dropped five points to 70. The traffic of potential buyers component increased one point to 48, the highest level since October 2005.
- **Mortgage applications** increased 6.2 percent in the week ending November 13 as fixed mortgage rates increased six basis points to 4.18 percent, the highest rate since July 2015, according to the Mortgage Bankers Association. The purchase index increased 11.9 percent while the refinance index rose 2.3 percent.



Source: Census Bureau, National Association of Home Builders



Source: The Mortgage Bankers Association, Bureau of Labor Statistics



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