

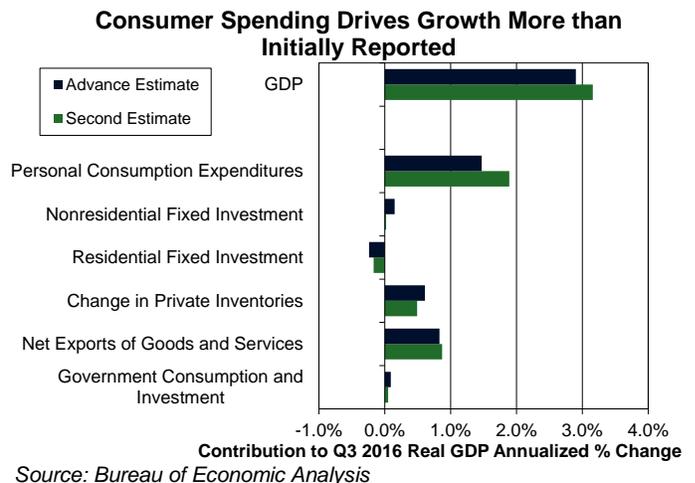
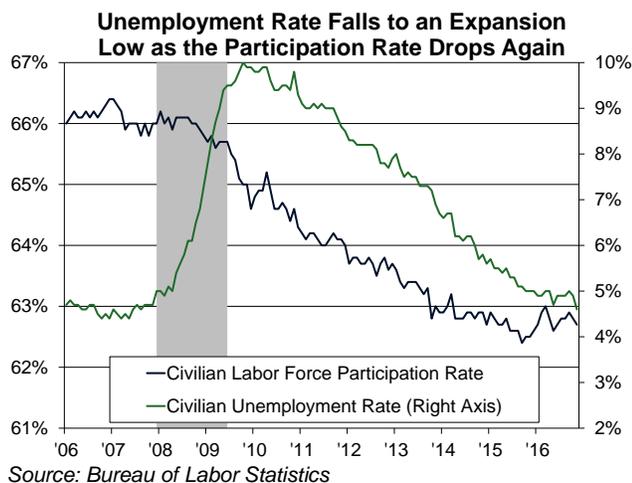


Weekly Note – December 2, 2016

Economics: Bland Jobs Report Greenlights Fed Hike

The November jobs report leaves the Fed on track for a rate hike in December, as fully priced in by the futures market. The three-tenths drop in the unemployment rate to 4.6 percent, an expansion low, will garner a lot of attention; however, the seemingly big improvement was driven more by a decline in the labor force than by job growth. Annual earnings growth moderated from an expansion high in the prior month, easing concerns of inflationary pressures from the labor market. The broadest measure of labor market slack, the U6 unemployment rate, continued to slide, falling to 9.3 percent, the lowest level since April 2008. Other news this week was mixed. The second estimate of third quarter GDP showed economic growth exceeded 3.0 percent annualized for the first time in two years. The report showed encouraging news on profits, which posted an annual rise for the first time in six quarters. Also noteworthy was a 0.7 percentage point upgrade in real consumer spending growth to 2.8 percent annualized. However, the anemic gain in October consumer spending and the slight drop in November auto sales, albeit from October's year-to-date best, points to a slowdown in consumer spending this quarter. Yet consumers appear very optimistic: Confidence jumped in November to the highest level since July 2007. On the inflation front, the Fed's preferred measure, the PCE deflator, picked up in October but its annual growth remains significantly below the two-percent target, and the year-over-year change in core prices held steady for the third consecutive month. Lastly, a survey of purchasing managers showed faster expansion in manufacturing in November though the sector's employment remains a concern. Overall, this week's news suggests a December rate hike is all but certain and supports the Fed's intention of gradually increasing the fed funds rate next year.

- **Nonfarm payroll employment** expanded by 178,000 in November, according to the Bureau of Labor Statistics. The three-month moving average improved moderately to 176,000. The unemployment rate dropped to 4.6 percent, as the participation rate edged down one-tenth to 62.7 percent. Average hourly earnings slipped 0.1 percent from October, but rose 2.5 percent from a year ago. The average workweek was flat at 34.4 hours for the third straight month. The broadest measure of unemployment, the U-6 rate, fell for the second consecutive month to 9.3 percent.
- **Gross domestic product (GDP)**, adjusted for inflation, grew 3.2 percent annualized in Q3 2016, according to the second estimate from the Bureau of Economic Analysis. The three-tenths upward revision was due primarily to consumer spending, which was substantially stronger than previously reported and contributed 1.9 percentage points to growth. Corporate profits, the new piece of data in the report, grew 6.6 percent, the largest quarterly gain since Q2 2014. On an annual basis, profits improved 2.8 percent, ending a five-quarter stretch of decline.
- **Personal income**, adjusted for inflation, improved 0.4 percent in October, according to the Bureau of Economic Analysis. Real personal consumption expenditures (PCE) edged up 0.1 percent. The personal saving rate increased to 6.0 percent. The PCE deflator edged up 0.2 percent during the month and 1.4 percent from a year ago. Excluding food and energy, the core deflator increased 0.1 percent on a monthly basis, and 1.7 percent on an annual basis.
- **The Institute for Supply Management (ISM) Manufacturing Index** rose 1.3 points in November to 53.2 (any reading above 50 indicates expansion), marking a five-month high. Every component except employment increased.
- **The Conference Board Consumer Confidence Index** increased 6.3 points to 107.1 in November. Both the present situation and expectations components posted strong gains, with the present situation reaching an expansion best.
- **Light vehicle sales** slipped 0.8 percent to a 17.9 million annualized rate in November, according to Autodata.



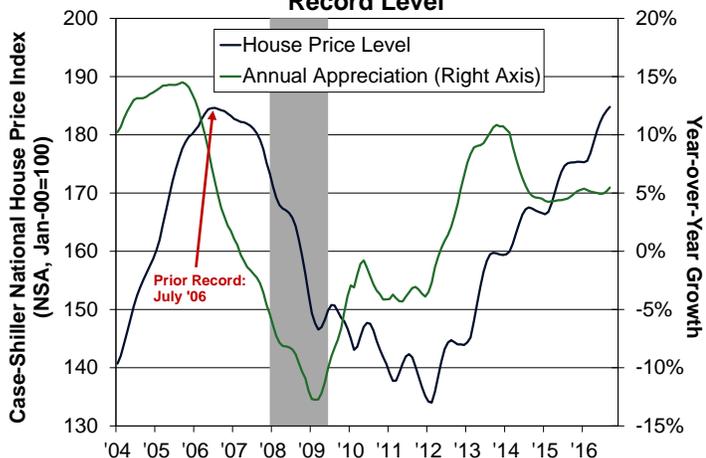


Housing: Residential Investment Poised for a Rebound

This week's housing data point to a good start for residential investment in the final quarter of 2016. Single-family construction spending showed signs of life in October, posting the first increase in eight months and the biggest gain since April 2015. Weakness in single-family construction spending played an important role in the back-to-back drops in residential investment over the last two quarters, but the strength in the October data is consistent with our view that residential investment will add to economic growth this quarter after subtracting from growth in the second and third quarters. Pending home sales, which typically lead existing home sales by one to two months, were little changed in October. This suggests that existing home sales, which rose to an expansion high in October, should remain strong in the near term. Another leading indicator of home sales, purchase mortgage applications, has been mixed of late. Applications declined in October amid moderately rising mortgage rates, but then surged during the third week of November as the post-election spike in mortgage rates prompted some potential homebuyers to act before rates rose further. While purchase applications fell slightly last week, average applications for November rebounded, partially offsetting the drop in the prior month. On the other hand, refinance applications continued to languish last week, declining for the eighth consecutive week. Freddie Mac's survey showed that mortgage rates rose further this week, climbing five basis points to 4.08 percent, the highest reading since July 2015. Lastly, the S&P/Case Shiller home price measure showed that nominal home prices at the national level rose to a record high in September, with the biggest annual gain since July 2014.

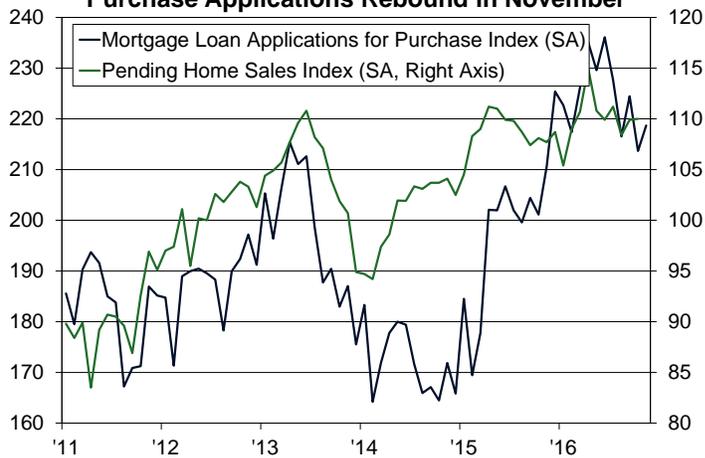
- **Private residential construction spending** rose 1.6 percent in October, according to the Census Bureau. Construction spending on new single-family structures jumped 2.8 percent. Spending on new multifamily construction also rose 2.8 percent, the third consecutive monthly gain. Spending on home improvements edged down 0.6 percent.
- **The National Association of REALTORS® Pending Home Sales Index**, which records contract signings of existing homes, edged up 0.1 percent in October. Sales rose in every region but the South. Over the last year, pending home sales rose 1.8 percent.
- **The S&P/Case-Shiller National Home Price Index** (not seasonally adjusted) rose 0.8 percent in September. From a year ago, prices rose 5.5 percent.
- **Mortgage applications** fell 9.4 percent for the week ending November 25, according to the Mortgage Bankers Association. Purchase applications edged down 0.2 percent, following an 18.8 percent surge in the prior week. Refinance applications fell 16.2 percent. Average purchase applications for all of November rose 2.4 percent, following a 4.8 percent decline in October. Meanwhile, average refinance applications fell 17.6 percent in November, marking the fourth straight monthly drop.

Case-Shiller Home Price Index Reaches a New Record Level



Source: S&P

Pending Home Sales Edge Up in October, as Purchase Applications Rebound in November



Source: National Association of REALTORS®

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December 2, 2016

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