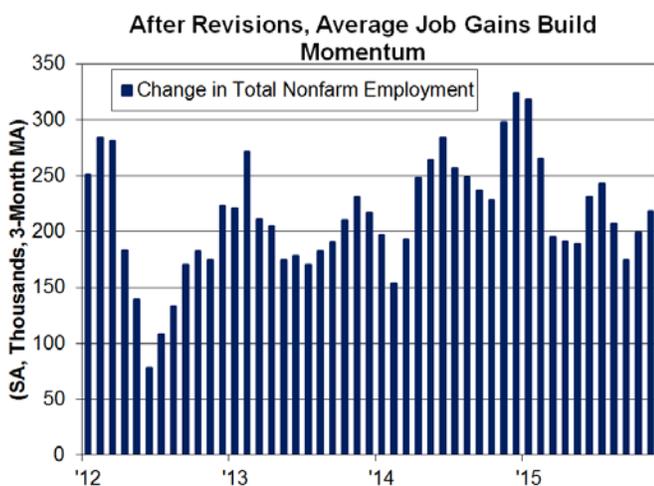


Economics: Unanimous or Not, A December Hike is Highly Likely

This week's economic data, especially another strong jobs report, should give the Federal Reserve a green light to raise short-term interest rates for the first time in nine and a half years at its meeting in two weeks. A solid November payroll gain paired with sizable upward revisions in the prior two months boosted average job growth over the past three months to a respectable 218,000, the best showing since July. The unemployment rate held steady amid the first rise in the labor force participation rate since May. Though the annual gain in average hourly earnings decelerated slightly, it remains near the upper-end of the range observed over the past several years. In addition, compensation per hour for Q3 2015 increased on a year-over-year basis at the strongest pace since Q1 2014. During the Q&A session following her speech on Wednesday, Fed Chair Yellen signaled she was ready to raise rates, saying, "I don't need unanimity. I think we have to tolerate some dissent". Dissent is dissipating from the fed funds futures markets, as the probability of a December rate increase has remained above 70 percent all week. The other economic news this week was mainly positive, as auto sales reached the highest November sales pace ever recorded, productivity growth was revised higher, and factory orders increased. November's contraction in manufacturing activity implied by a survey of purchasing managers, the first in three years, is discouraging, but shouldn't deter the Fed from diverging from European Central Bank policy this month.

- **Nonfarm payroll employment** expanded by 211,000 jobs in November, according to the Bureau of Labor Statistics. The unemployment rate was unchanged at 5.0 percent, the lowest level since April 2008. The labor force participation rate crept up one-tenth of a percent to 62.5 percent, marking the first rise since May. Average hourly earnings increased 0.2 percent, while the average workweek ticked down one-tenth to 34.5 hours. The broadest measure of the unemployment rate (U-6) edged up one-tenth from an eight-year low to 9.9 percent.
- **Nonfarm business productivity** increased 2.2 percent annualized in Q3 2015, according to the Bureau of Labor Statistics, an upward revision of six-tenths of a percentage point from the initial estimate. However, year-over-year growth in productivity continued to be meager, at just 0.6 percent. Unit labor costs rose for the fifth consecutive quarter, increasing 1.8 percent, as a 4.0 percent gain in compensation outweighed an improvement in productivity.
- **The Institute for Supply Management (ISM) Manufacturing Index** fell for the fifth consecutive month in November, dropping 1.5 points to 48.6, the lowest reading since June 2009 (any reading above 50 indicates expansion). **The ISM Nonmanufacturing Index**, a gauge of service sector activity, decreased 3.2 points to 55.9.
- **Light vehicle sales** continued to rise at an expansion-best pace of 18.2 percent annualized in November, according to Autodata.
- **The U.S. trade deficit** widened slightly by \$1.4 billion to \$43.9 billion in October, according to the Census Bureau. A 1.4 percent drop in exports outweighed a 0.6 percent fall in imports. The inflation-adjusted goods deficit, used in the calculation of net exports in the GDP estimate, rose \$3.0 billion to \$60.3 billion.
- **Factory orders** rose 1.5 percent in October, according to the Census Bureau. Nondurable goods orders—the new piece of data in the report—remained flat from September, ending three months of decline. The 1.3 percent gain in core capital goods orders (nondefense excluding aircraft) remained unchanged.



Source: Bureau of Labor Statistics

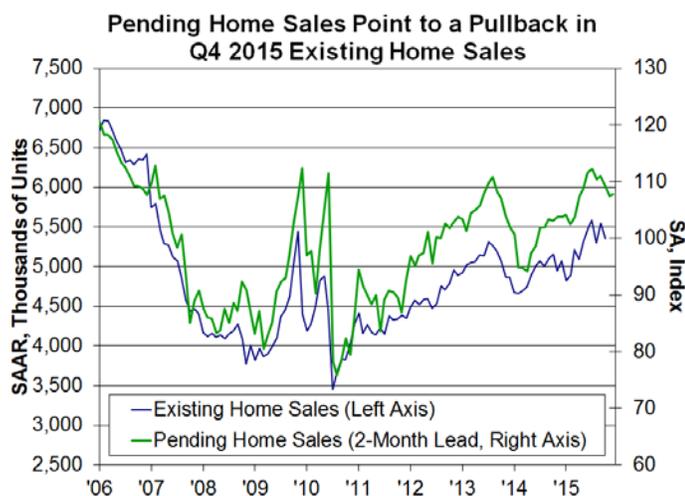


Source: Institute for Supply Management

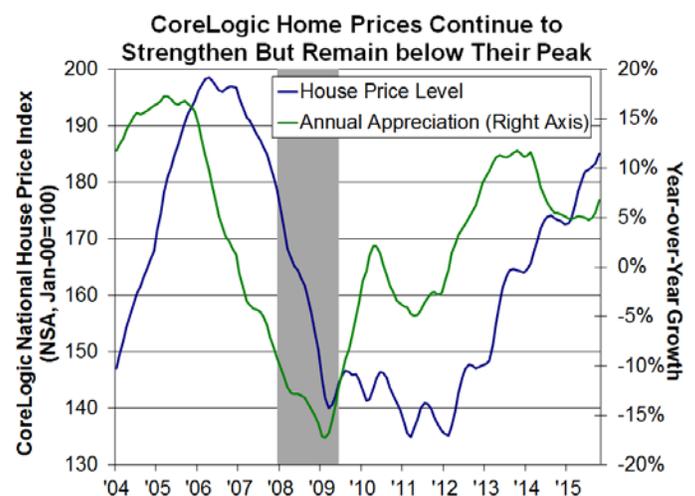
Housing: Lackluster Near-term Outlook for Home Sales Should be Temporary

This week's housing news is upbeat for home prices, but less so for home sales. The October CoreLogic home price index showed an accelerating year-over-year gain, reaching the best showing in 16 months. Improving demand amid tight inventory has put upward pressure on home prices, especially in the low-end tier, which has appreciated more rapidly than higher price tiers. Limited inventory of homes for sale may be partially responsible for the recent weakness in existing home sales, and the outlook for existing home sales for the current quarter hasn't improved much. After posting two consecutive monthly declines, pending home sales, which typically lead closings by one to two months, were little changed in October, foreshadowing continued weakness in existing home sales in coming months. The recent trend in purchase mortgage applications—another leading indicator of home sales—reinforces the pending home sales data, as the average monthly reading for October fell for the third time over the past four months. Housing demand is looking up for next year, however. Purchase mortgage applications rose every week in November, except for one week when they fell slightly. The jump in purchase applications during the last week of November bodes well for home sales at the start of 2016, consistent with our forecast that sales will pick up in the first quarter of next year after a slight pullback this quarter. Another positive piece of news this week is the solid gain in private residential construction spending in October for both the single-family and multifamily segments, consistent with our forecast that residential investment will post another healthy increase in the current quarter. Mortgage rates fell for the third consecutive week this week, according to Freddie Mac, with the average 30-year fixed mortgage rate dropping two basis points to 3.93 percent.

- **Private residential construction spending** increased 1.0 percent in October, according to the Census Bureau. Spending on new single-family homes rose 1.6 percent, compared with a 1.4 percent rise for multifamily. From a year ago, spending on new single-family homes and multifamily homes was up 11.4 percent and 27.9 percent, respectively.
- **The National Association of REALTORS® pending home sales index**, which records contract signings on existing homes, edged up 0.2 percent in October to 107.7. Since its recent peak in May, the pending home sales index has fallen 4.1 percent. Pending sales rose in the Northeast and the West, and fell in the South and the Midwest. Notably, pending sales dropped in the South in October for the fifth time over the last six months, perhaps reflecting declining demand in oil-producing areas. The South was also the only region showing a year-over-year drop in pending sales in October.
- **The CoreLogic national home price index** (not seasonally adjusted) rose 6.8 percent in October from a year ago, the biggest year-over-year gain since June 2014. The low-price tier (homes priced at 75 percent or less of the median) appreciated even more rapidly, rising 9.4 percent from last October. Prices remain 6.8 percent below the April 2006 peak for all homes, but are now 3.8 percent above peak for the low-price tier. Regionally, Colorado posted the biggest annual home price gains, followed by Washington and Oregon. Only Mississippi and Louisiana showed annual declines.
- **Mortgage applications** edged down 0.2 percent for the week ending November 27, according to the Mortgage Bankers Association. The refinance index was solely responsible for the decline, falling 6.0 percent, marking the fifth drop over the last six weeks. The purchase index jumped 7.7 percent, the third rise in four weeks. Mortgage rates fell for the second consecutive week, with the rate on a 30-year fixed-rate mortgage decreasing two basis points to 4.12 percent.



Source: The National Association of REALTORS®



Source: CoreLogic

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