Economics: Strong Jobs Report Adds Tailwind to Consumers

This week’s economic news was upbeat, with the jobs report beating most analysts’ expectations. November job creation had the best showing since the start of 2012, and the sizable gains in both earnings and hours worked indicate a pickup in labor income growth in the current quarter. The jump in November auto sales supports our view of strengthening consumer spending in the fourth quarter. The results from the Institute of Supply Management (ISM) manufacturing and nonmanufacturing surveys also were quite rosy—perhaps too good to be true compared with incoming hard data, especially in the manufacturing sector. Two reports this week confirm our expectation of a marked slowdown in Q4 2014 economic growth from the 3.9 percent annualized pace in the prior quarter. After adding 0.8 percentage points to economic growth in Q3 2014, net exports likely will be a drag for Q4 growth. The decline in core capital goods shipments and core capital goods orders in October also suggests that growth in business investment in equipment will slow markedly in the current quarter from double-digit gains in the prior two quarters.

- **Nonfarm payroll employment** rose 321,000 in November according to the Bureau of Labor Statistics. Upward revisions of 44,000 jobs for the prior two months put the average monthly gain over the last three months at 278,000—the best showing in over four years. Average hourly earnings posted the biggest monthly gain since June 2013, rising 0.4 percent, and average hours worked increased to 34.6, the longest since May 2008. The separate household survey showed that the unemployment rate remained unchanged at 5.8 percent last month, as the increase in the labor force outweighed the increase in household employment. The broadest measure of unemployment, which includes discouraged workers and part-time workers for economic reasons edged down one tick to a six-year low of 11.4 percent.

- **The ISM Manufacturing Index** slipped 0.3 points to 58.7 in November, indicating continued expansion in the manufacturing sector (a reading above 50 signifies expanding manufacturing activity). New orders, a forward-looking subcomponent of the report, edged up slightly, suggesting forward momentum in the factory sector. The ISM Nonmanufacturing Index rose 2.2 points to 59.3 in November, the second highest reading in nine years.

- **Light vehicle sales** rose 4.5 percent in November to a seasonally adjusted annual rate of 17.2 million units, according to Autodata. The sales pace was slightly below the August reading, which was the strongest pace since 2005.

- **Factory orders** fell 0.7 percent in October according to the Census Bureau, as nondurable goods orders dropped 1.5 percent, partly because of declining oil prices, while the monthly gain in durable goods orders was downwardly revised from 0.4 percent to 0.3 percent. Core capital goods orders and shipments both were revised up slightly in September and down slightly in October.

- **The U.S. trade deficit** narrowed to $43.4 billion in October, down $171 million from an upwardly revised figure in September, as exports rose 1.2 percent while imports rose 0.9 percent. Declining global oil prices lowered the value of petroleum imports, but this was more than offset by a larger drop in the value of petroleum exports, which fell to the lowest level since May 2013. The real goods deficit, which is an input to estimate GDP, was essentially flat during the month.
Housing: A Break from Trend?
Housing data released this week featured a common thread—a break from the recent trend. Private spending on residential construction growth in October increased at the fastest monthly rate so far this year, with the single-family sector leading the charge. A first look at October home prices courtesy of CoreLogic showed the first non-seasonally adjusted October monthly increase since 2006 and the largest since 2005, while annual price growth accelerated for the first time since February. Mortgage demand last week also broke from recent pattern with refinance application volumes falling back down near mid-year lows even as mortgage rates continue to fall (down eight basis points this week to 3.89 percent according to Freddie Mac). Meanwhile, purchase mortgage applications increased for the fourth time in five weeks, approaching a five-month high. One data point does not a trend make, but combining this week’s upbeat (but limited) housing data with recent improvement in sales activity supports our outlook for measured housing sector growth in 2015.

- **Private residential construction spending** increased 1.3 percent in October—only the second monthly gain in six months—according to the Census Bureau. Over the past year, spending is up just 1.9 percent. Spending on private new residential construction increased 1.7 percent, boosted by 1.8 percent and 1.0 percent gains in single-family and multifamily spending, respectively. Spending on improvements increased for the first time this year, edging up 0.6 percent. Year-over-year, single-family private construction spending is up 13.2 percent, compared to a 27.2 percent increase for multifamily.

- **The CoreLogic national home price index**, a repeat sales measure, increased 0.5 percent in October on a non-seasonally adjusted basis following a 0.3 percent decline in the prior month. Over the past 12 months, home prices are up 6.1 percent—up from the 5.3 percent year-over-year increase reported in September.

- **Mortgage applications** declined 7.3 percent in the week ending November 28, according to the Mortgage Bankers Association (MBA), as a 13.4 percent plunge in refinance applications outweighed a 2.5 percent gain in purchase mortgage applications. The average contract 30-year mortgage rate measured in the MBA survey fell seven basis points to 4.08 percent—the lowest since May 2013.

Source: CoreLogic
Source: Mortgage Bankers Association, Freddie Mac

Brian Hughes-Cromwick and Orawin T Velz
Economic and Strategic Research Group
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