



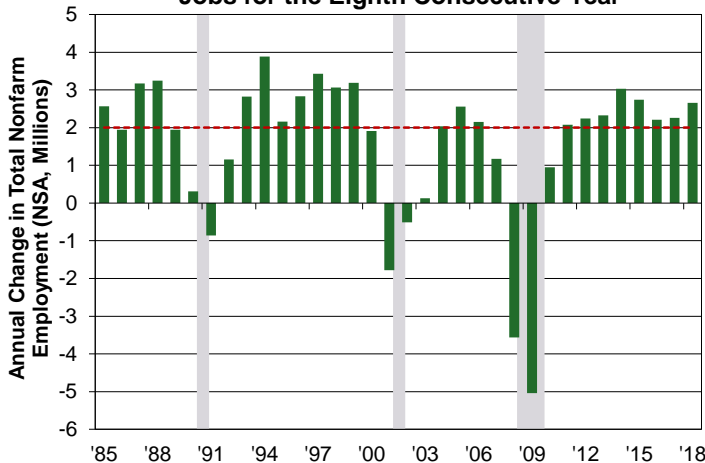
Weekly Note – January 4, 2019

Economics: Stellar Jobs Report Soothes Recession Fears

The labor market took center stage this week as a stellar December jobs report helped to soothe fears of a marked slowdown in the economy. Robust December hiring plus upward revisions in the prior two months pushed the 3-month average job gain to the strongest pace since September 2016, an impressive feat for an expansion that is nearly ten years old. While job gains were impressive and annual wage growth ticked up to tie an expansion high, the best news in today's report was the rise in the labor force participation rate to the highest level in more than a year, which should please the Fed. Given recent tightening of financial market conditions, including stock market volatility and widening credit spreads, amid well-anchored inflation around the Fed's target, the positive jobs report gives the Fed more room to maintain its December dot plot projection of two rate hikes this year, which remains our forecast. For housing, the jobs report signaled continued divergence of key demand and supply fundamentals. Whereas overall hiring and wage growth remain solid, the number of jobs in residential construction barely budged over the month, suggesting that the prolonged housing supply crunch will continue into the new year. On an annual basis, the economy added 2.6 million jobs in 2018, the highest level in three years. In other news, a survey of purchasing managers from the Institute for Supply Management (ISM) showed that the manufacturing expansion slowed in December to the worst performance since November 2016. The manufacturing index has fallen over 7 points since hitting a 14-year best in August. The slowdown was broad based, with eight out of the ten components of the index posting declines. On a more positive note for manufacturing, light vehicle sales in December reached the highest level of the year. The gain was driven entirely by light truck sales which rose for the second straight month as car sales fell. Fourth quarter vehicle sales were significantly higher than in the prior quarter, which should have helped boost consumer spending growth in the final quarter of 2018. As for the full year, vehicle sales were unchanged at 17.2 million units, though the divergence between declining car sales and increasing light truck sales continued to grow. Finally, last week initial unemployment claims rose for the third straight week but remain near the 49-year low reached earlier in December.

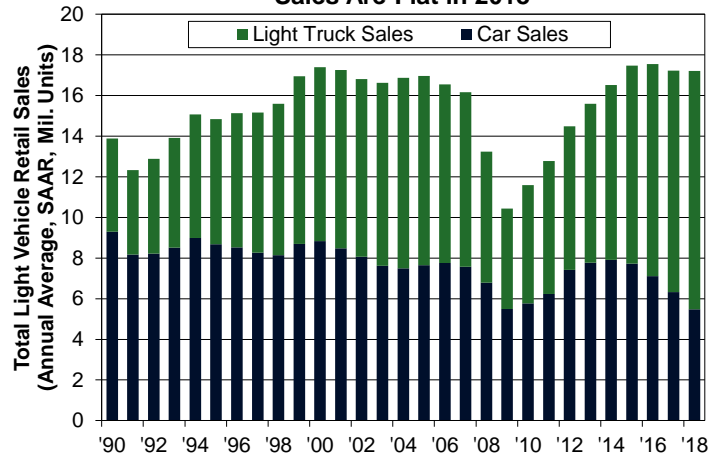
- **Nonfarm payroll employment** increased 312,000 in December, according to the Bureau of Labor Statistics. Payroll gains in the prior two months were revised higher by 58,000. The unemployment rate rose two-tenths to 3.9 percent. The broadest measure of labor underutilization, the U6 rate, was flat at 7.6 percent. The labor force participation rate rose 0.2 points to 63.1 percent, the highest since September 2017. Average hourly earnings rose 0.4 percent from November and 3.2 percent from a year ago and the average workweek was up a tick to 34.5 hours.
- **The ISM Manufacturing Index** fell 5.2 points to 54.1 in December (any reading above 50 indicates expansion). The decrease was driven by every component except customer inventories and new export orders. Specifically, the new orders and production components fell to the lowest level in over two years.
- **Light vehicle sales** rose 0.3 percent to 17.6 million annualized units in December, according to Autodata. Car sales fell 0.4 percent to 5.4 million annualized units, while light truck sales rose 0.7 percent to 12.2 million annualized units.
- **Initial claims for unemployment insurance** increased by 10,000 to 231,000 in the week ending December 29, according to the Department of Labor. The four-week moving average decreased by 500 to 218,750.

The Economy Adds More than Two Million Jobs for the Eighth Consecutive Year



Source: Bureau of Labor Statistics

Despite Rising Light Truck Sales, Annual Auto Sales Are Flat in 2018



Source: Autodata

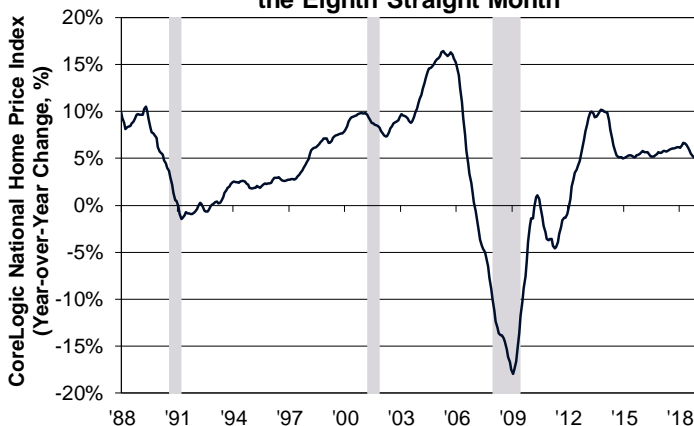


Housing: Home Price Growth Decelerates to Slowest Pace in Over Three Years

In a slow week for housing, the CoreLogic National Home Price Index continued to ease in November. Decelerating for the eighth straight month, annual appreciation posted the slowest growth since August 2015. Home prices at the lower end of the market continued to appreciate the fastest, with the lowest price tier (75 percent or less of the median home price) and the low- to middle-price tier (between 75 and 100 percent of the median) posting annual increases of 7.3 percent and 6.0 percent, respectively. According to Freddie Mac, the average yield on 30-year fixed rate mortgages fell for the fifth consecutive week this week, declining 4 basis points to 4.51 percent. Since reaching the expansion high in early November, mortgage rates have fallen 43 basis points. Interestingly, we have not seen a rebound in mortgage demand over the past month. Last week, the final week of 2018, mortgage demand posted the largest decline of the year. Purchase applications fell to the lowest level since February 2017 and refinance applications declined for the third straight week, hitting a fresh 18-year low. For all of 2018, purchase demand remained positive, though its growth decelerated to the slowest pace since 2014. By contrast, refinance applications plummeted 23.7 percent for the year. Heading into 2019, we expect moderating home price appreciation, declining mortgage rates, and a strong labor market to help provide some relief to purchase affordability.

- **The CoreLogic National Home Price Index**, a repeat sales measure, rose 0.4 percent in November (not seasonally adjusted). From a year ago, the index rose 5.1 percent, down from the recent peak of 6.7 percent in March 2018. The index has posted annual increases since February 2012 and was 6.1 percent higher in November than its previous peak in April 2006. However, adjusting for inflation, prices remain 13.1 percent below the prior peak. Nevada showed the strongest annual gain, followed by Idaho, with both states posting double-digit increases. The middle- to moderate-price tier (between 100 and 125 percent of the median) appreciated 5.4 percent and the high-price tier (greater than 125 percent of the median) posted the slowest growth of 4.2 percent.
- **Mortgage applications** fell 8.5 percent for the week ending December 28, according to the Mortgage Bankers Association. Purchase applications dropped 7.6 percent and refinance applications plunged 10.6 percent, the largest weekly decline this year. For December, average purchase applications rose by 1.4 percent, while average refinance applications declined 1.4 percent. The average 30-year fixed contract rate edged down 2 basis points to 4.84 percent. The average rate for the month plummeted 24 basis points to 4.90 percent.

Annual Home Price Growth Decelerates For the Eighth Straight Month



Source: CoreLogic

Mortgage Rates Have Fallen Dramatically Since November



Source: Freddie Mac

Rebecca Meeker
Economic and Strategic Research Group
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