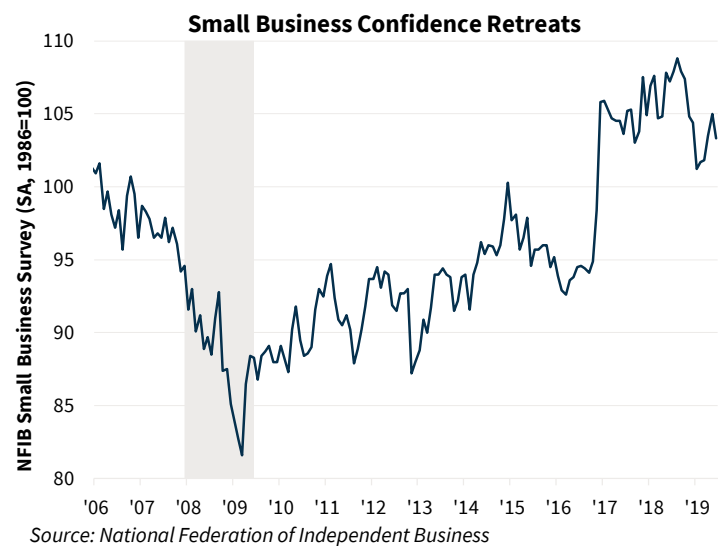
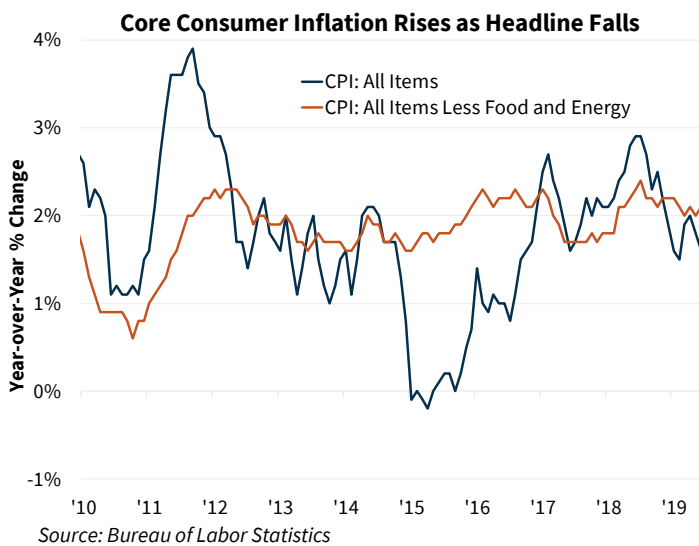


Economics: Fed, Data Support Prediction of July Rate Cut

Market focus continued to be directed toward the Fed this week with the release of the Federal Open Market Committee (FOMC) [minutes](#) from the June 18-19 meeting and Fed Chairman Powell’s semiannual testimony to Congress. While the minutes showed a notable shift away from the Fed’s prior “patient” stance, there were no significant points that had not been addressed by Powell’s post-meeting press conference about a month ago. Participants noted increased uncertainties and higher “odds to scenarios with less favorable outcomes.” Confirming the dovish shift of the meeting, many participants agreed that “additional monetary policy accommodation would be warranted in the near term should...recent developments prove to be sustained.” There was also further insight into the dissenting vote cast by St. Louis Fed President James Bullard, who preferred to reduce rates immediately to “help re-center inflation and inflation expectations” and “provide some insurance against unexpected developments that could slow U.S. economic growth.” Powell did nothing to dispel the notion of a July rate cut in his Wednesday morning testimony to Congress, which noted that the economic outlook has not improved in recent weeks. Inflation numbers released later in the week did not undermine Powell’s message. The Consumer Price Index (CPI) rose in June but decelerated for the second straight month on a 12-month basis, falling further below the Fed’s 2.0-percent target. The majority of this 12-month slowdown has come from energy prices, which were down 3.4 percent from the prior year, and as a result core CPI accelerated on a 12-month basis and has been at or above 2.0 percent for more than a year. The Producer Price Index (PPI) for final demand, however, rose by just 1.7 percent over 12 months, the slowest pace since January 2017, with a 0.4 percent decline in the PPI for goods, suggesting that tariffs on imports from China have not put upward pressure on inflation. Overall, the inflation data would support the Fed in justifying a rate cut in July. Consumer credit outstanding increased notably in May, with revolving credit (largely credit card debt) posting the largest gain in seven months, a positive sign for consumer spending, countering the smallest gain since April 2018 in nonrevolving credit (largely student and auto loans). Job openings fell in May and have been trending downward since last November when they peaked at 7.6 million, while total hires fell by the largest number since January 2016. The quits rate, a signal of employee confidence in the market, was unchanged for the eleventh straight month. Finally, an index of small business optimism fell for the first time since January, with the net share of businesses believing it is a good time to expand falling by the most since September 2017.

- **The Consumer Price Index** rose 0.1 percent in June, up 1.6 percent from a year ago. Core CPI rose 0.3 percent, up 2.1 percent from a year ago. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.1 percent in June, while core PPI (excluding food, energy, and trade services) was unchanged. The Bureau of Labor Statistics produces both reports.
- **Consumer (non-mortgage) credit outstanding** grew \$17.1 billion in May to \$4.1 trillion, according to the Federal Reserve Board. Revolving credit rose \$7.2 billion and nonrevolving credit rose \$9.9 billion. From a year ago, revolving credit rose 4.5 percent and nonrevolving credit rose 5.4 percent.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed job openings falling by 49,000 to 7.3 million in May, according to the Bureau of Labor Statistics. Total hires fell 266,000 to 5.7 million. The job openings rate fell one-tenth to 4.6 percent and the hires rate fell two-tenths to 3.8 percent, while the layoffs and quits rates were unchanged at 1.2 percent and 2.3 percent, respectively.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** fell 1.7 points to 103.3 in June. The net share of businesses reporting that “now is a good time to expand” fell 6 percentage points to 24 percent.

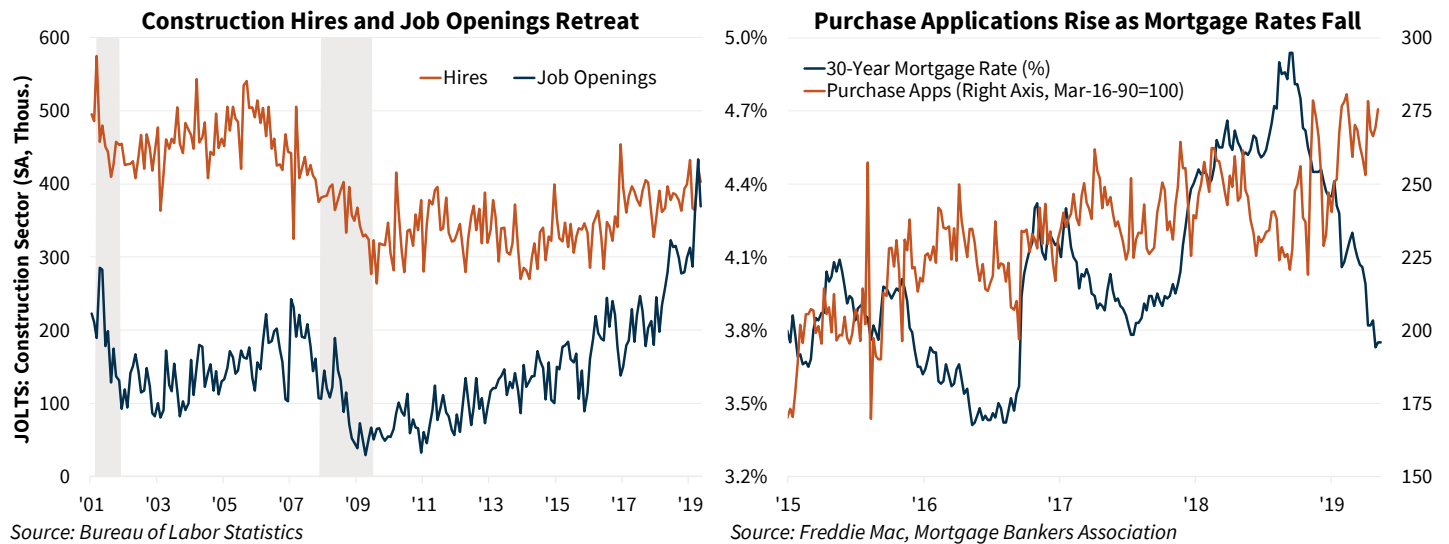




Housing: Construction Job Openings and Hires Fall

A slow week for housing news saw declines in both construction job openings and mortgage applications. Despite construction job openings in May posting the largest decline since August 2001, openings were still at the second highest level in the survey's history. Construction hires also fell in May but failed to reverse April's sharp increase, which helped to push the six-month moving average to an expansion high. The declines in construction hiring are expected to reverse in June as the Establishment Survey from the Bureau of Labor Statistics showed residential construction employment growing by 6,000 jobs over the month and overall construction employment gaining 21,000 jobs. This is a positive for homebuilders who continue to cite labor shortages as one of their top challenges in the industry. In a boon for potential homebuyers, the average yield on 30-year, fixed mortgage rates was unchanged this week at 3.75 percent, just shy of the lowest level since September 2017, and 78 basis points below year-ago levels. Mortgage rates have been relatively stable for the past three weeks, a result of modest economic data and the dovish shift in messaging from the Fed, which have kept yields elevated in anticipation of a rate cut by the end of July. Despite the low rates, a decline in refinance applications last week outweighed a gain in purchase applications. Purchase applications have increased for two weeks in a row, and the index remained elevated and close to the highest level since May 2010. Strength in purchase applications should support our expectations of moderate growth in sales in the coming months; however, the consistently constrained housing supply could limit the responsiveness of buyers to improvements in affordability.

- **The Job Openings and Labor Turnover Survey** showed that construction job openings fell by 65,000 to 369,000 in May, according to the Bureau of Labor Statistics. Construction hires fell 17,000 to 403,000. Total construction separations rose modestly by 2,000 to 407,000. The jobs openings rate fell eight-tenths to 4.7 percent, the hires rate fell two-tenths to 5.4 percent, and the total separations rate was unchanged at 5.4 percent. The quits rate rose four-tenths to 2.3 percent.
- **Mortgage applications** fell 2.4 percent in the week ending with July 5, according to the Mortgage Bankers Association. Refinance applications decreased 6.5 percent, while purchase applications rose 2.3 percent driven by increases in both conventional and government applications.



Source: Bureau of Labor Statistics
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Economic and Strategic Research Group
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