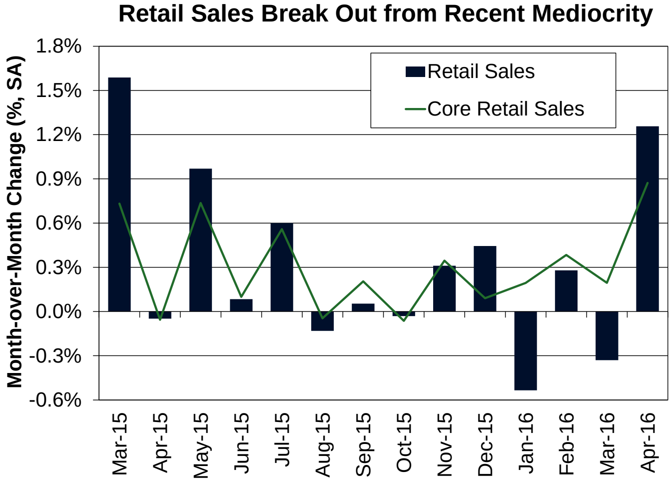
Weekly Note – May 13, 2016

Economics: Cha-Ching! Retail Sales Provide a Boost

Economic data released this week suggested consumers had a spring in their step in April while businesses remained cautious. Retail sales posted the largest monthly jump in over a year and core sales, a proxy for consumer spending for goods, showed the best monthly gain in over two years. Vehicle and gasoline sales drove the headline number, but the strength in core sales was broad-based. The April increase in retail sales suggests that consumer confidence is improving. In another sign of strength, the University of Michigan consumer sentiment survey showed that consumers are more optimistic in May, with the sentiment index posting the biggest monthly gain since the end of 2013. While consumers look prepared to continue their role as the engine of economic growth in the current quarter, businesses still have an uncertain economic outlook. A survey of small businesses by the NFIB reported overall optimism rose in April for the first time this year, but views of the economy remained pessimistic. Survey results on the labor market indicate strong demand for workers, as the Job Openings and Labor Turnover Survey (JOLTS) showed job openings climbed in March to tie an all-time high. However, the drop in hires from the expansion best in February signals that firms struggled to fill positions. The NFIB survey confirmed this dynamic, as the share of firms with unfilled jobs increased to tie the expansion high, and the share of firms reporting few or no qualified candidates for open positions posted the largest monthly increase since February 2015. One note of concern for the labor market came from initial unemployment insurance claims, which jumped to the highest level since February 2015. However, nearly all of the increase occurred in New York State, and may have resulted from special factors including delayed filings from an earlier Verizon strike.

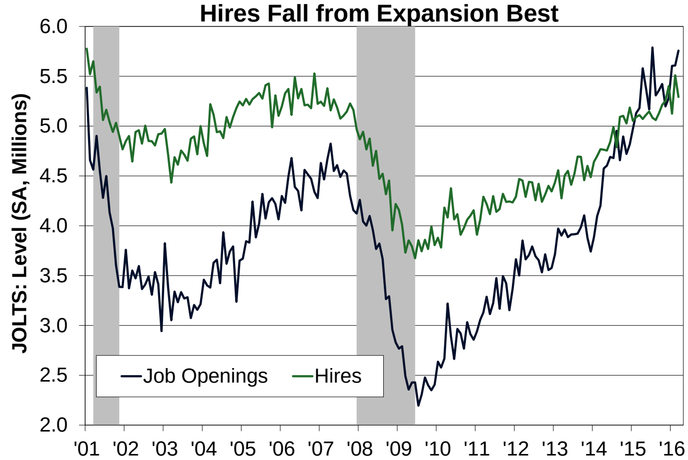
- **Retail sales** jumped 1.3 percent in April, according to the Census Bureau. The March estimate was revised to show a less severe fall. Core sales, excluding autos, gasoline, and building materials, also spiked, rising 0.9 percent, marking the sixth straight monthly increase. From a year ago, sales rose 3.0 percent, accelerating from the 1.7 percent annual pace in March. Core sales posted annual growth of 3.6 percent, the fastest pace since July 2015.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** rose 1.0 point to 93.6 in April. However, a net share of firms have expected the economy to weaken for 14 consecutive months. On the labor front, the share of firms planning to increase employment increased for the first time in four months, while the share of firms reporting unfilled jobs rose four points, the largest jump since September 2008, to 29 percent.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings increased 2.7 percent in March to 5.8 million, according to the Bureau of Labor Statistics (BLS). As a share of total employment, the job openings rate climbed one-tenth to 3.9 percent, tying a record. The hires rate ticked down one-tenth to 3.7 percent, while the quits rate, a gauge of worker confidence in the labor market, was flat from February at 2.1 percent.
- **The University of Michigan Consumer Sentiment Index** rose 6.8 points to 95.8 in the May preliminary reading.
- **Import prices** increased 0.3 percent, driven by the 4.1 percent rise in energy prices (BLS). Non-petroleum prices rose slightly, ending 15 months of decline. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.2 percent in April, but was flat from a year ago (BLS). Core PPI grew 0.3 percent monthly and 0.6 percent annually.
- **Initial claims for unemployment insurance** increased by 20,000 to 294,000 in the week ending May 7, according to the Department of Labor. The four-week moving average increased by 10,250 to 268,250.

Retail Sales Break Out from Recent Mediocrity



Source: Census Bureau

Job Openings Climb to Tie an All-Time High, as Hires Fall from Expansion Best



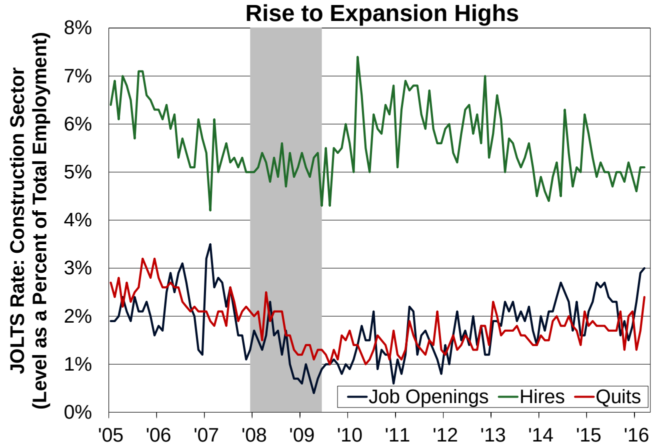
Source: Bureau of Labor Statistics

Housing: Construction Job Market Tightens

This week's news is upbeat on the demand for construction workers and mortgage performance, although near-term mortgage demand remains lackluster. The March JOLTS points to continued rising demand for construction workers, with the job openings rate rising for the fourth consecutive month to the highest level since February 2007. The job openings trend is consistent with results from the January 2016 National Association of Home Builders survey indicating that the cost and availability of labor is the number one challenge builders expected to face this year. By contrast, the JOLTS construction hires rate has been moving sideways over the past year. It appears that a skill mismatch, rather than slowing demand for labor, may have played a role in restraining hiring in the industry. Meanwhile, the quits rate, a gauge of workers' confidence in the labor market, surged during the month, marking the second consecutive rise to reach an expansion high. If this trend persists, construction worker wage growth might pick up or builders might have difficulty retaining existing workers. A positive for the housing and mortgage market is mortgage performance during the first quarter of the year. The overall market delinquency, foreclosure starts, and foreclosure inventory rates continue to improve on a year-over-year basis. Notably, the rate at which new foreclosures were initiated in the first quarter was 0.35 percent, the lowest level since 2000. Improving labor market conditions and strong home price appreciation over the past several years have helped bring the foreclosure starts rate down to 10 basis points below its historical average. Lastly, mortgage demand remained cool last week. Although rates fell for the first time in four weeks, mortgage applications were little changed following two consecutive weekly drops. Rates fell this week in Freddie Mac's survey, with the average 30-year fixed mortgage rate declining four basis points to 3.57 percent, the lowest level in about three years.

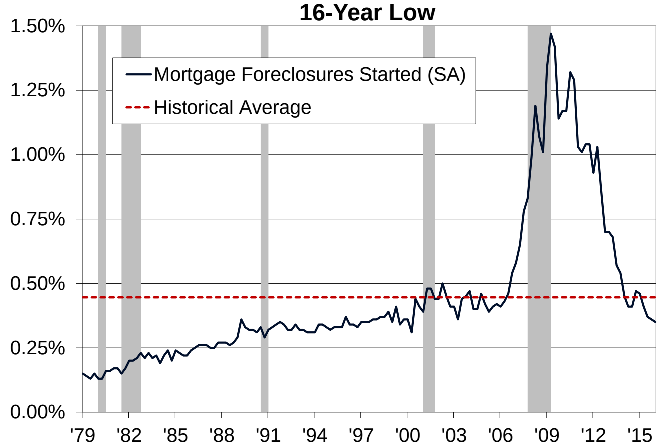
- **The Mortgage Bankers Association National Delinquency Survey** for Q1 2016 showed that the delinquency rate for mortgage loans on one-to-four-unit residential properties was unchanged from the prior quarter at 4.77 percent, but was 77 basis points lower than one year ago. The current delinquency rate is the lowest since Q3 2006 and is about 60 basis points below the long-term average. The proportion of loans in the foreclosure process was 1.74 percent, down three basis points from the previous quarter and 48 basis points from a year ago. The rate was still above the long-term average of 1.50 percent. About two-thirds of the 20 states with foreclosure inventory rates above the national average were judicial states.
- **The JOLTS** showed that the construction job openings rate ticked up 0.1 percentage points to 3.0 percent in March, according to the Bureau of Labor Statistics. The hires rate remained at 5.1 percent while the quits rate jumped from 1.7 percent to 2.4 percent.
- **Mortgage applications** edged up 0.4 percent for the week ending May 6, according to the Mortgage Bankers Association. Purchase applications rose for the first time in four weeks, increasing 0.4 percent. After two consecutive declines, refinance applications increased 0.5 percent, as a gain in conventional refinance applications outpaced a drop in the government segment. The average rate on 30-year, fixed-rate mortgages decreased five basis points to 3.82 percent, the lowest level in a month.

Construction Job Openings and Quits Rates Rise to Expansion Highs



Source: Bureau of Labor Statistics

The Foreclosure Starts Rate Declines to a 16-Year Low



Source: The Mortgage Bankers Association

Frank Shaw and Orawin T. Velz
Economic and Strategic Research Group

May 13, 2016

Opinions, analyses, estimates, forecasts and other views of Fannie Mae's Economic and Strategic Research (ESR) Group included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the ESR group bases its opinions, analyses, estimates, forecasts and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts and other views published by the ESR group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.