



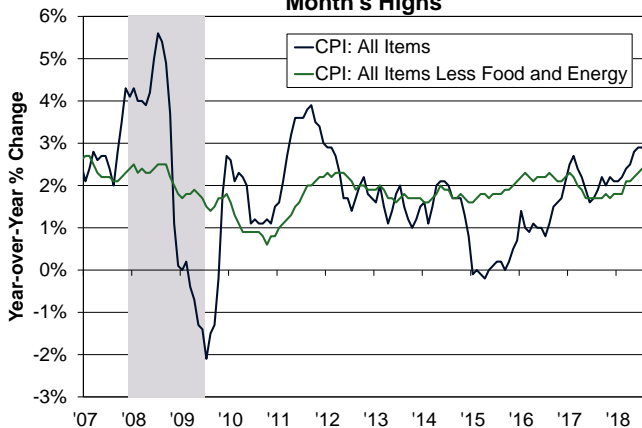
Weekly Note – September 14, 2018

Economics: Inflation Slows; Job Openings Climb

A busy week of data releases shed additional light on consumers, businesses, and prices. Nominal retail sales growth slowed in August, partially reflecting outright declines in sales at motor vehicle and parts dealers and a deceleration in the growth of core sales, which exclude autos, building materials, and gasoline. However, prospects for third quarter consumer spending were assisted by an upward revision to July retail sales. Industrial production rose for the third consecutive month in August led by growth in utilities and mining, but manufacturing underperformed. Meanwhile, inflation pressures took a breather in August. Most notably, growth in the headline Consumer Price Index (CPI) slowed on an annual basis, as core inflation decelerated for the first time since November 2017. Still, measures of consumer inflation, core CPI growth in particular, remain above the 2.0 percent rate targeted by the Fed. The number of job openings reached a new high of 6.9 million, making July the fifth consecutive month that openings exceeded the number of unemployed, consistent with the September Beige Book’s assertion that “labor markets continued to be characterized as tight throughout the country.” Additionally, the share of small businesses with hard-to-fill job openings reached a new high in August, while a more recent reading of the labor market indicates that initial unemployment insurance claims fell to a fresh 48-year low last week. Likely reflecting these labor market conditions, consumer sentiment rose in early September, though consumer survey-based inflation expectations ticked down. With strong labor market conditions and despite the modest deceleration in inflation, the Fed is still expected to raise rates later this month. In a speech this week, Fed Governor Brainard noted that the “past few times unemployment fell to levels as low as those projected over the next year, signs of overheating showed up in financial-sector imbalances rather than in accelerating inflation.”

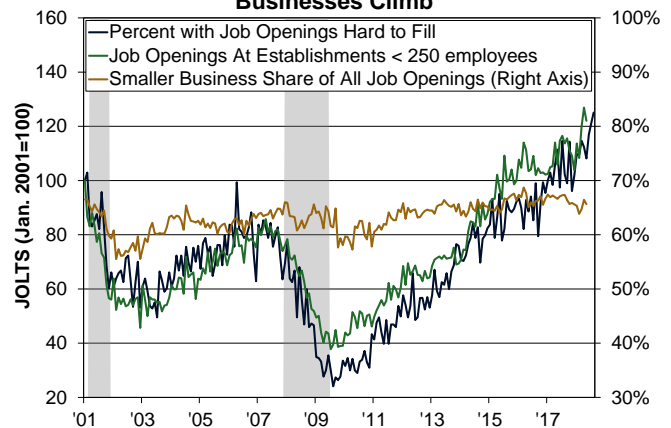
- **Retail sales** rose 0.1 percent in August and 6.6 percent annually, according to the Census Bureau. July’s initially reported 0.5 percent gain was revised to 0.7 percent. Core sales rose 0.2 percent in August and 6.1 percent annually.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, climbed 0.4 percent in August, according to the Federal Reserve Board. Utilities and mining rose 1.2 and 0.7 percent, respectively, while manufacturing edged up 0.2 percent, its second consecutive month of deceleration.
- **The Consumer Price Index (CPI)** rose 0.2 percent in August. Core CPI rose 0.1 percent. Over the past year, headline inflation slowed to 2.7 percent, while core inflation decelerated to 2.2 percent. **The Producer Price Index (PPI)** for final demand fell 0.1 percent in August. On an annual basis, headline PPI slowed to 2.8, while core PPI accelerated for the third consecutive month to 2.9 percent. **Import prices** fell 0.6 percent in August but rose 3.7 percent annually. Each of these reports is produced by the Bureau of Labor Statistics.
- **The Job Openings and Labor Turnover Survey** showed that job openings rose by 117,000 to 6.9 million in July, but the job openings rate was flat at a cycle high of 4.4 percent. The quits rate hit a 17-year high of 2.4 percent.
- **The National Federation of Independent Business Small Business Optimism Index** rose 0.9 points to 108.8 in August, a series high, though the percent expecting the economy to improve fell 1 percentage point to 34 percent.
- **The University of Michigan Consumer Sentiment Index** rose 4.6 points to 100.8 in the September preliminary reading. Inflation expectations over the next year slowed two-tenths to 2.8 percent.
- **Consumer (non-mortgage) credit outstanding** expanded by \$16.6 billion in July, according to the Federal Reserve Board. Revolving credit grew \$1.3 billion, while non-revolving credit expanded \$15.4 billion.
- **Initial claims for unemployment insurance** decreased by 1,000 to 204,000 in the week ending September 8, according to the Department of Labor. The four-week moving average fell 2,000 to 208,000.

Consumer Inflation Slows From Last Month's Highs



Source: Bureau of Labor Statistics

Job Opening Conditions at Smaller Businesses Climb



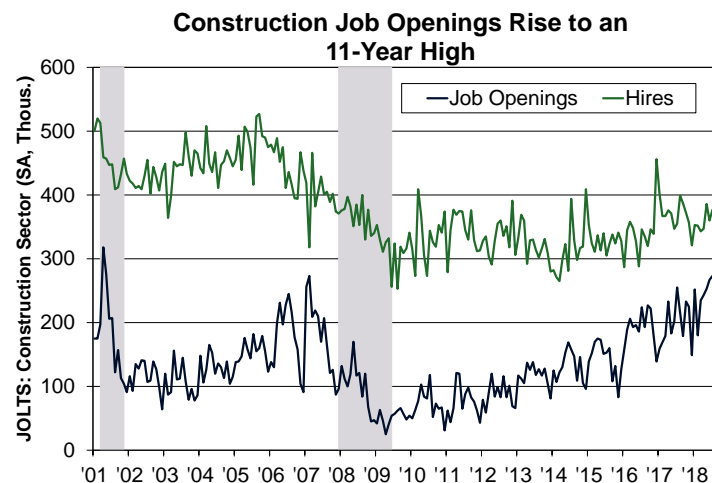
Source: Bureau of Labor Statistics



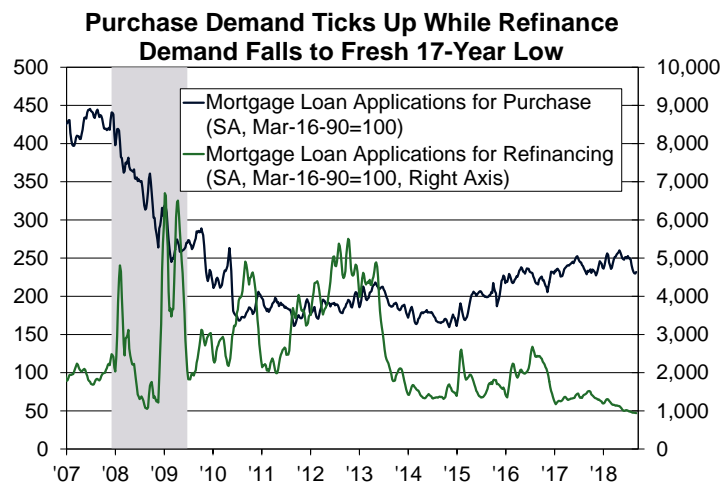
Housing: Construction Workers Wanted

A slow week for housing provided updates for construction employment and mortgage demand. The Job Openings and Labor Turnover Survey showed that construction job openings expanded in July for the fifth consecutive month to the highest level in over 11 years. Furthermore, job openings have increased on an annual basis every month since September 2017, and the job openings rate held steady at an expansion best. The hires rate improved in July and likely rose further in August, as the August employment report released last week showed the largest increase in construction payrolls in three months. Construction workers are more confident in their job prospects as the quits level rose to a fresh expansion high and the quits rate climbed for the third consecutive month to tie an expansion best. The only other housing data released this week showed a decline in mortgage demand last week for the third consecutive week and the eighth time in nine weeks. Refinance applications drove the decline, posting the largest weekly drop since mid-February and hitting a fresh 17-year low. Purchase applications, on the other hand, increased for the second consecutive week, reaching the highest level in a month. Mortgage rates rose further this week, according to Freddie Mac, with the average 30-year fixed mortgage rate jumping 6 basis points to 4.60 percent this week. Since the beginning of the year, mortgage rates have increased more than 60 basis points.

- **The Job Openings and Labor Turnover Survey** showed that construction job openings rose 2.2 percent to 273,000 in July, according to the Bureau of Labor Statistics. Hires increased 4.7 percent to 377,000. The job openings rate was unchanged at 3.6 percent, while the hires rate increased 0.2 percentage points to 5.2 percent. The quits rate edged up one-tenth to 2.4 percent.
- **Mortgage applications** fell 1.8 percent for the week ending September 7, according to the Mortgage Bankers Association. Purchase applications rose 0.9 percent thanks to 0.1 percent and 3.2 percent rises in conventional and government purchase applications, respectively. Refinance applications dropped 5.9 percent, as conventional and government applications declined 6.5 percent and 2.6 percent, respectively. The survey's average 30-year fixed mortgage rate jumped 4 basis points, the largest gain in over a month, to 4.84 percent.



Source: Bureau of Labor Statistics



Source: Mortgage Bankers Association

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September 14, 2018

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