



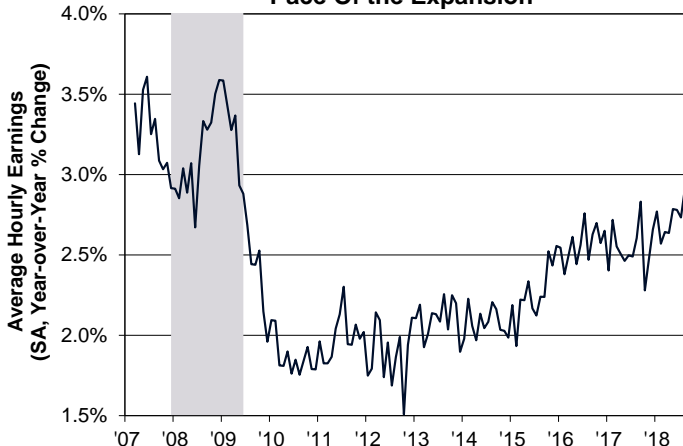
Weekly Note – September 7, 2018

Economics: Wage Gains Hit an Expansion Best

The labor market took center stage this week as the August jobs report showed job growth over 200,000 for the third time in four months. Despite downward revisions in the prior two months, average monthly job gains year-to-date sit at 207,000, well above the 189,000 over the same period in 2017. The pop in annual wage gains to the expansion best, along with the recent uptrend in inflation, seems to support Fed Chair Powell’s argument in Jackson Hole that moving interest rates too slowly could risk overheating, consistent with our call for September and December rate hikes. For housing, a pickup in residential construction workers was encouraging and badly needed as supply constraints largely kept housing on the sideline during the first half of the year, while other consumer and business demand helped propel strong economic growth. In other news, the U.S. nominal trade deficit widened sharply in July to the highest level since February as imports reached an all-time high and exports fell for the second consecutive month. The inflation-adjusted goods deficit, used in the calculation of net exports in gross domestic product (GDP), widened for the second straight month. It appears that net exports will likely drag on GDP growth this quarter after adding substantially to growth in the second quarter, as businesses frontloaded exports ahead of tariffs implemented in July. Second quarter productivity growth was unrevised at the highest quarterly growth rate in over three years. Unit labor costs fell 1.0 percent, a slightly larger decline than preliminary estimates, though the annual number was unchanged. The manufacturing sector disappointed this week as factory orders fell and shipments were flat in July. However, core capital goods orders and shipments held on to the gains registered in the advanced durable goods report. Measures of activity in the manufacturing and service sectors both expanded in August, with the manufacturing index hitting an expansion high. Auto sales declined for the second consecutive month in August, hitting the lowest level in a year. Car sales drove the decline, falling sharply to the second lowest level of the expansion, while light truck sales continued their upward trend. Finally, initial claims for unemployment fell last week for the eighth time in nine weeks, reaching the lowest level since December 1969.

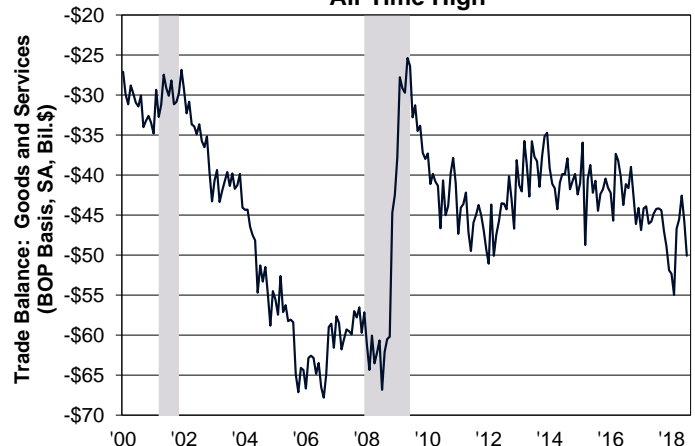
- **Nonfarm payroll employment** expanded by 201,000 in August, according to the Bureau of Labor Statistics. Job gains in the prior two months were revised down 50,000. The unemployment rate was flat at 3.9 percent, while the labor force participation rate fell two-tenths to 62.7 percent. The U6 rate fell to 7.4 percent. The average workweek was flat at 34.5 hours. Average hourly earnings rose 0.4 percent from July and 2.9 percent from a year ago.
- **Nonfarm business productivity** rose 2.9 percent annualized in Q2 2018, according to the Bureau of Labor Statistics. Annually, productivity grew 1.3 percent, unit labor costs rose 1.9 percent, and compensation increased 3.2 percent.
- **The U.S. trade deficit** widened \$4.3 billion to \$50.1 billion in July, according to the Census Bureau. The real goods deficit widened \$3.1 billion to \$82.5 billion.
- **Factory orders** fell 0.8 percent in July and factory shipments were flat, according to the Census Bureau. Nondurable goods orders, the new piece of data in the report, increased 0.2 percent to the highest level since October 2014.
- **The ISM Manufacturing Index** rose 3.2 points to 61.3 in August (any reading above 50 indicates expansion). **The ISM Nonmanufacturing Index**, a gauge of service sector activity, gained 2.8 points to 58.5 in August.
- **Light vehicle sales** declined 0.3 percent to 16.7 million annualized units in August, according to Autodata.
- **Initial claims for unemployment insurance** decreased by 10,000 to 203,000 in the week ending September 1, according to the Department of Labor. The four-week moving average fell by 2,750 to 209,500.

Annual Wage Growth Jumps to the Fastest Pace Of the Expansion



Source: Bureau of Labor Statistics

Trade Deficit Widens Sharply As Imports Hit an All-Time High



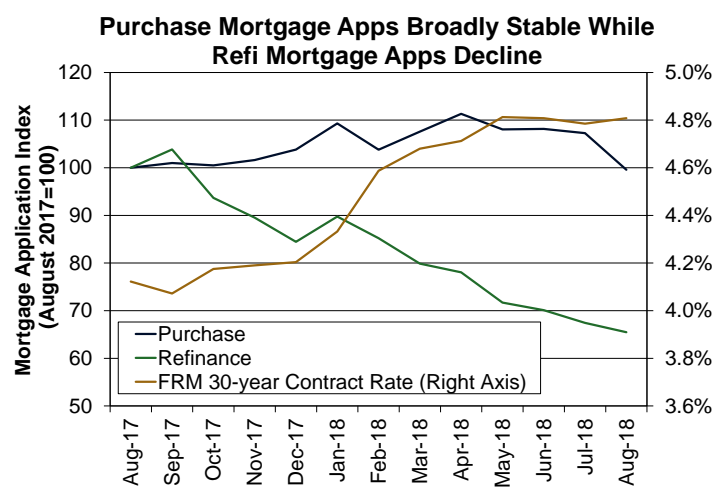
Source: Census Bureau



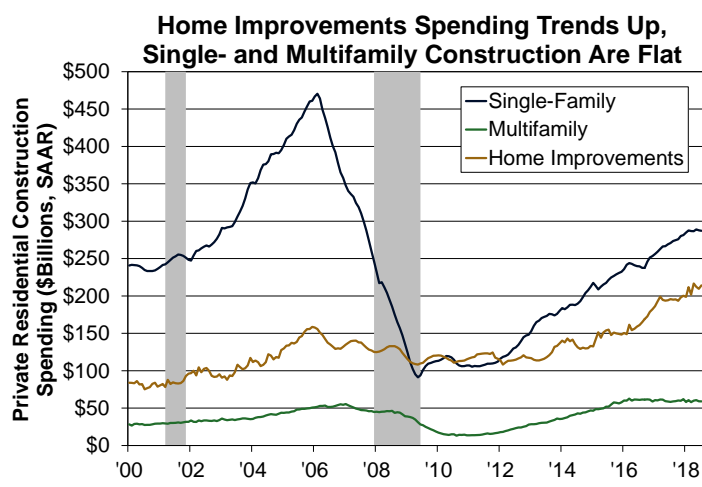
Housing: Limited Upside Potential for Home Sales, While Home Improvements Lead Construction Spending

In a lighter week for housing statistics, mortgage applications data from the previous week were mixed: purchase mortgage applications rose, while refinance mortgage applications fell. Over the entire month of August, average monthly refinance mortgage applications extended their decline to a seventh month in concert with rising and higher mortgage rates. At the same time, average monthly purchase mortgage applications fell for the second consecutive month and for the third time in four months. Recent trends in average monthly purchase mortgage applications, a forward-looking indicator of home sales, suggests little upside potential for home sales in the near term as affordability concerns persist. In addition to higher mortgage rates, which have stabilized in recent months, robust house price appreciation continues, partly reflecting an insufficient amount of more affordable inventory available for sale. In view of these conditions, home sales are not currently positioned to support real residential fixed investment growth over the third quarter. Meanwhile, total private residential construction spending ticked up in July following two consecutive monthly declines, reflecting growth in home improvements spending. In contrast, both single-family and multifamily construction spending registered declines. While spending on new single-family and multifamily construction appears to have plateaued for now (multifamily for a longer period of time than single-family), home improvements spending is trending upward with some recent volatility. After the first month of the third quarter, both single-family and multifamily construction spending are putting modest downward pressure on residential fixed investment, while home improvements spending represents upward potential.

- **Private residential construction spending** rose 0.6 percent over the month of July according to the Census Bureau. Home improvements spending climbed 2.1 percent, but single-family and multifamily construction spending each fell, by 0.3 and 0.4 percent, respectively. Over the year, private residential construction spending grew by 8.7 percent, led by a 14.2 percent increase in home improvements spending. Meanwhile, spending on new single-family construction rose 5.9 percent while new multifamily construction spending climbed 1.1 percent.
- **The CoreLogic National Home Price Index**, a repeat sales measure, rose by 6.2 percent on a 12-month basis ending in July (not seasonally adjusted). House price growth has remained above 6 percent for the past year.
- **Mortgage applications** fell 0.1 percent for the week ending August 31, according to the Mortgage Bankers Association. Purchase applications rose by 0.6 percent, but refinance applications declined by 1.4 percent. The survey's average 30-year fixed mortgage rate was up 2 basis points to 4.80 percent. For August, average purchase and refinance applications fell by 7.2 percent and 2.9 percent, respectively.



Source: Mortgage Bankers Association



Source: Census Bureau

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