



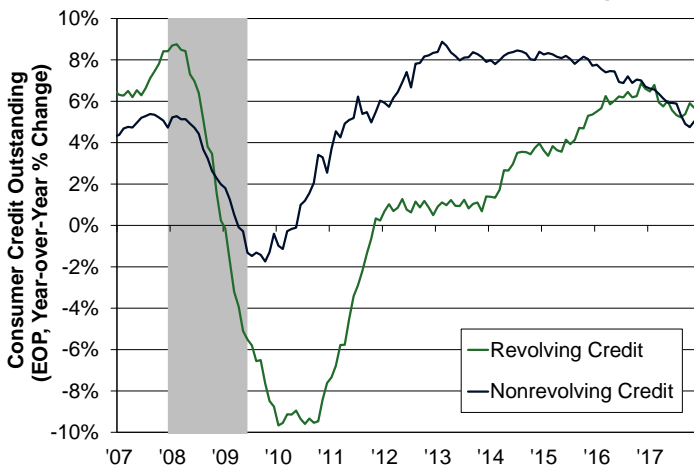
Weekly Note – February 9, 2018

### Economics: Consumer Debt Grows, Trade Deficit Widens

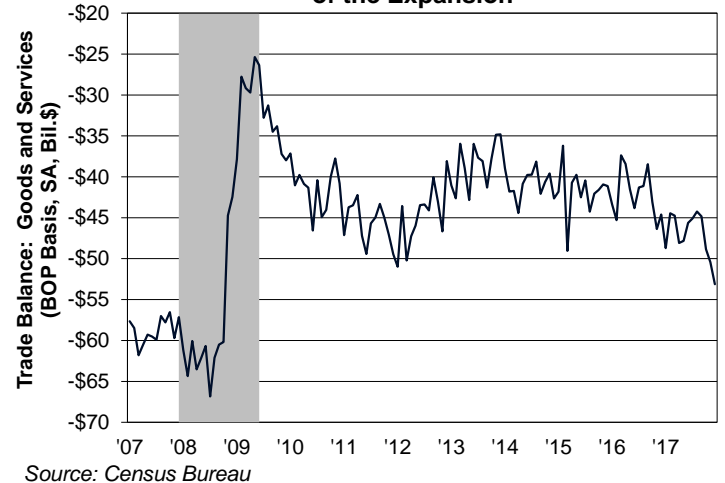
Economic data released this week were generally upbeat. Consumers continue to demonstrate a willingness to take on debt, suggesting strengthening confidence in their financial situation. Total consumer credit expanded further to a new all-time high in December. The annual increase accelerated for the third consecutive month, as a result of faster growth in both nonrevolving (mainly auto and student loan debt) and revolving (mainly credit card debt) credit. Job openings softened in December, with openings as a share of total employment falling to a seven-month low. The hires rate was unchanged at just below the expansion high. Workers' confidence in their job prospects improved during the month, as the level of quits approached a 17-year high; however, the quits rate stayed within a narrow range of 2.1 percent to 2.2 percent witnessed during 2017. The trade deficit expanded in December for the fourth consecutive month to reach the widest level since October 2008. The increase in the deficit over that four-month stretch came despite exports increasing during three of the four months, as imports posted four larger increases. The expansion in the service sector accelerated to the fastest pace in 12 years in January, according to the ISM Nonmanufacturing Index. The increase was helped by a rebound in new orders and a jump in employment to the highest level in the 20-year history of the series. Finally, initial claims for unemployment fell last week for the third time in four weeks to a near 45-year low.

- **Consumer (non-mortgage) credit outstanding** expanded by \$18.4 billion in December, according to the Federal Reserve Board. Nonrevolving credit increased \$13.3 billion and revolving credit expanded \$5.1 billion. From a year ago, total consumer credit grew 5.4 percent, a one-tenth pickup. Nonrevolving and revolving credit improved 5.1 and 6.0 percent, respectively, year over year.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings fell 2.8 percent to 5.8 million in December, according to the Bureau of Labor Statistics. As a share of total employment, the job openings rate slipped one-tenth to 3.8 percent. The hires rate was flat at 3.7 percent. The quits rate ticked up one-tenth to 2.2 percent. The layoffs rate edged down one-tenth to 1.1 percent.
- **The U.S. trade deficit** widened by \$2.7 billion in December to \$53.1 billion, according to the Census Bureau. Imports and exports rose 2.5 percent and 1.8 percent, respectively. The inflation-adjusted goods deficit, used in the calculation of net exports in the gross domestic product estimate, widened by \$2.0 billion to \$68.4 billion.
- **The Institute for Supply Management (ISM) Nonmanufacturing Index**, a gauge of service sector activity, increased 3.9 points in January to 59.9 (any reading above 50 indicates expansion). Business activity, new orders, and employment components drove the increase. The supplier deliveries component was unchanged during the month.
- **Initial claims for unemployment insurance** decreased by 9,000 to 221,000 in the week ending February 3, according to the Department of Labor. The four-week moving average decreased by 10,000 to 224,500.

Consumer Credit Growth Picks Up



Trade Deficit Reaches Widest Level of the Expansion



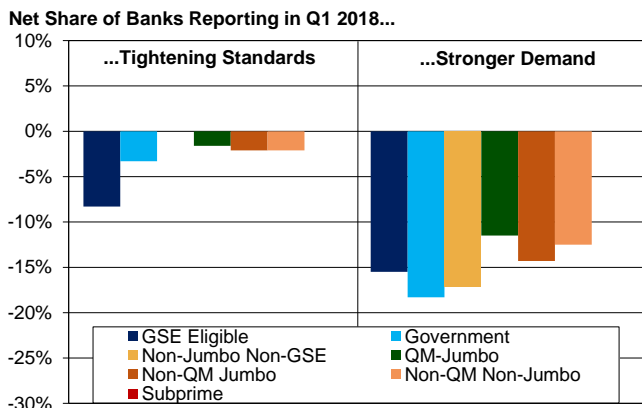


# Housing: Lending Standards Ease Further; Loan Performance Deteriorates

Housing data released this week featured updates on lending standards and mortgage delinquencies. Results from the first quarter Senior Loan Officer Opinion Survey showed that lending standards on residential mortgage loans eased for the 15<sup>th</sup> consecutive quarter, while demand for mortgages experienced the largest quarterly decline in two years. The MBA reported that the overall market delinquency rate rose in the fourth quarter for the second consecutive quarter, marking only the second back-to-back quarterly increases since the delinquency rate peaked at the beginning of 2010. The foreclosure starts rate, which is closely linked to labor market conditions, was little changed, largely due to hurricane-related moratoria on foreclosures. The serious delinquency rate rose to the highest level in a year. The CoreLogic National Home Price Index continued to rise in December and is now 1 percent higher than the pre-crisis peak in April 2006. However, after adjusting for inflation, the index remains 16 percent below the prior peak. The construction labor market saw the largest monthly decline in job openings in two years, with the job openings rate (construction job openings as a share of construction employment) falling for the first time in three months, according to the December JOLTS. The hires rate decreased for the third consecutive month. Construction workers appeared less confident in their job prospects, as the quits rate fell for the second consecutive month. Mortgage demand increased for the fourth time in five weeks, driven entirely by refinance applications. Mortgage rates moved higher this week, as the average 30-year fixed mortgage rate jumped 10 basis points to 4.32 percent, the highest level in over a year, according to Freddie Mac.

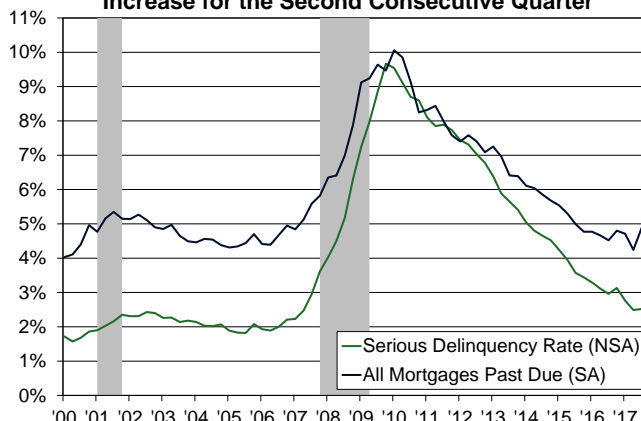
- **The Federal Reserve Board Senior Loan Officer Opinion Survey** for the three months ending in January showed easing lending standards and declining demand for every major type of residential mortgage. Banks reported demand fell for every major loan type, while lending standards eased most for GSE eligible loans.
- **The Mortgage Bankers Association (MBA) National Delinquency Survey** for Q4 2017 showed that the delinquency rate for mortgage loans on one-to-four unit residential properties increased 29 basis points to a seasonally adjusted rate of 5.17 percent of all loans outstanding. The percentage of loans on which foreclosure actions were started ticked down 1 basis point to 0.24 percent. The survey showed the serious delinquency rate (the percent of loans that are 90 days or more past due or in the process of foreclosure, not seasonally-adjusted) increased 39 basis points from the prior quarter to 2.91 percent, 22 basis points below the rate a year ago.
- **The CoreLogic National Home Price Index**, a repeat sales measure (not seasonally adjusted), rose 6.6 percent in December from a year ago. For all of 2017, the index rose 5.9 percent, up from a 5.4 percent annual gain in 2016.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that construction job openings decreased 24.8 percent to 158,000 in December, according to the Bureau of Labor Statistics. The construction job openings rate fell seven-tenths to 2.2 percent. The hires rate ticked down two-tenths to 4.8 percent. The quits and layoffs rates declined to 1.8 percent and 2.4 percent, respectively.
- **Mortgage applications** increased 0.7 percent for the week ending February 2, according to the Mortgage Bankers Association. The survey's average 30-year fixed mortgage rate increased 9 basis points to 4.50 percent.

**Mortgage Demand Declines and Lending Standards Ease**



Source: Federal Reserve Board

**Overall Mortgage Market Delinquency Rates Increase for the Second Consecutive Quarter**



Source: Mortgage Bankers Association

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