



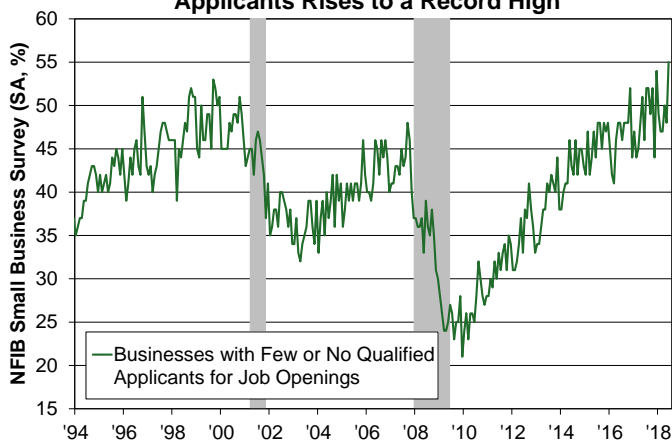
Weekly Note – July 13, 2018

### Economics: Wherefore Art Thou Workers?

The tight labor market continued to take center stage this week with releases underscoring the shortage of workers. The National Federation of Independent Business reported that small business confidence ticked down in June, falling from May's 35-year high. The most notable aspect of the report was that the share of firms reporting few or no qualified applicants for open positions surged 7 percentage points to 55 percent, a record high. Quality of labor was the single most important problem for small businesses in June, with the share of firms reporting this challenge remaining at a historically elevated level. Despite last year's tax reform, taxes continue to be the second-most important issue to small businesses. The Job Openings and Labor Turnover Survey (JOLTS), which is released with a one-month lag to the employment report, showed that the hires rate (hiring as a share of total employment) improved in May to an expansion high, while the job openings rate edged down from April's record high. Job openings continued to exceed unemployed workers for the third consecutive month. After hovering between 2.2 percent and 2.3 percent for a year, the quits rate, which is a gauge for worker confidence in the job market, edged up to 2.4 percent, an expansion best. In a more timely measure of labor market tightness, last week's initial unemployment insurance claims fell to just shy of the 48-year low reached at the end of April. On the inflation front, the Consumer Price Index (CPI) rose for the eleventh time in twelve months in June and accelerated on an annual basis for the fifth straight month, reaching its fastest pace since February 2012. Core CPI (excluding food and energy) also increased from May, pushing its annual gain to tie the expansion high. On the consumer side, consumer credit expanded in May by the fastest pace in 6 months. Both nonrevolving credit (mainly auto and student loan debt) and revolving credit (mainly credit card debt) posted the largest expansions of the year. Consumer sentiment fell for the third time in four months in July as a large drop in confidence in current conditions offset a minute increase in the consumer expectations component.

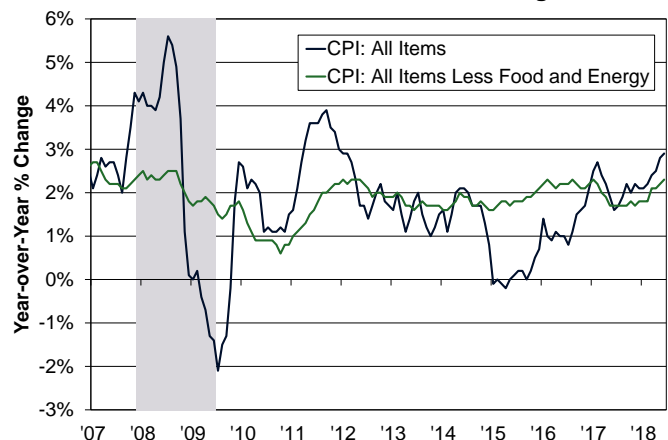
- **The National Federation of Independent Business Small Business Optimism Index** fell 0.6 points to 107.2 in June as the net share of firms expecting the economy to improve fell 4 percentage points to 33 percent.
- **The Job Openings and Labor Turnover Survey** showed that job openings decreased by 202,000 to 6.6 million in May, according to the Bureau of Labor Statistics. The job openings rate fell a tick to 4.3 percent. The hires and quits rates both rose 0.1 percent to 3.9 percent and 2.4 percent, respectively, while the layoffs rate fell to 1.1 percent.
- **The Consumer Price Index** rose by 0.1 percent in June and 2.9 percent year over year. Core prices ticked up 0.2 percent from May and 2.3 percent from a year ago. **Import prices** fell 0.4 percent in June but rose 4.3 percent annually. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.3 percent in June and 3.4 percent annually. Core PPI gained 0.3 percent from May and 2.7 percent from a year ago. The Bureau of Labor Statistics produces each of these reports.
- **The University of Michigan Consumer Sentiment Index** fell 1.1 points to 97.1 in the July preliminary reading. Short-term inflation expectations ticked down, while the long-term inflation outlook fell for the first time in eight months.
- **Consumer (non-mortgage) credit outstanding** expanded by \$24.6 billion in May, according to the Federal Reserve Board. Nonrevolving credit grew \$14.8 billion and revolving credit increased \$9.8 billion. From a year ago, nonrevolving and revolving credit rose 4.6 percent and 5.4 percent, respectively.
- **Initial claims for unemployment insurance** decreased by 18,000 to 214,000 in the week ending July 7, according to the Department of Labor. The four-week moving average declined by 1,750 to 223,000.

Share of Firms with Few or No Qualified Applicants Rises to a Record High



Source: National Federation of Independent Business

Annual Retail Inflation Moves Higher



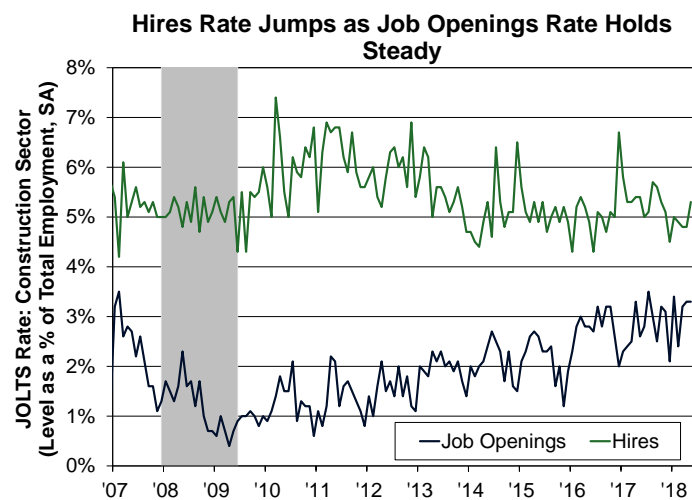
Source: Bureau of Labor Statistics



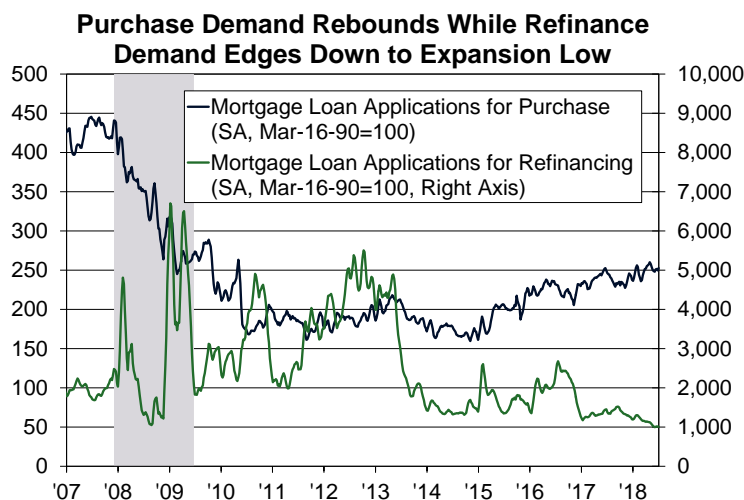
# Housing: Construction Hiring Improves Amid Increased Worker Confidence

The quiet week offered good news on purchase mortgage demand, which jumped during the first week of July to the highest level since mid-April, as mortgage rates have trended down over the past month. However, refinance applications declined for the third consecutive week to the worst showing of the expansion. Mortgage rates edged up this week, with the average 30-year fixed mortgage rate increasing 1 basis point to 4.53 percent, according to Freddie Mac. The Job Openings and Labor Turnover Survey showed that construction hiring rose sizably in May and that construction workers gained confidence in their job prospects, as the quits rate advanced for the first time this year. However, more timely news from the jobs report, released last week, revealed that construction employment growth weakened substantially in June. The slowdown was especially pronounced for residential construction workers, pointing to little relief in one key factor underlying the supply shortage that has hounded the housing market. A survey of homebuilders taken at the end of 2017 revealed that cost and availability of labor was the number one problem builders expected to face this year.

- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that construction job openings were unchanged at 243,000 in May while hires jumped 38,000 to 385,000, according to the Bureau of Labor Statistics. The job openings rate was flat at 3.3 percent, and the hires rate rose 0.5 percentage points to 5.3 percent, the highest reading since last October. The quits rate, which is a gauge for worker confidence in the labor market, rose two-tenths to 2.3 percent, bringing the quits rate to just one-tenth below the expansion high seen in early 2017.
- **Mortgage applications** rose for the first time in three weeks, increasing 2.5 percent for the week ending July 6, according to the Mortgage Bankers Association (MBA). Purchase applications jumped 6.5 percent, while refinance applications fell 3.8 percent. The average yield on MBA's survey of 30-year fixed rate mortgages fell 3 basis points to 4.76 percent, the lowest reading since the beginning of June.



Source: Bureau of Labor Statistics



Source: Mortgage Bankers Association

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