



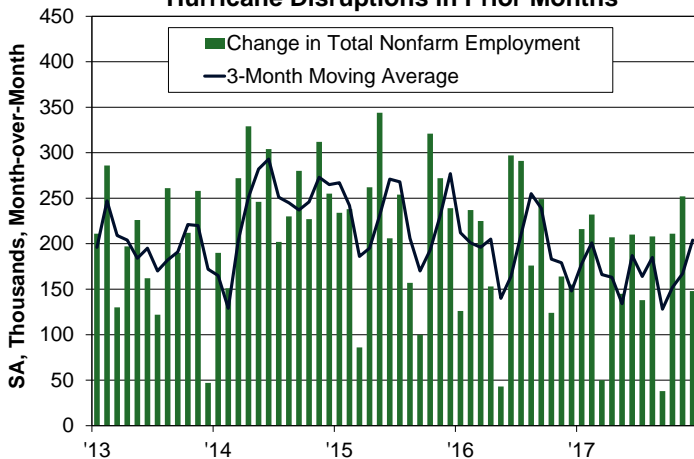
Weekly Note – January 5, 2018

Economics: Job Market Ends 2017 with a Whimper

This week featured the December jobs report, which showed that the labor market ended the year without much fanfare. Nonfarm payroll growth softened during the month from the strong back-to-back gains following hurricane disruptions. Most aspects of the report were quite pedestrian, including a flat average workweek, unemployment rate, and labor force participation rate. Annual wage growth came in near the lower end of the 2.4 percent to 2.8 percent range witnessed throughout the year. The lack of wage acceleration should support gradual monetary policy normalization. However, the [minutes](#) of the Federal Open Market Committee meeting noted that members discussed several risks that “could necessitate a steeper path of increases,” such as increased inflation due to fiscal stimulus or accommodative financial market conditions. If the recently passed tax bill incites stronger growth in capital expenditures and productivity, thereby keeping labor costs contained, we believe the Fed could still afford to be patient with its tightening. In other news, the trade deficit reached its widest point in nearly six years in November as the gain in imports outpaced the increase in exports. In good news for the manufacturing sector, factory orders rose for the fourth consecutive month in November while shipments rose for the seventh consecutive month. Additionally, a survey of manufacturing purchasing managers suggested activity picked up in December to just below September’s expansion high. However, a similar survey for the service sector reported that activity slowed for the second consecutive month. Light vehicle sales increased in December for the first time in three months. For all of 2017, sales posted the first annual drop since 2009. Finally, initial jobless claims rose last week for the third consecutive week, erasing most of the declines from the previous four weeks.

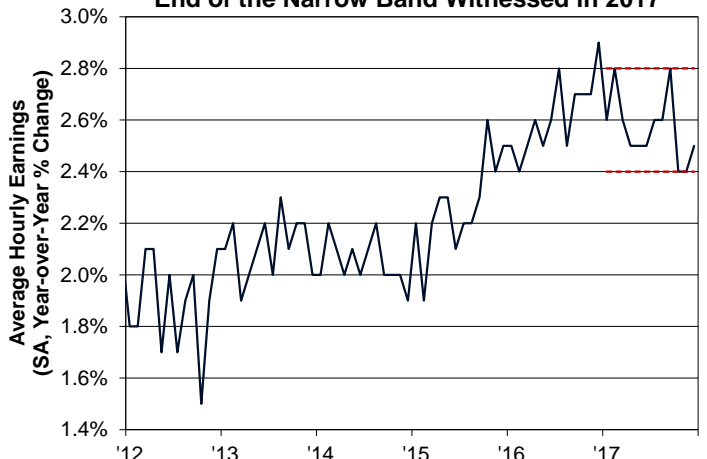
- **Nonfarm payroll employment** expanded by 148,000 in December, according to the Bureau of Labor Statistics. A small net downward revision for the prior two months put the three-month average gain at 204,000. The average workweek was static at 34.5 hours. Average hourly earnings rose 0.3 percent during the month and 2.5 percent from a year ago. The unemployment rate and the labor force participation rate were unchanged at 4.1 percent and 62.7 percent, respectively. The broadest measure of labor underutilization, the U-6 rate, edged up one-tenth to 8.1 percent.
- **The U.S. trade deficit** widened \$1.6 billion in November to \$50.5 billion, according to the Census Bureau. Exports and imports increased 2.3 percent and 2.5 percent, respectively. The inflation-adjusted goods deficit, used in the calculation of net exports in the gross domestic product estimate, widened \$1.1 billion to \$66.7 billion.
- **The Institute for Supply Management (ISM) Manufacturing Index** rose 1.5 points in December to 59.7 (any reading above 50 indicates expansion). **The ISM Nonmanufacturing Index**, a gauge of service sector activity, fell 1.5 points in December to 55.9.
- **Factory orders** rose 1.3 percent in November, while factory shipments rose 1.2 percent, according to the Census Bureau. New orders for nondurable goods, the new piece of data in the report, increased 1.4 percent.
- **Light vehicle sales** rose 1.9 percent to 17.8 million annualized units in December, according to Autodata.
- **Initial claims for unemployment insurance** increased by 3,000 to 250,000 in the week ending December 30, according to the Department of Labor. The four-week moving average rose by 3,500 to 241,750.

Hiring Moderates in December Following Hurricane Disruptions in Prior Months



Source: Bureau of Labor Statistics

Wage Growth Finishes the Year at the Lower End of the Narrow Band Witnessed in 2017



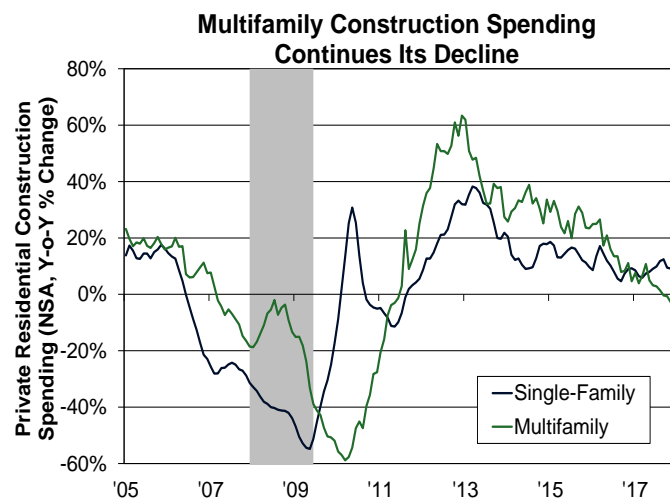
Source: Bureau of Labor Statistics



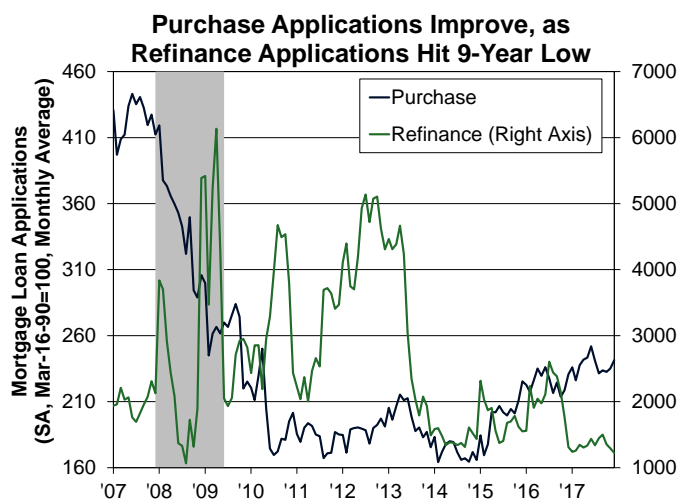
Housing: Construction Spending and Prices Stay Strong

Housing data released this week showed further improvement in residential construction spending and continued strong home price growth. Residential investment looks primed to improve in the fourth quarter for the first time in three quarters, as spending on new construction rose for the sixth straight month in November. Construction spending on new single-family properties drove the increase, posting the largest monthly gain in a year. Spending on new multifamily projects, in contrast, fell month-over-month for the sixth time in seven months and declined year-over-year for the third consecutive month after posting annual increases for the prior six years. Meanwhile, annual home price growth accelerated in November, with the CoreLogic index rising at the fastest pace since May 2014, although initial estimates of the index are prone to downward revisions in subsequent releases. The index has increased on an annual basis every month since February 2012 and is 1.2 percent higher than the pre-crisis peak set in April 2006. However, adjusting for inflation, prices are still 15.8 percent below their peak. Homes priced below the median continue to appreciate faster than homes priced above the median, but all four price tiers have now surpassed their pre-crisis peaks. Regionally, 37 states, including Washington, DC, have seen prices rise above their pre-crisis peaks. Mortgage demand edged up during the last week of the year but the average for December declined for the third consecutive month as refinance applications fell to their lowest monthly average since August 2008. Purchase applications, on the other hand, rose to the highest monthly average since June. After hitting a five-month high last week, mortgage rates fell this week, as the average 30-year fixed mortgage rate decreased 4 basis points to 3.95 percent, according to Freddie Mac.

- **Private residential construction spending** increased 1.0 percent in November, driven by a 1.9 percent gain in new single-family construction spending, according to the Census Bureau. Spending on new multifamily construction was down 1.3 percent, while spending on home improvements rose 0.7 percent. From a year ago, single-family construction spending rose 9.2 percent, compared with a decline of 2.7 percent for multifamily.
- **The CoreLogic National Home Price Index**, a repeat sales measure, rose 1.0 percent in November (not seasonally adjusted). From a year ago, the index increased 7.0 percent. Prices in the lowest price tier (75 percent or less of the median) increased 9.7 percent year-over-year, while prices in the low-to-middle price tier (between 75 and 100 percent of the median) rose 8.6 percent annually. The middle-to-moderate price tier (between 100 and 125 percent of the median) and the high price tier (greater than 125 percent of the median) posted 7.1 percent and 5.7 percent annual gains, respectively. According to the index, the state of Washington showed the largest annual gain of all states with a 12.2 percent increase, followed by Nevada with a 10.8 percent gain.
- **Mortgage applications** rose 0.7 percent for the week ending December 29, according to the Mortgage Bankers Association. Purchase applications edged down 0.1 percent as a 2.3 percent drop in conventional applications barely outweighed a 6.1 percent rise in government purchase applications. Refinance applications rose 1.4 percent, as conventional and government refinance applications increased 1.3 percent and 1.8 percent, respectively. The MBA survey's average 30-year fixed mortgage rate remained flat at 4.25 percent. For all of December, average purchase applications rose 2.7 percent, while refinance applications fell 5.3 percent.



Source: Census Bureau



Source: Mortgage Bankers Association

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January 5, 2018



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