



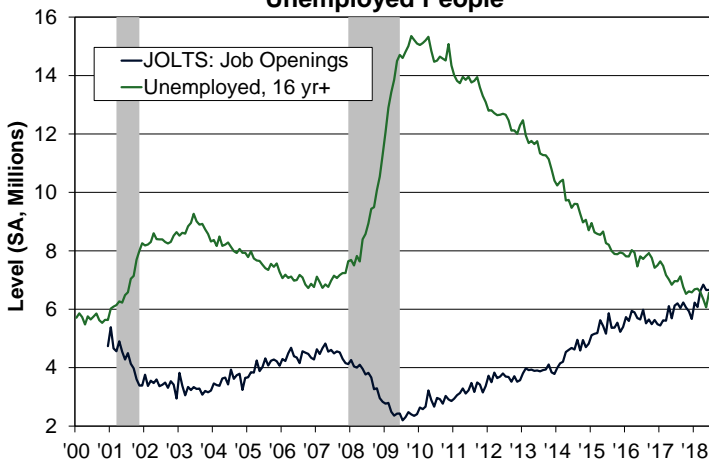
Weekly Note – August 10, 2018

### Economics: Core Inflation Hits an Expansion High

This week's data releases featured updates on inflation and the labor market. The Consumer Price Index (CPI) rose for the twelfth time in thirteen months in July, but the annual increase was unchanged at the fastest pace since February 2012. Core prices (excluding food and energy) also increased in July, pushing the annual gain to the highest level since September 2008. The Producer Price Index (PPI) was flat in July as a drop in energy prices offset the large gain in core producer prices. Steel and aluminum tariffs are already pushing up input costs, and with more tariffs in the pipeline we expect to see even stronger gains in headline inflation in the coming months. The Job Openings and Labor Turnover Survey (JOLTS), which is released with a one-month lag to the employment report, showed that job openings were virtually unchanged in June but continued to exceed unemployed workers for the fourth consecutive month. Hires ticked down from May's expansion high. Regionally, openings remained highest in the Midwest and lowest in the Northeast, while hiring is slowest in the Northeast and fastest in the South. The quits rate, a gauge of worker confidence in the job market, remained at an expansion best of 2.3 percent for the fourth consecutive month. More timely data also pointed to a tight labor market. Initial unemployment insurance claims fell last week to just shy of the 48-year low reached in mid-July. With a solid labor market and increasing inflation, we expect the Fed to continue its current path and hike rates in September and December of this year. On the consumer side, consumer credit expanded in June, driven entirely by nonrevolving credit (mainly auto and student loan debt), as revolving credit (mainly credit card debt) contracted for the first time in three months. Increasing interest rates may be weighing on credit card debt, as this type of credit is more likely to have variable rates than nonrevolving loan types. Nonrevolving credit has not declined since August 2011.

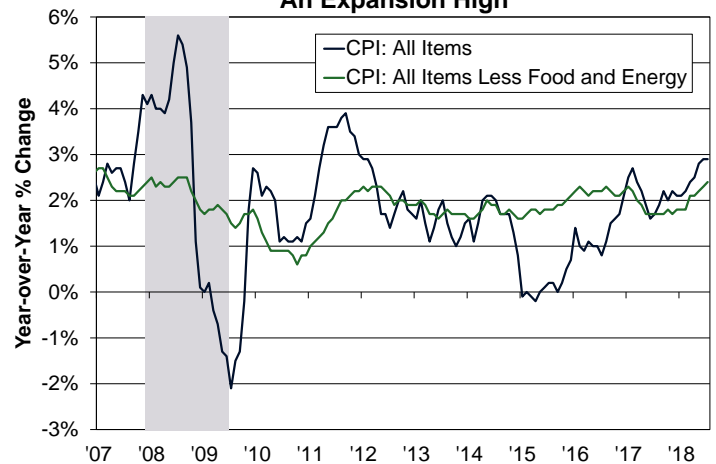
- **The Consumer Price Index** rose 0.1 percent in July and 2.9 percent year over year. Core prices ticked up 0.2 percent from June and 2.4 percent from a year ago. **The Producer Price Index** for final demand of goods and services was unchanged in July but rose 3.3 percent annually. Core PPI gained 0.3 percent from June and 2.8 percent from a year ago. The Bureau of Labor Statistics produces both of these reports.
- **The Job Openings and Labor Turnover Survey** showed that job openings increased by 3,000 to 6.7 million in June, according to the Bureau of Labor Statistics. The job openings rate was flat at 4.3 percent. The hires rate fell one-tenth to 3.8 percent, while the quits rate was unchanged at 2.3 percent. The layoffs rate rose a tick to 1.2 percent.
- **Consumer (non-mortgage) credit outstanding**, expanded by \$10.2 billion in June, according to the Federal Reserve Board. Nonrevolving credit grew \$10.4 billion, while revolving credit decreased by \$200 million. From a year ago, nonrevolving and revolving credit rose 4.7 percent and 5.0 percent, respectively.
- **Initial claims for unemployment insurance** decreased by 6,000 to 213,000 in the week ending August 4, according to the Department of Labor. The four-week moving average fell by 500 to 214,250.

**Job Openings Continue to Exceed Unemployed People**



Source: Bureau of Labor Statistics

**Core Annual Retail Inflation Hits An Expansion High**



Source: Bureau of Labor Statistics

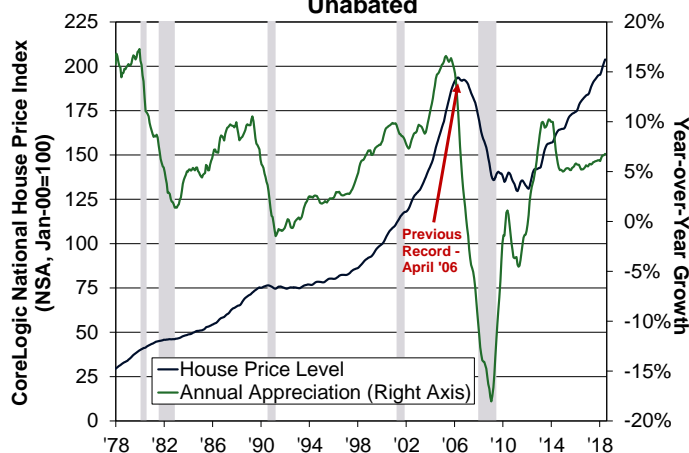


# Housing: Construction Workers Wanted; Lending Standards Ease Further amid Strong Home Price Gains

This week's housing news was mixed. A survey from the Federal Reserve showed declining demand for mortgages in the three months ending in July, consistent with other recent lackluster housing and mortgage data. The Fed survey also pointed to continued gradual easing in lending standards. Home price appreciation remained strong in June, according to the CoreLogic Home Price Index. Rapid appreciation, especially at the lower end of the price range, continues to depress home purchase affordability and restrain home sales. The Job Openings and Labor Turnover Survey provided additional evidence of shortages of qualified construction workers, as construction job openings rose in June for the fourth consecutive month to reach an expansion best, but hiring fell for the first time in three months. Mortgage demand was bearish last week, declining for the fourth straight week, as purchase applications fell to the lowest level since mid-February and refinance demand decreased to an expansion low. Lastly, Freddie Mac's survey showed that the average yield on 30-year fixed-rate mortgages fell one tick to 4.59 percent this week, the first drop in 3 weeks.

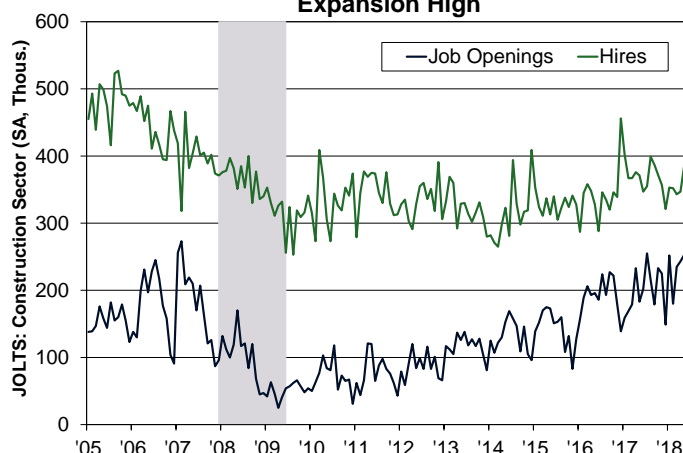
- **The Federal Reserve Board Senior Loan Officer Opinion Survey** for the three months ending in July showed a modest net easing in lending standards for residential mortgage loans across most residential loan categories. Banks reported moderately weaker demand across all residential loan categories, including home equity lines of credit. Standards on commercial real estate loans were largely unchanged, while demand for multifamily and construction loans weakened modestly.
- **The CoreLogic National Home Price Index**, a repeat sales measure, rose 0.7 percent in June (not seasonally adjusted). From a year ago, the index increased 6.8 percent. The index has posted annual increases since February 2012 and was 5.2 percent higher in June than its previous peak in April 2006. However, adjusting for inflation, prices remain 13.3 percent below the prior peak. Four states—Nevada, Washington, Idaho, and Utah—recorded double-digit year-over-year increases. Connecticut home prices were still 17.6 percent below the July 2006 peak, the worst performance in the nation. Home prices appreciated the most in the lowest price tier (75 percent or less of the median home price) and the low- to middle-price tier (between 75 and 100 percent of the median), which showed annual increases of 9.4 percent and 8.1 percent, respectively.
- **The Job Openings and Labor Turnover Survey** showed that construction job openings rose 4.0 percent to 263,000 in June, according to the Bureau of Labor Statistics. The job openings rate ticked up to 3.5 percent, marking the fourth consecutive monthly rise to tie the expansion best registered last July. The hires rate edged down two-tenths to 5.1 percent. The quits rate held steady at 2.2 percent, while the layoffs rate picked up to 2.6 percent from 2.2 percent.
- **Mortgage applications** fell 3.0 percent for the week ending August 3, according to the Mortgage Bankers Association. Purchase applications dropped for the fourth consecutive week, declining 2.0 percent. Refinance applications decreased 4.5 percent following a 1.7 percent drop in the prior week. The average 30-year fixed mortgage rate held steady at 4.84 percent

**Strong Home Price Growth Continues Unabated**



Source: CoreLogic

**Construction Job Openings Rise to an Expansion High**



Source: Bureau of Labor Statistics

Rebecca Meeker and Orawin Velz  
Economic and Strategic Research Group  
August 10, 2018



*Opinions, analyses, estimates, forecasts and other views of Fannie Mae's Economic and Strategic Research (ESR) Group included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the ESR group bases its opinions, analyses, estimates, forecasts and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts and other views published by the ESR group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.*