



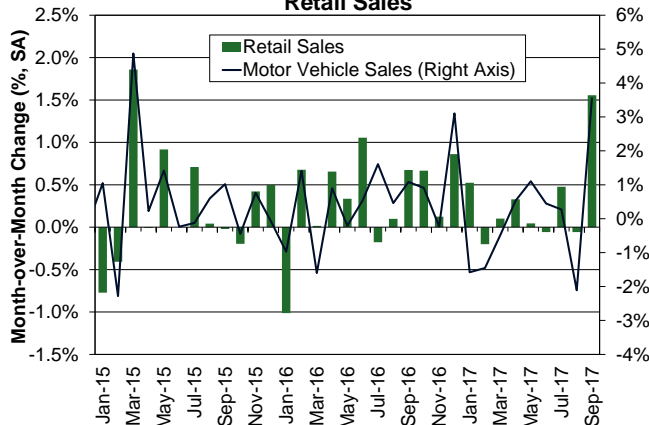
Weekly Note – October 13, 2017

Economics: Headline Retail Sales and Inflation Jump

Economic data released this week continued to reflect hurricane impacts. September retail sales posted the largest monthly jump since March 2015, boosted by sizable gains in components most likely to benefit from the hurricane recovery effort: vehicle and parts sales, gas station sales, and building materials sales. However, core retail sales, which exclude those three components and are used to estimate consumer spending for goods in gross domestic product, also posted a solid increase. Encouragingly, the data for headline and core sales from July and August were revised upward. The hurricanes also affected inflation, as the Consumer Price Index (CPI) posted the strongest monthly increase in September since January. The disruption to oil and gas production from Harvey likely contributed to the largest monthly rise in energy prices of this expansion, helping to push the annual growth in the CPI to the fastest pace in five months. However, annual growth in core CPI, which excludes food and energy prices, was stuck at a meager 1.7 percent for the fifth consecutive month. The [minutes](#) from the September Federal Open Market Committee (FOMC) meeting showed that while “many” participants see another rate hike this year to be appropriate if the near-term outlook is unchanged, “several others” noted they would like to see evidence in the coming months that inflation was “moving up toward the Committee’s objective” before raising the federal funds rate. The September CPI report, however, showed no signs of firming inflation outside of the hurricane impacts. Still, two more CPI reports will be released before the December FOMC meeting. In other news this week, optimism among small business owners fell in September to the lowest level since last November after the largest monthly drop in over two years. Consumer sentiment, in contrast, jumped to a 13-year high in early October. The number of job openings ticked down in August from a record high but the job openings rate remained at an expansion high. Finally, initial claims for unemployment insurance continued to normalize after the hurricanes, returning to just 7,000 above the pre-hurricane level after a spike of 62,000 immediately following Hurricane Harvey’s landfall.

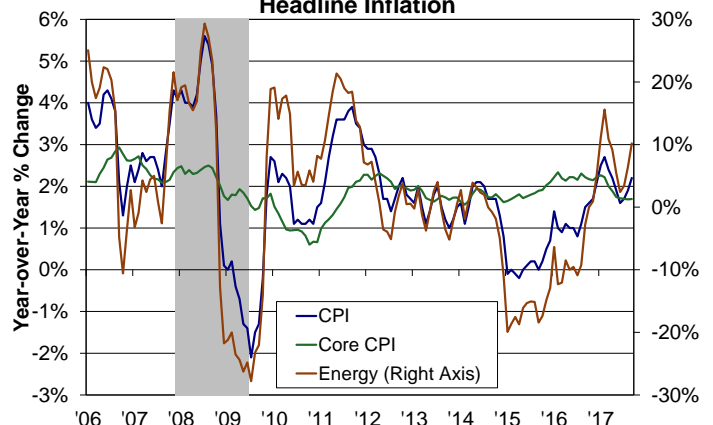
- **Retail sales** jumped 1.6 percent in September, according to the Census Bureau. Motor vehicle and parts sales increased 3.6 percent. Building materials and garden equipment sales rose 2.1 percent. Gasoline station sales gained 5.8 percent. Core retail sales rose 0.4 percent. Headline and core sales were revised upward for the past two months.
- **The Consumer Price Index (CPI)** rose 0.5 percent in September. The annual rise accelerated to 2.2 percent. Core CPI rose 0.1 percent from August and 1.7 percent from a year ago. **The Producer Price Index (PPI)** for final demand of goods and services and core PPI both increased 0.4 percent in September. From a year ago, headline and core PPI rose 2.6 percent and 2.2 percent, respectively. The Bureau of Labor Statistics produces both reports.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** fell 2.3 points to 103.0 in September. The share of firms expecting the economy to improve fell 6 percentage points to 31 percent.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings edged down 0.9 percent in August to 6.08 million, according to the Bureau of Labor Statistics. The job openings rate was flat at 4.0 percent. The hires rate ticked down one-tenth to 3.7 percent. The quits rate also edged down one-tenth to 2.1 percent.
- **The University of Michigan Consumer Sentiment Index** rose 6.0 points to 101.1 in the October preliminary reading. Both the expectations and current conditions components improved during the month.
- **Initial claims for unemployment insurance** decreased by 15,000 to 243,000 in the week ending October 7, according to the Department of Labor. The four-week moving average decreased by 9,500 to 257,500.

Jump in Vehicle Sales Boosts Retail Sales



Source: Census Bureau

Rise in Energy Prices Lifts Annual Growth in Headline Inflation



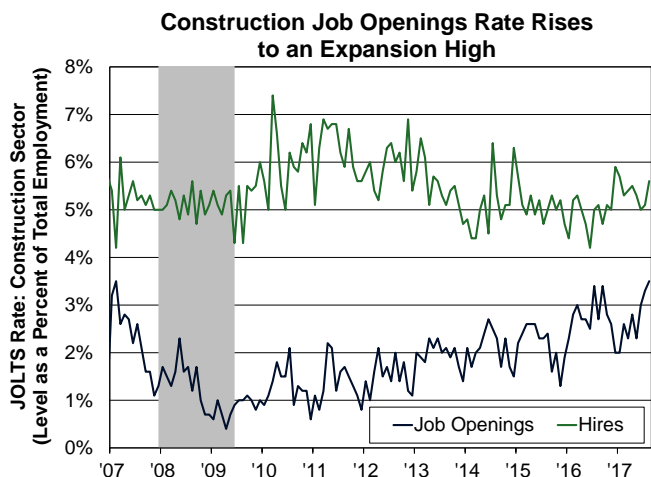
Source: Bureau of Labor Statistics



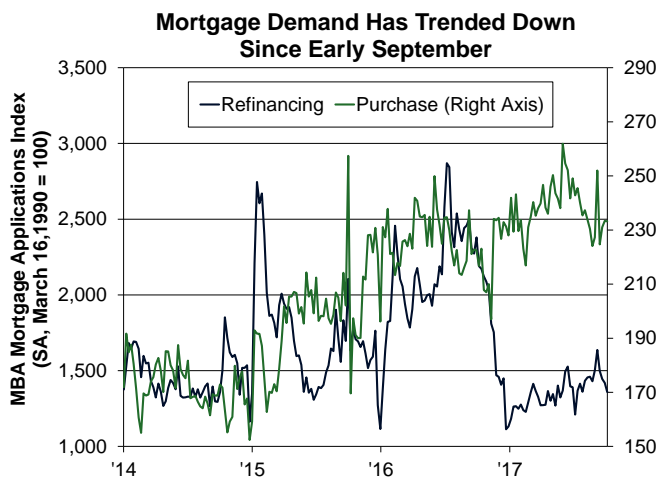
Housing: Demand for Construction Workers Rises to Expansion High

This week's sparse housing news highlighted August data on job openings and hiring for the construction industry from the Job Openings and Labor Turnover Survey (JOLTS). It appears that Hurricane Harvey, which made landfall late in the month, had little impact on the labor market. The job openings rate for construction workers rose for the third consecutive month to reach an expansion high. Meanwhile, the hires rate jumped to the highest reading since January, consistent with the increase in construction payrolls in the August jobs report. Hurricane Irma, which made landfall in September, likely weighed on hiring in September's JOLTS, presaged by the soft gain in construction payrolls in the September employment report released last Friday. Given the need for significant structural repairs from hurricane damage in both Texas and Florida, as well as the need for total rebuilding from the Northern California wildfires, we expect job openings for construction workers to remain elevated for the rest of the year. Unfortunately, ongoing shortages of skilled labor will likely hamper rebuilding efforts and also continue to drag on residential construction activity across the nation. News was bearish on the mortgage demand front, as rising mortgage rates led to pullbacks in both purchase and refinance mortgage applications last week, continuing downtrends from recent highs recorded during the second week of September. Freddie Mac's weekly survey showed that the average yield on 30-year fixed-rate mortgages increased further this week, rising 6 basis points to 3.91 percent, the highest level since early September.

- **The Job Openings and Labor Turnover Survey (JOLTS) showed that construction job openings** increased 4.2 percent to 247,000 in August, the highest level since February 2007, according to the Bureau of Labor Statistics. The job openings rate (job openings as a percent of construction employment) rose two-tenths to 3.5 percent, also the highest reading since February 2007. The hires rate jumped 0.5 percentage points to 5.6 percent. The quits rate remained at 2.0 percent for the third consecutive month, 0.4 percentage points below its expansion best reached earlier this year.
- **Mortgage applications** fell 2.1 percent for the week ending October 6, according to the Mortgage Bankers Association. Purchase applications were little changed, edging down 0.1 percent. Conventional purchase applications increased 0.7 percent, not enough to offset a 2.4 percent drop in government applications. Refinance applications decreased for the fourth consecutive week, falling 4.2 percent. Conventional refinance demand fell 7.1 percent, outweighing a 10.3 percent rise in the government segment. The average contract interest rate for 30-year fixed-rate mortgages increased 4 basis points to 4.16 percent.



Source: Bureau of Labor Statistics



Source: Mortgage Bankers Association

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