



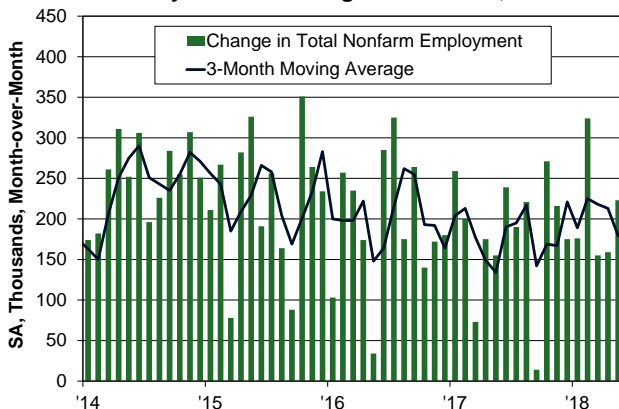
### Weekly Note – June 1, 2018

## Economics: Oh Happy Day for Jobs in May!

A near perfect May jobs report stole the show this week, portraying a solid labor market, with strong, broad-based job gains and upward revisions. Wage growth also posted the largest monthly gain since January, but the annual increase showed no signs of breaking out, staying within the tight range of between 2.6 percent and 2.8 percent seen since December. The unemployment rate edged down to the lowest level in 18 years, with a record low rate for African Americans, while the broadest measure of labor underutilization (U-6) declined to the best showing in 17 years. One little blemish is the third consecutive drop in the labor force participation rate. The report revealed a ramp up in construction workers, which is a positive for housing supply, but with such strong total job growth, we expect new supply to struggle to keep up with strengthening demand. Overall, the report should not signal any alarm to the Fed, and we continue to expect the Fed to raise the federal funds rate one more time this year after a hike at the upcoming Fed meeting on June 13. Following the path of wages, inflation continued to edge up in April. The Fed's preferred measure of inflation, the personal consumption expenditures (PCE) deflator, rose the most in three months but the annual increase remained at the Fed's 2.0 percent target for the second consecutive month. On the consumer front, real spending posted the second straight month of sizable gains in April, suggesting real consumer spending growth will likely pick up to more than 3.0 percent annualized this quarter from first quarter's 1.0 percent. The rise in spending outpaced the increase in disposable income, pushing the saving rate down to just shy of December's expansion low. Consumer confidence improved in May to just two points below the expansion high reached earlier this year. In other news, the second print of first quarter real GDP growth showed a one-tenth downgrade. Corporate profits, the new piece of data in the report, fell for the second straight period. However, after-tax profits jumped, showing the biggest increase in two years, thanks to the Tax Act. Finally, a survey of manufacturing purchasing managers indicated a faster pace of expansion in May for the first time in three months.

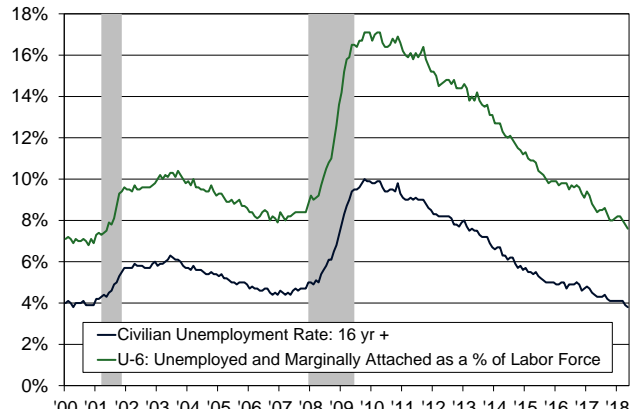
- **Nonfarm payroll employment** expanded by 223,000 in May, according to the Bureau of Labor Statistics. The three-month average gain slowed to 179,000 from 213,000 in April. Job gains the prior two months were revised up 15,000 on net. The unemployment rate and the labor force participation rate both fell one-tenth to 3.8 percent and 62.7 percent, respectively. The U-6 rate fell two-tenths to 7.6 percent. The average workweek was flat at 34.5 hours. Average hourly earnings increased 0.3 percent in May and 2.7 percent from a year ago.
- **Gross domestic product**, adjusted for inflation, expanded 2.2 percent annualized in Q1 2018, according to the second estimate from the Bureau of Economic Analysis. Nonresidential fixed investment was revised up, contributing 1.1 percentage points to growth. While all other components were revised downward, residential fixed investment was the only component to drag on first quarter growth. Corporate profits fell 0.6 percent (not annualized) from the prior quarter and 4.3 percent from the prior year. Profits for domestic firms fell, while profits earned abroad increased.
- **Personal income**, adjusted for inflation, increased 0.1 percent in April, while real disposable income grew by 0.2 percent, according to the Bureau of Economic Analysis. The personal saving rate ticked down two-tenths to 2.8 percent. The PCE deflator rose 0.2 percent from March and 2.0 percent from last year. The core deflator (excluding food and energy) also rose 0.2 percent during the month and 1.8 percent year-over-year.
- **The Conference Board Consumer Confidence Index** rose 2.4 points in May to 128.0. Both the present situation and expectations components improved for the first time in three months.
- **The ISM Manufacturing Index** increased 1.4 points in May to 58.7 (any reading above 50 indicates expansion).

#### May Job Gains Surge To Over 200,000



Source: Bureau of Labor Statistics

#### Unemployment Rate Falls to 18-Year Low



Source: Bureau of Labor Statistics

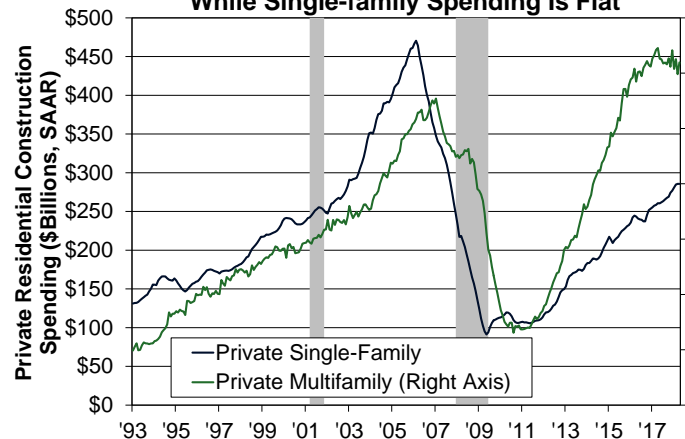


## Housing: A Muddled Near-Term Outlook

Housing data released this week featured updates on residential construction spending and the outlook for homes sales entering the summer selling season. Total private residential construction spending in April registered the largest gain since 1993, rebounding from the largest monthly decline of the expansion in March. Sizable recoveries in new multifamily spending and home improvement spending drove the increase, as spending on new single-family construction was flat during the month. The annual trends in construction spending tell a different story, however, as single-family spending continues to rise year over year, while multifamily spending has declined annually every month so far in 2018. The monthly gain in construction spending is positive for the outlook for second quarter residential investment, especially after residential investment dragged on economic growth in the first quarter for the third time in four quarters. The existing home sales market continues to struggle with the shortage of homes for sale. The National Association of REALTORS® (NAR) Pending Home Sales Index, which records contract signings of existing homes and typically leads closings by one to two months, fell in April for the first time in three months and declined on an annual basis for the fourth consecutive month. According to the NAR, realtors reported that home buying demand was robust. Listings were typically going under contract in under a month, and multiple offers were increasingly common, pushing prices higher. This dynamic of limited supply amid strong demand was reflected in the March reading of the S&P CoreLogic Case-Shiller National Home Price Index, which remained at the strongest annual growth rate since May 2014. Another leading indicator for home sales, the monthly average of purchase mortgage applications, declined in May after rising to the highest level since October 2009 in April, as purchase applications declined in every week of the month. Refinance applications also declined in every week of May, dragging the monthly average of refinance applications to the lowest level since December 2000. Finally, mortgage rates fell this week for the first time in four weeks, dropping 10 basis points to 4.56 percent, according to Freddie Mac. The weekly drop was the largest since April 2017.

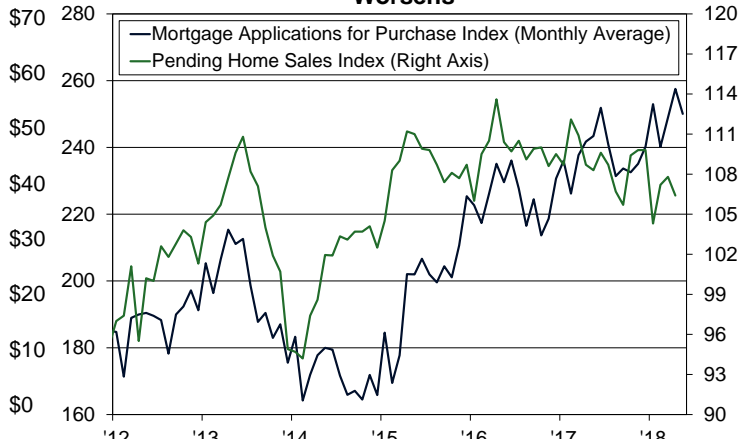
- **Private residential construction spending** rose 4.5 percent in April, according to the Census Bureau. Spending on new multifamily building increased 3.6 percent, while new single-family construction spending was unchanged. Home improvement spending jumped 11.6 percent during the month. From a year ago, multifamily spending declined 4.1 percent, while single-family spending rose 9.6 percent.
- **The National Association of REALTORS® Pending Home Sales Index** fell 1.3 percent in April. The March gain was revised upward slightly. The index declined 2.1 percent from a year ago. Regionally, pending sales declined on a monthly basis in the Midwest, South, and West and were flat in the Northeast.
- **The S&P CoreLogic Case-Shiller National Home Price Index** (not seasonally adjusted) rose 0.8 percent in March. The index increased 6.5 percent from March 2017, the same annual growth rate as in February.
- **Mortgage applications** declined 2.9 percent for the week ending May 25, according to the Mortgage Bankers Association (MBA). Purchase applications fell 1.9 percent, and refinance applications dropped 4.7 percent. Both conventional and government applications decreased for each loan type. The MBA survey's average 30-year fixed mortgage rate slipped two basis points to 4.84 percent.

**Multifamily Construction Spending Rebounds, While Single-family Spending Is Flat**



Source: Census Bureau

**Near-Term Outlook for Home Sales Worsens**



Source: NAR & MBA

Frank Shaw and Rebecca Meeker  
Economic and Strategic Research Group  
June 1, 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.*