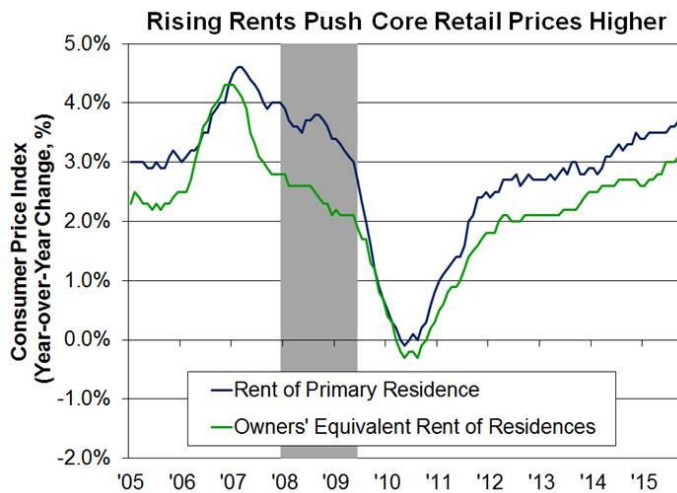


Economics: Despite Weakening Retail Sales, Consumers Should Still Bring It

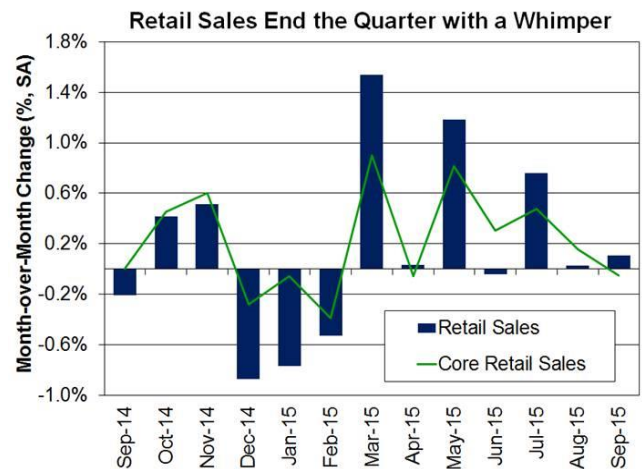
This week's economic reports underscore the impact of declining energy prices. Both the headline Consumer Price Index (CPI) and Producer Price Index (PPI) posted the largest drop since January 2015 as energy prices plummeted. On the retail inflation front, the increase in the service segment of the CPI more than offset the weakness in core goods. Shelter costs continue to build momentum, as strong rental demand amid low vacancy rates pushed rents higher. On the spending side, after a promising start for Q3 2015, core retail sales, an input used to estimate consumer spending on goods, fell in September for the first time since April. However, retail sales don't tell the whole story as they exclude spending on services, which accounts for about two-thirds of overall spending and has risen at a healthy clip. Real consumer spending growth likely came in close to the 3.6 percent annualized pace in Q2. Current consumer fundamentals are positive. Sentiment rose in early October for the first time in four months amid declining gasoline prices and fading stock market turmoil, and jobless claims trended down to the lowest level since 1973. On a weak note, September manufacturing output fell again, as the sector continues to feel the impact of weakening global growth and the strong dollar, and mining output dropped for the first time in four months.

- **Retail sales** edged up 0.1 percent in September, according to the Census Bureau. Core sales (excluding autos, building materials, and gas stations sales) edged down 0.1 percent on the heels of downward revisions in the prior two months. Sales of motor vehicles and parts and sales at bars and restaurants were up, while gas station and non-store sales were down.
- **The Consumer Price Index (CPI)** fell 0.2 percent in September, held down by the largest drop in energy prices since January. Core CPI rose 0.2 percent from August and 1.9 percent from a year ago. Owners-equivalent rent rose 0.3 percent from August and is up 3.1 percent from last September, the largest annual gain since July 2007. Rent jumped 0.4 percent during the month and 3.7 percent from a year ago, the biggest annual increase since October 2008. **The Producer Price Index (PPI)** fell 0.5 percent in September, driven by the plunge in energy prices. Core PPI dropped 0.3 percent from August but rose 0.8 percent from last September. (Both the CPI and PPI are from the Bureau of Labor Statistics.)
- **The Job Opening and Labor Turnover Survey (JOLTS)** showed that the job opening rate edged down two-tenths to 3.6 percent as the hire rate held steady at 3.6 percent in August, according to the Bureau of Labor Statistics.
- **Industrial Production** fell 0.2 percent in September, according to the Federal Reserve Board, as 0.2 percent and 2.1 percent drops in manufacturing and mining output, respectively, outweighed a 1.3 percent gain in utility output.
- **The National Federation of Independent Business (NFIB) Small Business Index** rose 0.2 points to 96.1 in September. Despite increasing for three consecutive months, the index has failed to fully recoup the 4.2-point decline in June.
- **The University of Michigan Consumer Sentiment Index** rose 4.9 points in early October, boosted by improvement in both the current and expectations components, as gasoline prices declined and stock market turmoil faded.

➤ **Initial claims for unemployment insurance** fell 7,000 to 255,000 in the week ending October 10, 2015, according to the Department of Labor. The four-week moving average decreased by 2,250 to 265,000.



Source: Bureau of the Labor Statistics



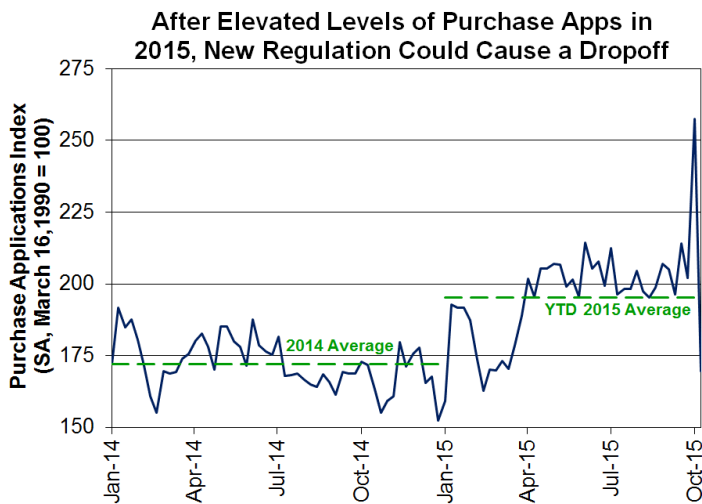
Source: Census Bureau

Housing: Mortgage Applications Re-enter Earth's Atmosphere

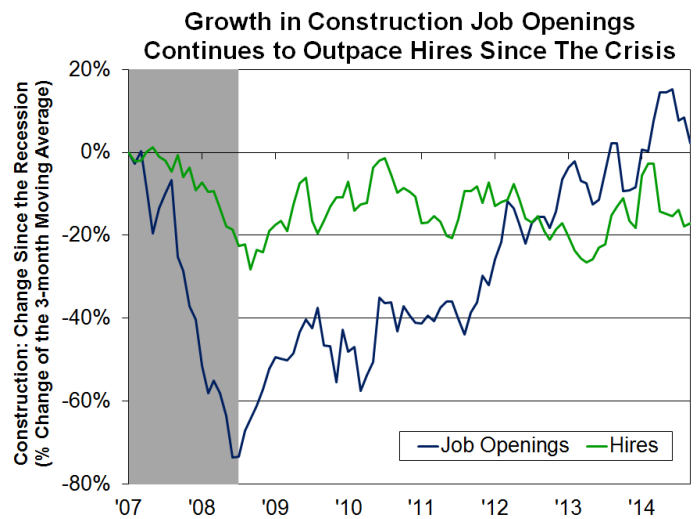
The sparse housing data released this week helped add insight into recent developments on both the demand and supply sides of the housing market. For demand, mortgage applications predictably returned to earth after skyrocketing last week as lenders rushed to file applications before the implementation of the new TILA-RESPA Integrated Disclosure (TRID) rules, designed to protect the consumer from surprises at closing. The new regulation caused lenders to adjust to new systems and markedly change their business processes, which will slow the pace of lending activity, according to the Mortgage Bankers Association. Recent purchase activity prior to the new rule improved substantially from last year, with applications between May 2015 and the first week of October 2015 coming in about 19 percent higher than the same period in 2014. However, the payback last week caused purchase applications to fall below last year's level for the first time since February 2015. We expect applications to be volatile until lenders adjust to the new rule. Over the mid-term, fundamentals are positive for mortgage demand as mortgage rates have remained below the 4.0 percent mark for the past three months, even as Freddie Mac's survey showed a six-basis-point rise in the 30-year fixed mortgage rate this week to 3.82 percent. On the supply side, a lack of skilled construction workers is wreaking havoc on the home building process, according to surveys of builders and other anecdotal evidence reported in the press. The Job Openings and Labor Turnover Survey (JOLTS) by the Bureau of Labor Statistics provided some supporting evidence of the labor shortage. While job openings for the industry have fully recovered from the crisis, hiring has continued to lag. Without the desired manpower, builders are facing increasing delays and rising costs. These factors may further restrict building activity, which has been disappointing so far this year. Alternatively, the rising costs may be passed through to home buyers in the form of higher house prices.

➤ **Job openings in private construction** declined 1.4 percent in August, according to the JOLTS. As a share of total employment, the construction job openings rate remained unchanged at 2.1 percent for the third straight month. The hiring rate reversed the previous month's fall, rising 0.4 percentage points to 5.1 percent. The quits rate fell for the third time in four months, suggesting workers' confidence in the construction labor market is declining.

➤ **Mortgage applications** lost all of the gains from last week's spike, falling 27.6 percent in the week ending October 9, according to the Mortgage Bankers Association. Purchase applications plunged after spiking by 27.4 percent the previous week, falling 34.1 percent as both conventional and government loans dropped dramatically. Refinancing applications fell 22.5 percent, the largest drop this year. The survey's mortgage rate was unchanged from last week, remaining at 3.99 percent.



Source: Mortgage Bankers Association



Source: Bureau of Labor Statistics

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 October 16, 2015

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