



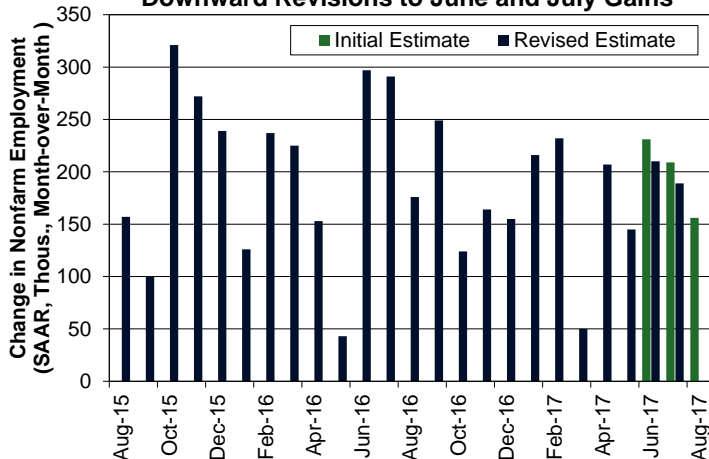
Weekly Note – September 1, 2017

Economics: A Hiccup for the Labor Market

The August jobs report showed broad-based softening as job gains weakened amid sizable downward revisions, the average workweek declined, and annual wage growth remained stuck at 2.5 percent for the fifth consecutive month. Other key metrics also disappointed, as the unemployment rate ticked up amid a flat labor force participation rate. However, these numbers followed strong results for recent months, and the three-month average monthly job gain of 185,000 points to a continued healthy labor market. Although nominal wage gains haven't accelerated, declining inflation this year is a positive for workers. In July, year-over-year growth in the Fed's preferred measure of inflation, the personal consumption expenditures (PCE) deflator, remained six-tenths below the two-percent target. Second quarter economic growth was revised upward in the second estimate to a 3.0 percent annualized pace, marking only the ninth time of three percent or faster growth in this expansion. Upward revisions to consumer spending and business fixed investment boosted growth. Corporate profits, the new piece of data in the report, rose in the second quarter after declining the prior quarter. Profit increases for domestic and nonfinancial firms drove the gain. Looking ahead to the third quarter, consumer spending rose for the fifth consecutive month in July. Consumer confidence improved in August, as both the University of Michigan and the Conference Board indices rebounded to just below expansion highs. Finally, the manufacturing sector expanded in August at the fastest pace in over five years, according to a survey of purchasing managers.

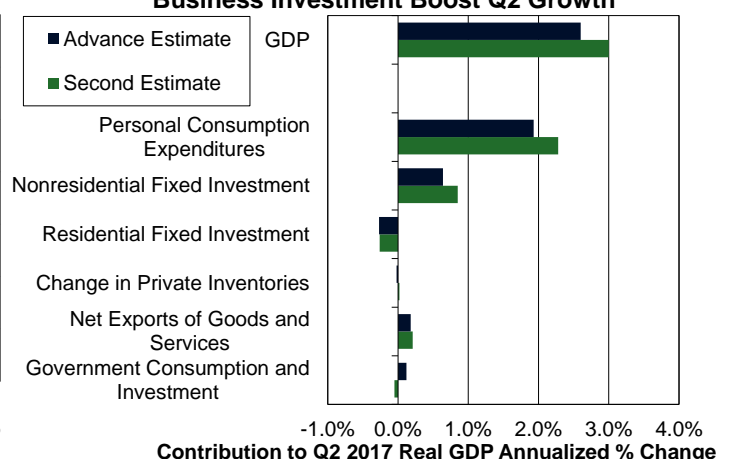
- **Nonfarm payroll employment** increased 156,000 in August, according to the Bureau of Labor Statistics. The three-month average gain accelerated to 185,000 from 181,000 in July. Job gains from the prior two months were revised downward 41,000, on net. The average workweek ticked down one-tenth to 34.4 hours. Average weekly earnings increased 0.1 percent from July and 2.5 percent from a year ago. The unemployment rate ticked up one-tenth to 4.4 percent, as the labor force participation rate was unchanged at 62.9 percent. The broadest measure of labor underutilization, the U-6 rate, was unchanged at 8.6 percent.
- **Gross domestic product (GDP)**, adjusted for inflation, expanded 3.0 percent in Q2 2017, according to the second estimate from the Bureau of Economic Analysis. Real PCE was revised upward, contributing 2.3 percentage points to growth. Business fixed investment also saw upward revisions, while government spending was revised downward. There were minor revisions to the other main components of GDP: residential fixed investment, the change in inventories, and net exports. Corporate profits rose by 1.3 percent (not annualized) from the prior quarter and 7.0 percent from Q2 2016. Profits for domestic firms increased, while profits earned abroad fell.
- **Personal income**, adjusted for inflation, increased 0.3 percent in July, according to the Bureau of Economic Analysis. Real PCE improved 0.2 percent. The personal saving rate ticked down one-tenth to 3.5 percent. Both the PCE and core (excluding food and energy) PCE deflators rose 0.1 percent from a month ago and 1.4 percent from a year ago.
- **The University of Michigan Consumer Sentiment Index** improved 3.4 points to 96.8 in the final August reading. **The Conference Board Consumer Confidence Index** rose 2.9 points to 122.9 in August.
- **The Institute for Supply Management (ISM) Manufacturing Index** increased 2.5 points in August to 58.8 (any reading above 50 indicates expansion). The employment component jumped to its highest level since June 2011.

Job Creation Slows in August and Sees Hefty Downward Revisions to June and July Gains



Source: Bureau of Labor Statistics

Upward Revisions to Consumer Spending and Business Investment Boost Q2 Growth



Source: Bureau of Economic Analysis

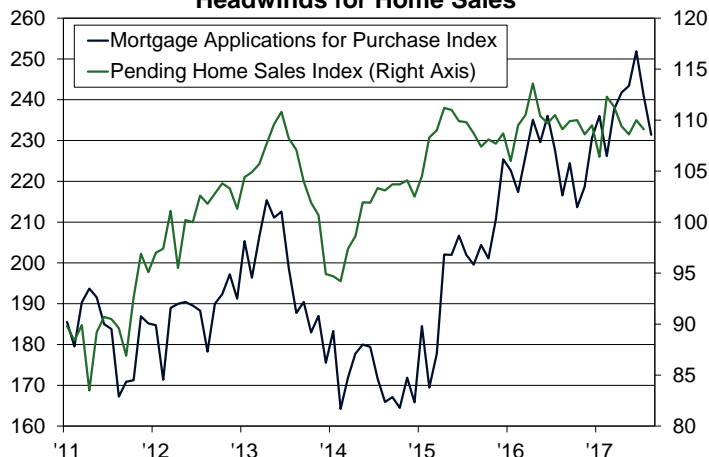


Housing: Lackluster Home Sales Expected This Quarter

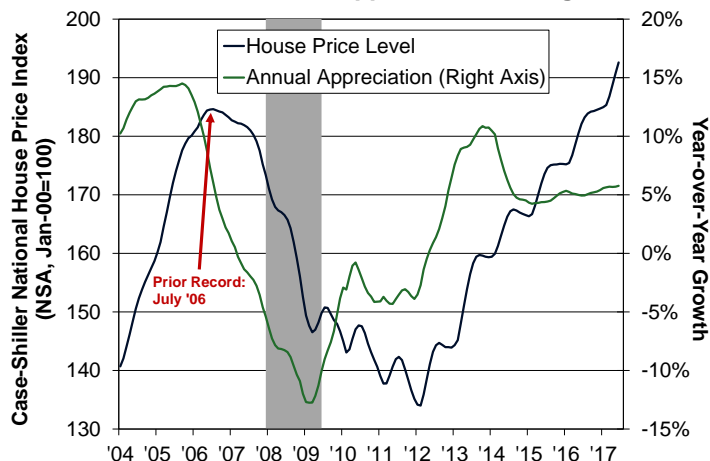
This week's data provided additional bearish news for home sales this quarter. Following last week's report that existing home sales fell in July to the weakest pace since last August, this week's news revealed that pending home sales, which record contract signings of existing homes and typically lead closings by one to two months, fell in July and have dropped on a year-over-year basis in three of the last four months. Another leading indicator of home sales, purchase mortgage applications, fell last week for the third straight week. For all of August, purchase demand dropped for the second consecutive month. Combined with an expected decline in housing activity in the Houston region, forward-looking indicators point to weak home sales over the next few months. While extremely lean inventory has restrained home sales, it continues to support home prices, with the Case-Shiller house price index showing the fastest pace of annual gain in three years. Lastly, construction spending for residential properties rose in July, thanks to gains in the single-family and home improvement segments. Spending on new multifamily construction remained weak, declining for the third consecutive month. Overall, this week's reports suggest that, after declining sharply in the second quarter, a meaningful rebound in real residential investment this quarter is unlikely. Mortgage rates will remain supportive for the housing market, however. The average yield on 30-year fixed rate mortgages fell 4 basis points this week to 3.82 percent, according to Freddie Mac. Throughout August, rates remained below 4.0 percent for the third consecutive month.

- **Private residential construction spending** rose 0.8 percent in July, according to the Census Bureau. Spending on new single-family construction advanced for the second consecutive month, increasing 0.8 percent. Spending on new multifamily construction dropped 0.8 percent, while spending on improvements rose 1.4 percent. On a year-over-year basis, spending for new single-family and multifamily construction increased 10.3 percent and 1.1 percent, respectively.
- **The National Association of REALTORS® Pending Home Sales Index** edged down 0.8 percent in July. June's data were revised lower from a 1.5 percent rise to a 1.3 percent gain. From a year ago, the index fell 1.3 percent. The West was the only region seeing gains in sales.
- **The S&P/Case-Schiller National Home Price Index** (not seasonally adjusted) rose 0.9 percent in the three months ending in June. From a year ago, prices rose 5.8 percent, according to the index, the biggest year-over-year gain since June 2014. The index has surpassed its pre-crisis peak by 4.3 percent.
- **Mortgage applications** fell 2.3 percent for the week ending August 25, according to the Mortgage Bankers Association. Purchase applications dropped 2.7 percent from the prior week. This marks the third consecutive weekly decline, sending applications to the lowest level since mid-February. Refinance applications fell for the first time in four weeks, dropping 2.0 percent. The average contract interest rate for 30-year fixed-rate mortgages fell 2 basis points to 4.11 percent, the lowest level since last November. For all of August, purchase mortgage applications declined 4.0 percent following a 4.3 percent drop in July. Refinance applications rose 8.0 percent in August, more than offsetting the 6.8 percent decrease in the prior month.

Leading Indicators Point to Near-Term Headwinds for Home Sales



Annual Home Price Appreciation Strengthens



Source: National Association of REALTORS®, Mortgage Bankers Association

Source: Standard and Poor's

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Economic and Strategic Research Group
September 1, 2017



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