



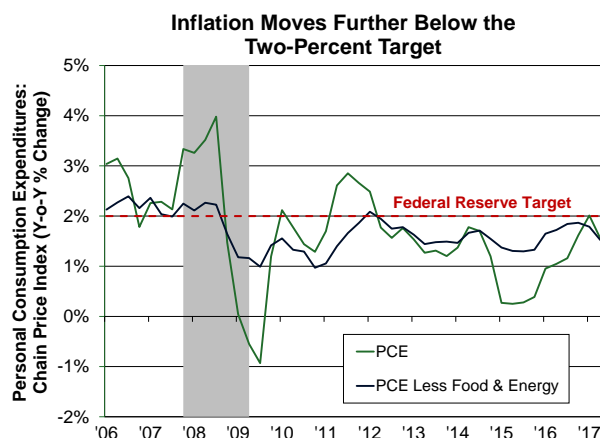
Weekly Note – August 4, 2017

Economics: Lackluster Spending amid Solid Job Market

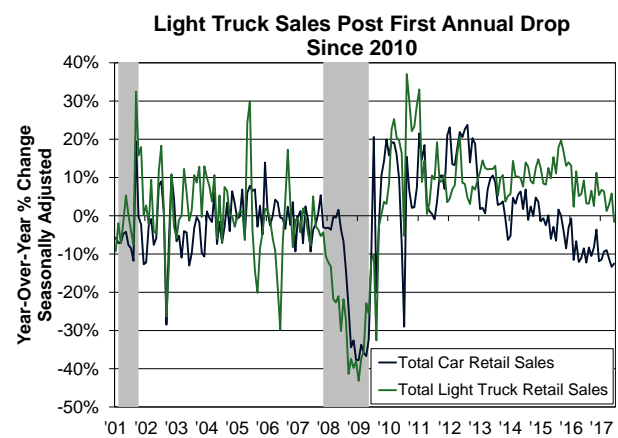
This week's news featured the July job report, which offered more evidence of a strong labor market. Job gains were solid and broad-based, and a slight upward revision put average monthly hiring over the past three months at 195,000, the biggest gain since February. The downtick in the unemployment rate amid a rise in the labor force participation rate sweetened the report. Average hourly earnings posted a decent gain during the month, but the annual wage increase remained unchanged at 2.5 percent and stayed within the narrow range of 2.5 percent to 2.8 percent witnessed so far this year. While annual wage increases have been relatively stable, inflation has trended down. The personal income and personal consumption expenditures (PCE) report showed that the Fed's favored measure of inflation—the PCE Deflator—was flat in June. The annual increase slowed further to 1.4 percent, from as high as 2.2 percent in February. Despite muted inflation, both real consumer spending and real personal income ended the second quarter on a weak note. Furthermore, the saving rate was revised substantially lower, showing less support for consumers than previously believed. Flat real consumer spending indicated weakening momentum heading into this quarter. Auto sales ticked up in July but have posted annual drops every month this year, with truck sales falling year-over-year for the first time since 2010. Lastly, the ISM surveys showed expansion in both manufacturing and service activity slowing in July. Overall, this week's news is consistent with our call for September balance-sheet tapering and a December rate hike.

- **Nonfarm payroll employment** increased 209,000 in July, with a combined upward revision of 2,000 in the prior two months, according to the Bureau of Labor Statistics. Average hourly earnings rose 0.3 percent from June and 2.5 percent from last July, while the average workweek was unchanged at 34.5 hours. The unemployment rate ticked down one-tenth to 4.3 percent, while the labor force participation rate ticked up by the same amount to 62.9 percent. The broadest measure of labor underutilization (U-6) was unchanged at 8.6 percent.
- **Personal income and personal consumption expenditures (PCE)**, adjusted for inflation, were both flat in June, according to the Bureau of Economic Analysis. Last Friday's annual revision to gross domestic product (GDP) back to 2014 showed a marked downgrade of the personal saving rate as the personal income trend was revised lower. The saving rate for Q1 2017 was downgraded to 3.9 percent from an originally reported 5.1 percent. The rate edged down one-tenth to 3.8 percent in June. The overall PCE deflator was unchanged from May, while the core PCE ticked up 0.1 percent. From a year ago, the headline and core indices rose 1.4 percent and 1.5 percent, respectively.
- **The U.S. trade deficit** narrowed \$2.7 billion to \$43.6 billion in June, as exports rose 1.2 percent and imports fell 0.2 percent, according to the Census Bureau. Adjusted for inflation, the real goods deficit, which is used in the GDP estimate, improved \$1.8 billion to \$61.0 billion.
- **The Institute for Supply Management (ISM) Manufacturing Index** fell 1.5 points to 56.3 in July (a reading of more than 50 indicates expansion). This marks the first drop in three months and follows a 2.9 point surge the prior month that sent the index to nearly a three-year high. **The ISM Nonmanufacturing Index**, a gauge of service sector activity, fell 3.5 points to 53.9 in July, an 11-month low. Both indices showed broad-based declines across their subindices.
- **Factory orders** increased 3.0 percent in June, according to the Census Bureau. The new information came from nondurable orders, which fell 0.3 percent. Core capital goods (nondefense excluding aircraft) shipments and orders for May and June were revised slightly lower and modestly higher, respectively, from the advanced estimates.

Light vehicle sales edged up 0.4 percent to 16.8 million annualized units in July, according to Autodata



Source: Bureau of Economic Analysis



Source: Autodata

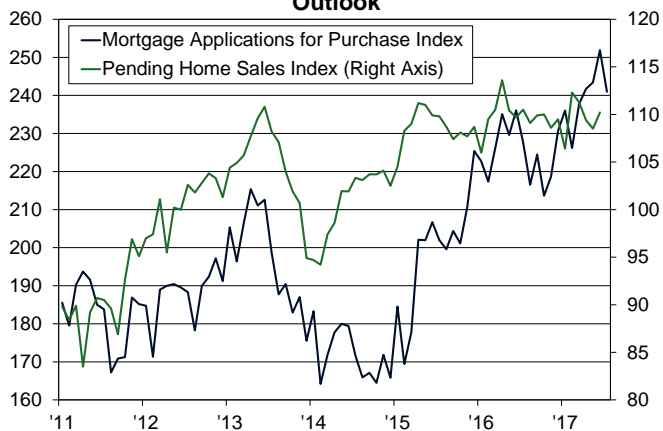


Housing: Not Quite Smooth Sailing for Sales Outlook

This week's housing news was mixed on the outlook for home sales in coming months. Pending home sales, which record contract signings of existing homes and typically lead closings by one to two months, rose in June, ending a streak of three consecutive monthly drops and posting an annual increase for the first time since March. The rise echoed the increase in average purchase mortgage applications during the month. However, average purchase applications fell in July, more than offsetting June's gain. In addition, the rise in mortgage rates during July led to a sharp drop in refinance demand. The tight for-sale inventory continues unabated, constraining sales and boosting home prices. The CoreLogic Home Price Index posted a strong annual gain in June, with the national index just shy of its 2006 peak. In the Fed's survey of loan officers for the three months ending in July, banks reported easing lending standards for residential mortgages amid a rebound in demand. On the home building front, the third consecutive drop in residential construction spending during June was consistent with last week's release for second quarter gross domestic product, which showed a marked decline in residential investment. Finally, mortgage rates should be positive for housing, as the average 30-year fixed mortgage rate ticked up 1 basis point to 3.93 percent this week after rising to just above 4.0 percent in mid-July, according to Freddie Mac.

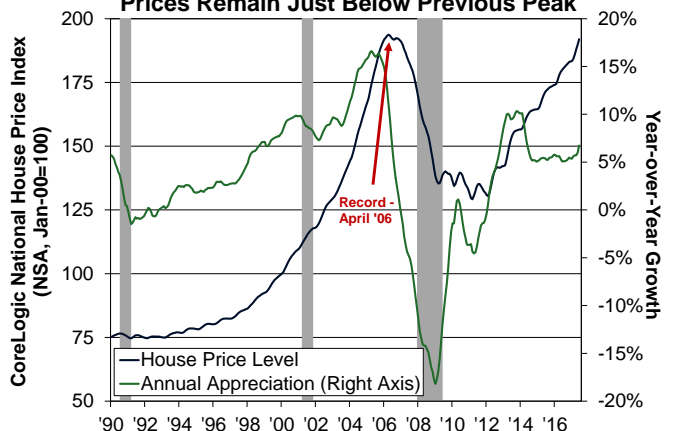
- **The National Association of REALTORS® pending home sales index** increased 1.5 percent to 110.2 in June. Pending sales increased in every region but the Midwest, where they fell only slightly. From a year ago, the index rose 0.5 percent.
- **Private residential construction spending** fell 0.2 percent in June, marking the third straight decline, consistent with drops in housing starts during the month, according to the Census Bureau. Spending on new multifamily construction fell for the second consecutive month, dropping 2.9 percent, outweighing a 0.3 percent rise in spending on new single-family construction. From a year ago, spending on new single-family and multifamily construction rose 8.8 percent and 0.2 percent, respectively.
- **The Federal Reserve Senior Loan Officer Opinion Survey on Lending Practices** for the three months ending in July showed banks reported that lending standards on residential real estate loans were unchanged or easier. Demand for loans strengthened across most categories, particularly for jumbo, GSE-eligible, and government mortgages.
- **The CoreLogic National Home Price Index**, a repeat sales measure, rose 1.1 percent in June (not seasonally adjusted). From a year ago, the index increased 6.7 percent. According to CoreLogic, home prices have risen 48.6 percent since the trough in March 2011 but are still 0.9 percent below the April 2006 peak.
- **Mortgage applications** fell 2.8 percent for the week ending July 28, according to the Mortgage Bankers Association (MBA). Purchase applications declined 2.0 percent, the third drop in four weeks. Refinance applications pulled back for the first time in three weeks, falling 3.8 percent. The average interest rate for 30-year fixed-rate mortgages was unchanged at 4.17 percent. Average purchase and refinance applications for all of July decreased 4.3 percent and 6.8 percent, respectively. Mortgage rates averaged 4.20 percent in July, 5 basis points higher than June's average.

Leading Indicators Suggest Mixed Home Sales Outlook



Source: National Associations of REALTORS® and MBA

Annual Home Price Growth Strengthens, But Prices Remain Just Below Previous Peak



Source: CoreLogic

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Economic and Strategic Research Group
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