

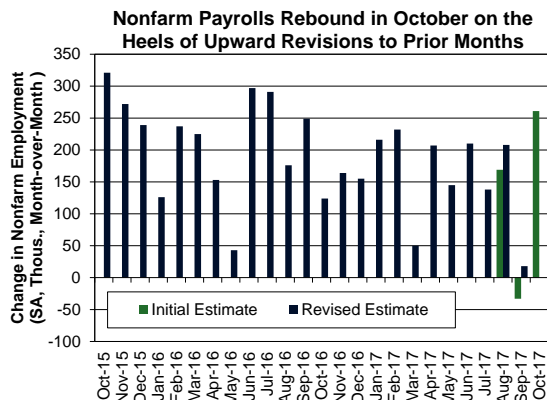


Weekly Note – November 3, 2017

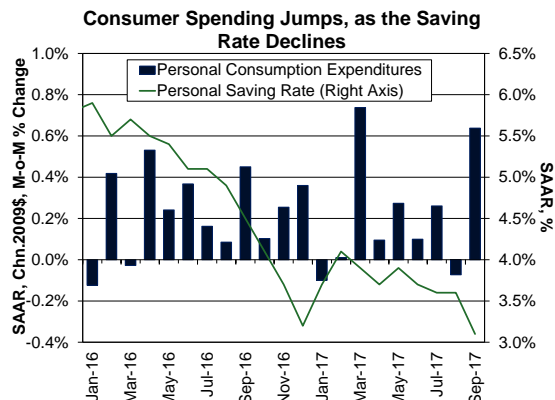
Economics: More Tricks, Fewer Treats for October Jobs

A busy week featured the October jobs report, which showed a rebound in October nonfarm payrolls and a sizable upward revision in the hurricane-affected months. The average monthly job gain for the last three months was moderately less than that prior to the hurricanes. Annual wage growth slowed from the solid gain of the prior month, when the hurricanes prevented many low-wage employees from working. A tick down in the unemployment rate occurred amid the largest monthly plunge in the labor force participation rate in four years. One silver lining was the large drop in the broadest measure of labor underutilization, the U-6 rate, to match the lowest rate of the last expansion. The bottom line is that slack in the labor market is receding but the hiring trend is slowing and wage gains remain muted. Other news was largely positive. Consumer spending rebounded strongly in September, as the saving rate dropped to an expansion low. Auto sales remained strong in October, boosted by replacement sales for cars damaged by the recent hurricanes. Consumer confidence rose in October, nearly reaching a 17-year high. Productivity showed signs of life in the third quarter, as the annual growth rate climbed to the fastest pace since Q2 2015. The Fed's favored measure of inflation, the personal consumption expenditures (PCE) deflator, accelerated on an annual basis in September, thanks to rising energy prices. However, the annual increase in core PCE was unchanged at the lowest reading since 2015. The trade deficit widened slightly in September, as a rise in imports barely outweighed an increase in exports. Factory orders improved in September, but surveys of purchasing managers showed mixed results for the manufacturing and nonmanufacturing sectors in October. Lastly, the Fed kept the fed funds rate unchanged. The [statement](#) following the meeting noted that core inflation "remained soft." Overall, we still expect the Fed to move forward with the rate hike in December.

- **Nonfarm payroll employment** expanded by 261,000 in October, according to the Bureau of Labor Statistics (BLS). The three-month average gain was 162,000. Job gains from the prior two months were revised upwards by 90,000, on net. The average workweek was unchanged at 34.4 hours. Average hourly earnings were flat during the month and rose 2.4 percent from a year ago. The unemployment rate ticked down to 4.1 percent, as the labor force participation rate dropped four-tenths to 62.7 percent. The U-6 rate fell four-tenths to 7.9 percent.
- **Personal income**, adjusted for inflation, was flat in September, according to the Bureau of Economic Analysis. Real consumer spending increased 0.6 percent. The saving rate fell to 3.1 percent. The PCE deflator rose 0.4 percent from August and 1.6 percent from a year ago. Core PCE, excluding food and energy prices, rose 1.3 percent annually.
- **Nonfarm business productivity** rose 3.0 percent annualized in Q3 2017, according to the BLS. Compensation rose 3.5 percent, and unit labor costs rose 0.5 percent. Productivity improved 1.5 percent on a year-over-year basis.
- **The Employment Cost Index (ECI)**, a measure of labor compensation, increased 0.7 percent (not annualized) in Q3 2017, according to the BLS. Wages rose 0.7 percent, while compensation improved 0.8 percent.
- **The U.S. trade deficit** widened by \$730 million to \$43.5 billion in September, according to the Census Bureau. The inflation-adjusted goods deficit, used in the calculation of net exports in GDP, widened by \$39 million to \$62.2 billion.
- **The Institute for Supply Management (ISM) Manufacturing Index** fell 2.1 points in October to 58.7 (any reading above 50 indicates expansion). **The ISM Nonmanufacturing Index** increased 0.3 points in October to 60.1.
- **Factory orders** increased 1.4 percent in September, according to the Census Bureau. Nondurable goods orders, the new piece of data in the report, improved 0.8 percent. Factory shipments rose 0.8 percent.
- **Light vehicle sales** slowed 2.6 percent to 18.1 million annualized units in October, according to Autodata.
- **The Conference Board Consumer Confidence Index** improved 5.3 points to 125.9 in October.



Source: Bureau of Labor Statistics



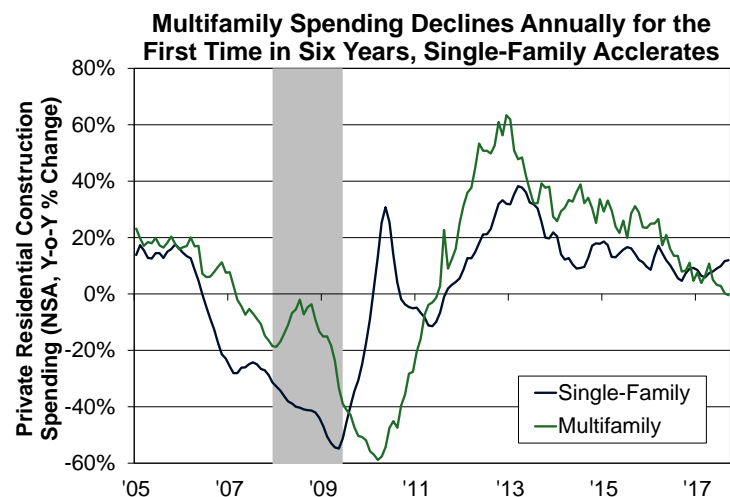
Source: Bureau of Economic Analysis



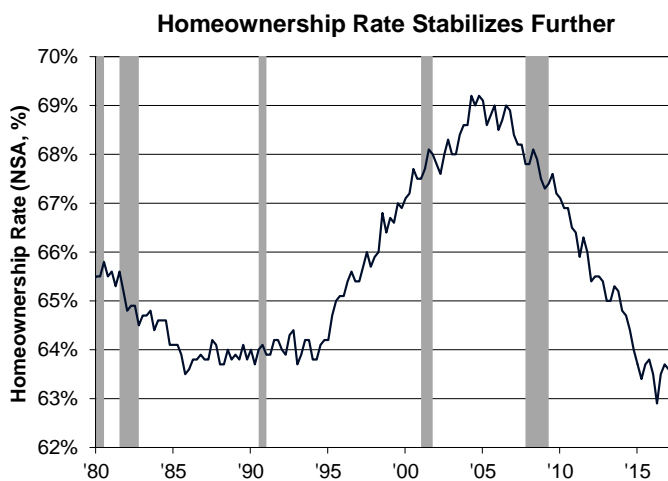
Housing: Homeownership Rate Stabilizes

Housing data released this week from the construction spending report and the Housing Vacancy Survey brought mixed news. Total construction spending was flat in September, as a decline in home improvement spending cancelled out gains in new single-family and multifamily spending. Single-family construction spending increased modestly, marking the fourth consecutive monthly gain, while spending on new multifamily construction improved on a monthly basis for the first time in five months. On a year-over-year basis, spending for new single-family and multifamily construction is trending in opposite directions. Annual growth in single-family spending accelerated in September to the fastest pace since May 2016. Multifamily spending, in contrast, declined from a year ago for the first time since June 2011. The Housing Vacancy Survey reported that the homeownership rate showed further signs of stabilizing in the third quarter, improving on an annual basis for the third consecutive quarter after a ten-year stretch of annual declines. The rest of the survey, however, was less positive. Annual household formation slowed to below 500,000 for the first time since the second quarter of 2010. Renter households decreased from a year ago for the second consecutive quarter, the first back-to-back declines in 13 years. Homeowner households, in contrast, posted another solid year-over-year gain. The rental vacancy rate rose year-over-year for the second consecutive quarter, while the homeowner vacancy rate declined from a year ago. Home price growth continued to accelerate year-over-year, as the Case-Shiller National Home Price Index posted the fastest annual growth in August since June 2014. During the month of August, all three major home price measures (Case-Shiller, Federal Housing Finance Agency, and CoreLogic) appreciated by more than 6 percent on an annual basis for the first time since March 2014. Mortgage demand fell last week for the sixth time in the past seven weeks, as purchase and refinance applications both declined to hit six-week and four-month lows, respectively. Finally, mortgage rates were flat this week at a three-month high of 3.94 percent, according to Freddie Mac.

- **Private residential construction spending** was flat in September, according to the Census Bureau. Spending on new single-family construction edged up 0.2 percent from August, while spending on new multifamily construction rose 0.6 percent. Spending on home improvements, on the other hand, declined 0.6 percent. On a year-over-year basis, single-family spending increased 12.0 percent, while multifamily spending fell 0.4 percent.
- **The Housing Vacancy Survey (HVS)** for Q3 2017 (not seasonally adjusted) showed that the homeownership rate was 63.9 percent, four-tenths higher than Q3 2016, according to the Census Bureau. The rental vacancy rate rose to 7.5 percent from 6.8 percent a year ago, while the homeowner vacancy rate declined by two-tenths from Q3 2016 to 1.6 percent. The number of households increased by 407,000 from a year ago, as homeowner households rose 755,000 but renter households declined 348,000.
- **The S&P/Case-Shiller National Home Price Index** (not seasonally adjusted) increased 0.5 percent in the three months ending in August. The index rose 6.1 percent from a year ago.
- **Mortgage applications** fell 2.6 percent for the week ending October 27, according to the Mortgage Bankers Association. Refinance applications declined 4.5 percent, while purchase applications slipped 0.8 percent. The survey's average 30-year fixed mortgage rate rose 4 basis points to 4.22 percent.



Source: Census Bureau



Source: Census Bureau

Frank Shaw
Economic and Strategic Research Group
November 3, 2017



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.