



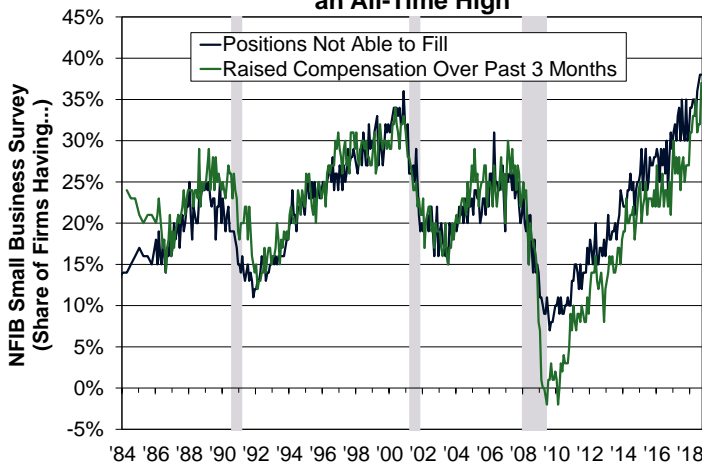
Weekly Note – October 12, 2018

### Economics: Continued Tightness in the Labor Market Finally Begins To Push Up Wages

This week's economic news featured evidence that a tight labor market is beginning to pressure wages but also data showing a slowdown in overall inflation. The National Federation of Independent Business Small Business Optimism Index ticked down in September but remained just shy of the series high reached in August. Reaffirming our belief that labor markets are extremely tight throughout the country, the percent of firms with positions they are not able to fill right now remained at the all-time high reached in August. As small businesses compete to attract workers, the share of firms that have raised worker compensation over the past 3 months rose to a record high, and the percent planning on increasing wages in the next 3 months tied an expansion high. Notably, however, the net share of firms expecting the economy to improve fell for the second straight month and has been trending downward since last November. More timely data also point to a tightening labor market. While initial jobless claims increased last week, they remained near the 48-year low reached in early September. On the inflation front, the Consumer Price Index (CPI) rose for the sixth straight month in September but decelerated on an annual basis for the second consecutive month, reaching its slowest pace since February. Energy prices posted the slowest annual growth rate in more than a year, thanks in part to declining gasoline prices during the month. Growth in core CPI (excluding food and energy) was unchanged from August, despite the largest decline in used vehicle prices since September 2003. Turning to consumers, the University of Michigan sentiment index fell for the third time in four months in early October as both the current conditions and expectations components declined. Consumers have become less optimistic about current economic conditions since March, when that component reached an all-time best.

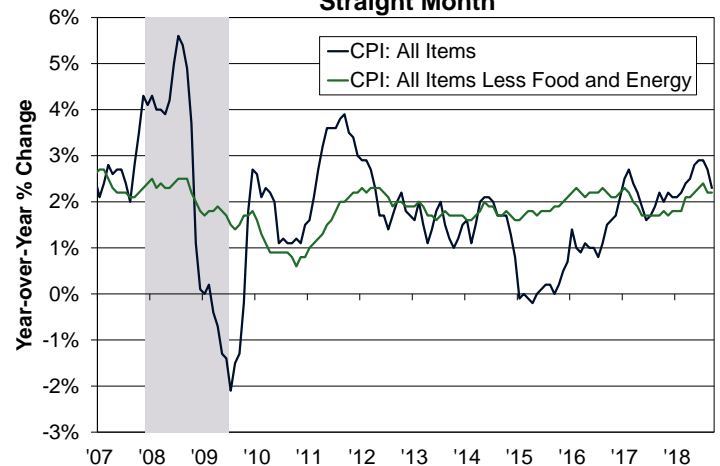
- **The Consumer Price Index** rose 0.1 percent in September and increased 2.3 percent from a year ago. Core prices ticked up one-tenth from August and 2.2 percent on an annual basis. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.2 percent in September. On an annual basis, headline PPI growth decelerated to 2.6 percent, while the core PPI increase was unchanged at 2.9 percent. **Import prices** rose 0.5 percent in September and 3.5 percent from a year ago. The Bureau of Labor Statistics produces each of these reports.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** fell 0.9 points to 107.9 in September as the share of firms planning to make capital outlays and increase inventories plummeted.
- **The University of Michigan Consumer Sentiment Index** decreased 1.1 points to 99.0 in the October preliminary reading. Inflation expectations over the next year rose one-tenth to 2.8 percent, while expectations over the next 5 years decelerated two-tenths to 2.3 percent, the slowest rate since the end of 2016.
- **Initial claims for unemployment insurance** increased by 7,000 to 214,000 in the week ending October 6, according to the Department of Labor. The four-week moving average rose by 2,500 to 209,500.

Share of Small Businesses Raising Wages Hits an All-Time High



Source: National Federation of Independent Business

Consumer Inflation Slows For the Second Straight Month



Source: Bureau of Labor Statistics

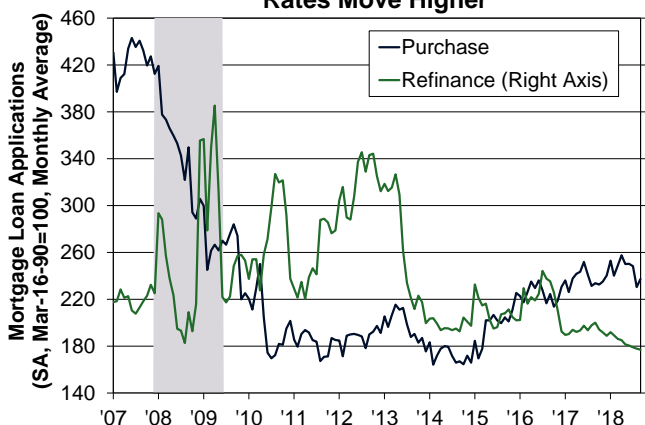


# Housing: Rising Rates Suppress Purchase Demand and Drive Refinance Demand to an Expansion Low

The light calendar this week offered data on mortgage applications and mortgage rates that are bearish for the home sales outlook, despite continued strength in the economy. In September, purchase mortgage applications rose moderately, the first increase in three months, while refinance applications fell for the eighth consecutive month. During the first week of October, mortgage demand for both purchase and refinance fell as fixed mortgage rates jumped to the highest level in 7 years, sending the adjustable-rate mortgage (ARM) share of total applications to the highest reading since mid-June 2017. Despite the uptrend over the past month, the ARM share has remained well below levels of previous expansions. Historically, rising mortgage rates provided an incentive for some homebuyers or refiners to choose ARMs over fixed-rate mortgages. For example, during the 2005 housing boom, rising rates pushed the ARM share to as high as a third of total applications. However, tight underwriting standards for ARMs after the recession drastically reduced their usage as a counter measure for declining affordability caused by rising rates. Rates surged further this week, with Freddie Mac reporting that the average yield on 30-year fixed-rate mortgages jumped 19 basis points to 4.90 percent, the highest level since April 2011.

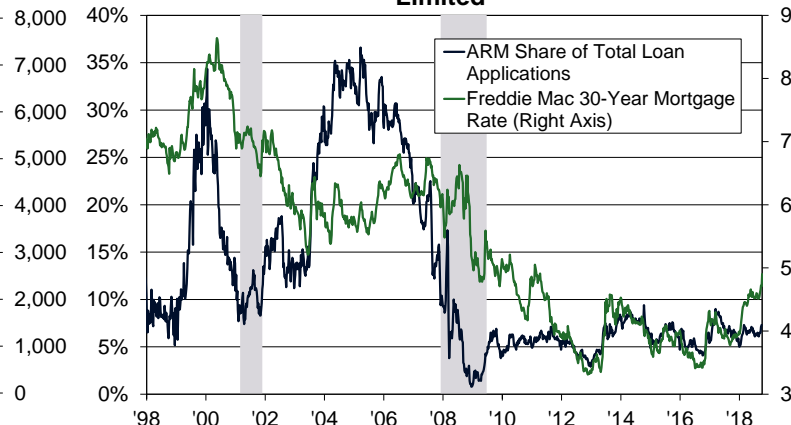
- Mortgage applications** fell 1.7 percent for the week ending October 5, according to the Mortgage Bankers Association. Purchase applications declined for the first time in six weeks, falling 1.1 percent. Refinance applications dropped 2.6 percent. The refinance share of total mortgage applications decreased four-tenths to 39.0 percent. The ARM share of total applications increased 20 basis points to 7.3 percent. The survey's average 30-year fixed mortgage rate rose 9 basis points to 5.05 percent, the highest reading since February 2011.

### Mortgage Demand Pulls Back as Interest Rates Move Higher



Source: Mortgage Bankers Association

### Adjustable Rate Mortgage Usage Has Been Limited



Source: Mortgage Bankers Association and Freddie Mac

Rebecca Meeker and Orawin Velz  
Economic and Strategic Research Group  
October 12, 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.