Fannie Mae

Economic and Strategic Research

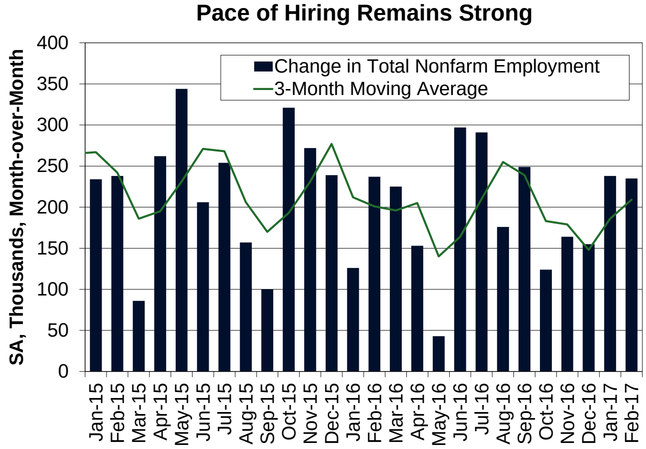
## Weekly Note – March 10, 2017

# Economics: JOBS!

*Today's jobs report was positive throughout. Payrolls posted a strong rise in February for a second consecutive month; the three-month average job gain climbed to more than 200,000 for the first time since last September; the unemployment rate edged down despite a large jump in the labor force; and annual growth in earnings rebounded toward the expansion high seen at the end of last year. The strong headline job gain in February was boosted by the largest monthly increase in construction payrolls since 2007, thanks to the unseasonably warm weather during the month. Overall, we see developments in the job market as consistent with hawkish remarks from several Fed officials, who earlier this month suggested that a rate hike is appropriate given the current inflation and employment environment. We expect two more rate increases this year following the one next week. In other news, consumer credit continued to expand in January, driven entirely by nonrevolving credit (mainly auto and student loans), as revolving credit (mainly credit card debt) posted the largest monthly drop since December 2012. On an annual basis, the pace of growth slowed for both types of credit. The trade deficit widened in January to the worst showing since March 2012, as the fourth straight rise in imports outweighed a slight gain in exports. The near-term outlook for manufacturing improved, as factory orders rose in January for the sixth time in the past seven months, and the drop in core capital goods orders, a leading indicator for fixed business investment in equipment, was revised upward to a slight decline. On the inflation front, import prices rose in February for the third straight month, driven by the largest rise in nonfuel prices in seven months. Lastly, fourth quarter productivity growth was unchanged after revision, showing year-over-year growth in output per worker of 1.0 percent.*

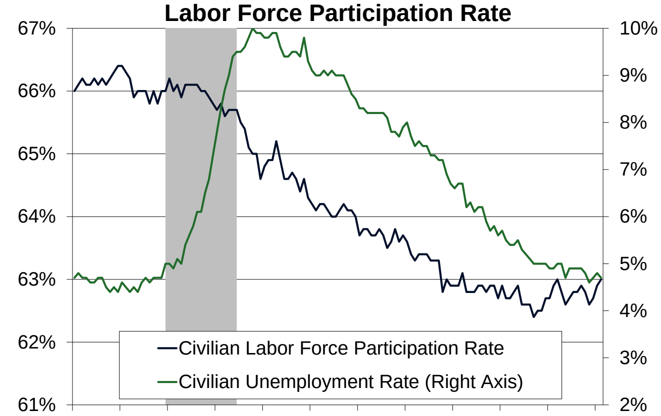
- **Nonfarm payroll employment** expanded by 235,000 in February, according to the Bureau of Labor Statistics. The three-month average change accelerated to 209,000 in February from 186,000 in January. Job gains in the prior two months were revised upward 9,000 on net. The unemployment rate fell one-tenth to 4.7 percent as the participation rate ticked up one-tenth to 63.0 percent. The average workweek was unchanged at 34.4 hours. Average hourly earnings increased 0.2 percent from January and 2.8 percent from February 2016. The broadest measure of the unemployment rate (U-6) fell two-tenths to 9.2 percent, tying an expansion low.
- **Consumer (non-mortgage) credit outstanding** expanded $8.8 billion in January, according to the Federal Reserve Board. Nonrevolving credit increased $12.6 billion, while revolving credit declined $3.8 billion. Year-over-year, nonrevolving credit rose 6.3 percent, and revolving credit increased 6.2 percent, the slowest growth in six months.
- **Nonfarm business productivity** improved 1.3 percent annualized in Q4 2016, unchanged from the initial estimate, according to the Bureau of Labor Statistics. Compensation increased 3.0 percent, while unit labor costs rose 1.7 percent. The strong quarterly gain in productivity in Q3 2016 was revised down two-tenths to 3.3 percent.
- **The U.S. trade deficit** widened by $4.2 billion to $48.5 billion in January, according to the Census Bureau. The 2.3 percent rise in imports outweighed the 0.6 percent gain in exports. The inflation-adjusted goods deficit, used in the calculation of net exports in the gross domestic product estimate, widened $3.3 billion to $65.3 billion.
- **Factory orders** rose 1.2 percent in January, according to the Census Bureau. Nondurable goods orders, the new piece of data in the report, rose 0.4 percent. Durable goods orders and shipments were revised upward.
- **Import prices** increased 0.2 percent in February, according to the Bureau of Labor Statistics. The gain came despite a 0.7 percent drop in fuel prices, as nonfuel prices rose 0.3 percent.

**Pace of Hiring Remains Strong**




*Source: Bureau of Labor Statistics*

**Unemployment Rate Falls Despite Rising Labor Force Participation Rate**



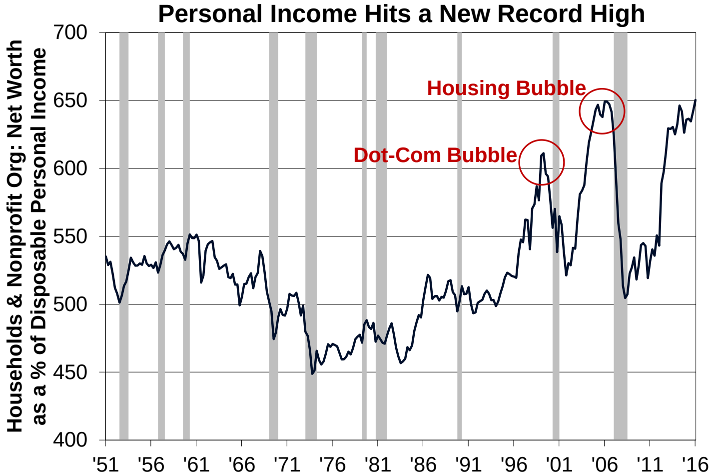

*Source: Bureau of Labor Statistics*

# Housing: Strong Home Price Gains Drive Wealth Higher

*Housing data released this week showed further improvement in household balance sheets, boosted by rising real estate and financial asset values. Household net worth increased during the fourth quarter for the fifth consecutive quarter to reach a new record high, according to the Federal Reserve's Financial Accounts of the United States. Rising household net worth, along with continued improvements in the job market, will help support consumer spending. As a share of disposable personal income, household net worth climbed to a new all-time high of 650 percent. The value of household real estate assets narrowly surpassed the housing bubble peak to reach a new record, thanks to strong home price appreciation during the quarter. Homeowners' equity as a share of real estate assets continued to rise, reaching the highest level since the second quarter of 2006. The CoreLogic National Home Price Index, the measure used by the Federal Reserve to estimate the value of household real estate assets in the Financial Accounts, strengthened further in January, posting the fastest annual appreciation since May 2014. From the household liability side of the Financial Accounts, single-family mortgage debt outstanding grew by the fastest annual pace in eight years, but the debt level still remains 9.3 percent below the peak reached in the first quarter of 2008. Lastly, the MBA weekly survey of mortgage applications showed that demand for mortgages continued its recent turnaround, as both purchase and refinance applications increased last week for the second consecutive week, reaching six- and 11-week highs, respectively. After jumping to a two-year high of 4.32 percent at the end of December, mortgage rates trended down to 4.10 percent last week, according to Freddie Mac's survey. However, with Treasury yields rising over the past week as the market fully priced in a rate hike at next week's Federal Open Market Committee meeting, mortgage rates picked up this week to 4.21 percent, the highest level this year.*

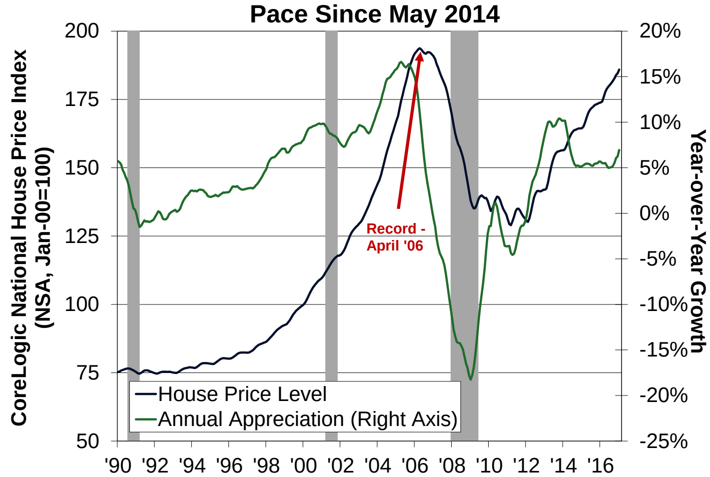
- **U.S. household and nonprofit organization net worth** —the value of assets minus liabilities—increased $2.0 trillion to $92.8 trillion in Q4 2016, according to the Federal Reserve. Both rising real estate values and stock prices helped boost household wealth. **Owners' equity in real estate as a percentage of household real estate** increased to 57.8 percent, continuing an uptrend from the record low of 36.0 percent in Q1 2009. **Single-family mortgage debt outstanding** increased 2.6 percent annualized from Q3 2016 and 2.3 percent from a year ago.
- **The CoreLogic National Home Price Index** (not seasonally adjusted) rose 0.7 percent in January. From a year ago, home prices increased 6.7 percent. Nominal home prices have risen 44.1 percent since bottoming out in March 2011 but remain four percent below the April 2006 peak. Prices in 27 states have risen above the pre-crisis peaks.
- **Mortgage applications** improved 3.3 percent for the week ending March 3, according to the Mortgage Bankers Association (MBA). Purchase applications increased 1.7 percent and refinance applications rose 5.2 percent. Both conventional purchase and refinance applications increased, while the government sector saw purchase applications rise but refinance applications fall. The survey's average 30-year fixed mortgage rate reversed the prior week's six basis point fall to return to 4.36 percent.

**Household Net Worth as a Percentage of Personal Income Hits a New Record High**




*Source: Federal Reserve*

**Annual Home Price Growth Posts the Fastest Pace Since May 2014**




*Source: CoreLogic*

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March 10, 2017

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