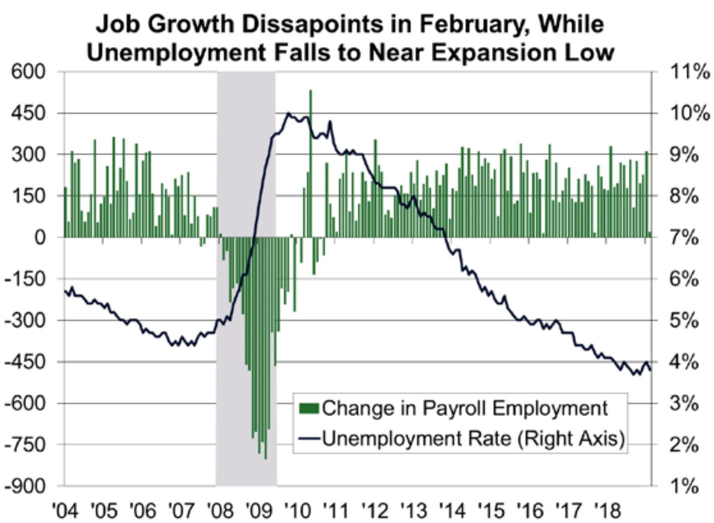
Fannie Mae
Economic and Strategic Research

Weekly Note – March 8, 2019

Economics: Big Drop in Job Growth, but Other Labor Market Measures Look Solid

The spotlight this week was pointed towards the February employment report, which showed a mixed picture of labor market conditions. The headline payroll gains came in at just 20,000, the slowest pace of growth since September 2017. The labor report added to other recent economic reports, including consumer spending, that have been softening as of late, which should give credence to the Fed to continue to be "patient." However, the weakness in the headline number was likely driven in part by adverse weather conditions. Weather-sensitive industries such as retail trade and construction posted large declines following strong gains in the milder January, pointing to paybacks for the strong increase seen in January. Meanwhile, average hourly earnings rose by the fastest annual pace of the expansion. The household survey offered very positive news: The unemployment rate fell to 3.8 percent, more than offsetting the increase in January, and the broadest measure of labor underutilization (U-6) posted a record 0.8 percentage point drop to 7.3 percent. In addition, the labor force participation rate for those aged between 16 and 64 rose to its highest level since 2010. These developments, combined with continued declines in initial unemployment claims, suggest that the labor market remains tight. Turning to other releases, productivity growth in the fourth quarter came in at a solid pace, which is encouraging as it suggests that stronger wage gains are unlikely to stoke inflationary pressures. Lastly, the Institute for Supply Management's service sector index rose in February as new business orders hit the highest level since 2005.

- **Nonfarm payroll employment rose** by a modest 20,000 in February following an upwardly revised gain of 311,000 in January (previously 304,000), according to the Bureau of Labor Statistics. **The unemployment** rate fell 0.2 percentage point to 3.8 percent, and the **labor force participation rate** held steady at 63.2 percent, a level near the expansion high. **Average hourly wages** rose 3.4 percent from a year prior, the strongest pace since 2007.
- **Nonfarm business productivity** rose 1.9 percent annualized in Q4 2018, according to the Bureau of Labor Statistics. Output and hours worked increased 3.1 percent and 1.2 percent, respectively. In year-over-year terms, productivity grew 1.8 percent while unit labor costs were up 1.0 percent.
- **The ISM Nonmanufacturing Index**, a gauge of service sector activity, rose 3.0 points in February to 59.7. Any reading above 50 indicates expansion. Business activity increased from 59.7 to 64.7 while new orders grew from 57.7 to 65.2. The employment index declined from 57.8 to 55.2.
- **Consumer (non-mortgage) credit outstanding** grew $17 billion to $4.035 trillion in January, according to the Federal Reserve Board. Revolving credit rose $2.5 billion while nonrevolving credit grew $14.5 billion.
- **The U.S. trade deficit** increased by $9.5 billion to $59.8 billion in December, according to the Census Bureau. Exports fell 1.9 percent month over month while imports rose 2.1 percent month over month.
- **Initial claims for unemployment insurance** decreased by 3,000 to 223,000 in the week ending March 2, according to the Department of Labor. The four-week moving average decreased by 4,750 to 226,250. The insured unemployment rate dropped 0.1 percent to 1.2 percent.



Source: Bureau of Labor Statistics

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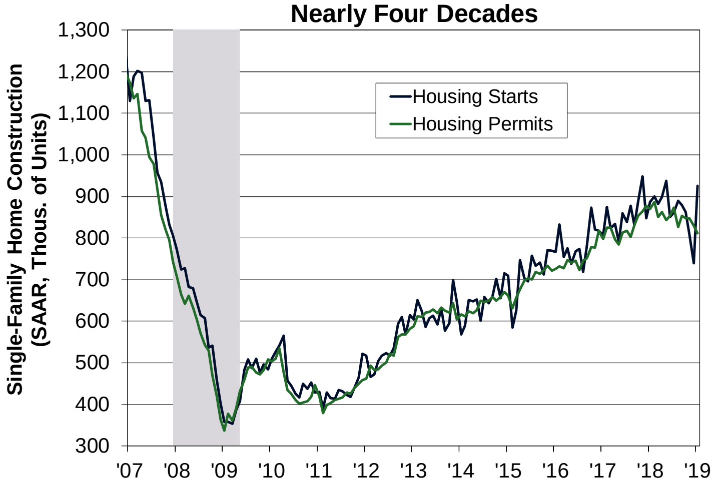
Housing: A Bullish Start for Homebuilding

News was mixed in a busy week for housing. Notably, housing starts surprised on the upside at the beginning of 2019, new home sales ended 2018 on a positive note, and household net worth declined the most in a decade during the final quarter of last year. Housing starts jumped in January, driven by the biggest surge in single-family starts in nearly four decades. New home sales rose for the second straight month in December. However, with 75,000 in downward revisions to the prior three months, average fourth quarter sales mark the slowest pace in five quarters. For all of 2018, sales rose to the strongest pace since 2007, while the inventory expanded for the sixth consecutive year to the highest level in a decade. Household net worth fell in the fourth quarter for the first time since the third quarter of 2015 and posted the largest quarterly drop of the expansion, driven by a steep decline in the stock market. The increase in housing wealth from the rising value of real estate assets helped offset some of the decline in the household wealth from the stock market. Homeowners' equity as a share of real estate value edged up two-tenths to 60.1 percent, the highest level in over 16 years, while single-family mortgage debt outstanding climbed to the highest level since the end of 2009. In other news, upbeat January single-family homebuilding helped sooth some concerns on weak private residential construction spending, which fell in December for the fourth time in five months as spending on new single-family properties posted the largest monthly loss in over eight years. Annual home price growth was unchanged in January, with the CoreLogic Index remaining at the slowest pace since July 2012. After hitting a one-year low last week, mortgage rates rose this week, with the average 30-year fixed mortgage rate gaining six basis points to 4.41 percent, according to Freddie Mac.

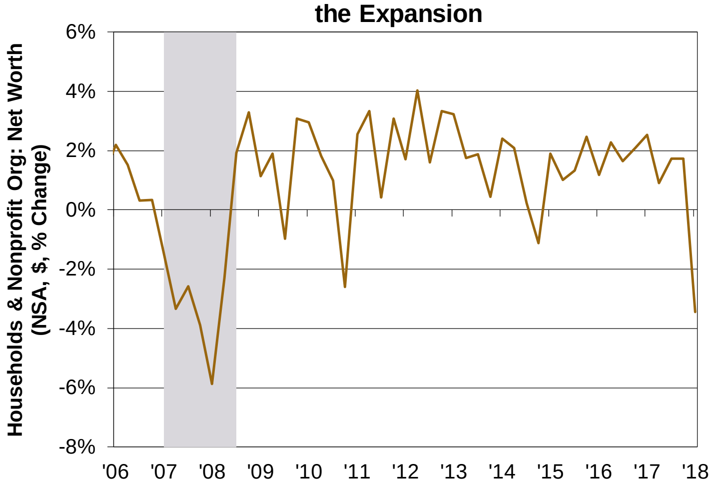
- **New single-family home sales** grew 3.7 percent to a 621,000 seasonally adjusted annual rate (SAAR) in December, according to the Census Bureau. For all of 2018, new home sales increased 1.5 percent to 622,000 units. For-sale inventory rose 3.0 percent over the month and 16.7 percent annually. The months' supply was down one-tenth to 6.6 months. The median sales price, unadjusted for the composition of sales, was $318,600, down 7.2 percent annually.
- **Housing starts** surged 18.6 percent to 1.23 million (SAAR) in January, according to the Census Bureau. Single-family starts rose 25.1 percent while multifamily starts gained 2.4 percent.
- **U.S. household and nonprofit organization net worth** – the value of assets minus liabilities – fell $3.7 trillion to $104.3 trillion in the fourth quarter, according to the Federal Reserve. **Owners' equity in real estate** increased $231 billion to $15.5 trillion. **Single-family mortgage debt outstanding** grew 2.2 percent annualized.
- **Private residential construction spending** fell 1.4 percent in December driven by a 3.2 percent decline in new single-family spending, according to the Census Bureau. New multifamily spending increased 3.1 percent, while spending on improvements decreased 0.4 percent. In 2018, private residential spending on new properties rose 4.4 percent as spending on single-family and multifamily properties rose 5.2 percent and 0.7 percent, respectively.
- **The CoreLogic National Home Price Index**, a repeat sales measure, edged up 0.1 percent in January (not seasonally adjusted). On an annual basis, the index was unchanged at 4.4 percent. All states saw annual increases, except for Louisiana and North Dakota, with Idaho and Nevada both seeing double-digit gains.

Single-Family Starts Post Largest Increase in Nearly Four Decades



Source: Census Bureau

Household Net Worth Posts Largest Decline of the Expansion



Source: Federal Reserve

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