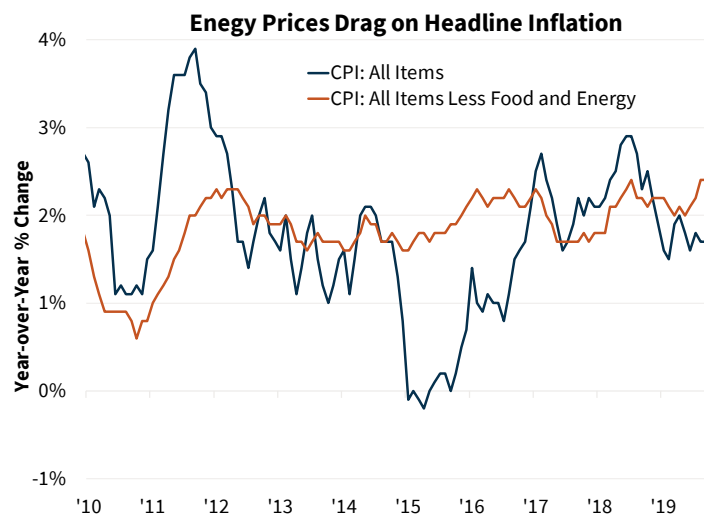


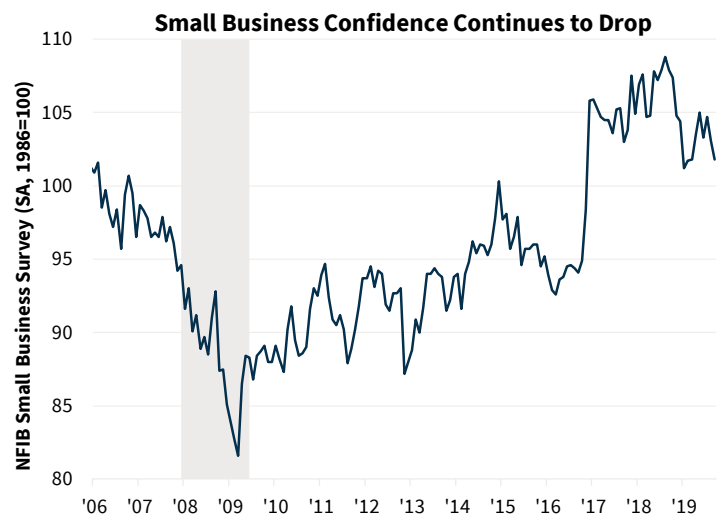
Economics: FOMC Leaves the Door Open for Further Cuts

This week the Federal Open Market Committee (FOMC) released the [minutes](#) of its meeting on September 17-18, in which the committee decided to lower the federal funds rate target by 25 basis points to a range of 1.75 percent to 2.00 percent. The minutes give further insight into the discussion underlying the FOMC’s decision to cut rates again. While participants generally agreed that downside risks to the economic outlook had increased, “[s]everal participants favored maintaining the existing target rate” as “the economic outlook did not justify a shift away from the current policy stance, which they felt was already adequately accommodative.” Nevertheless, despite general acknowledgement that “there had been little change in their economic outlook since the July meeting,” and in light of increased uncertainty regarding trade, global growth, and certain geopolitical risks, participants decided another rate cut was prudent as further “risk management.” The minutes also clarify the FOMC’s thinking around the recent developments in the repo market. Some participants suggested resuming growth of the Fed’s balance sheet, and the participants agreed that the FOMC “should discuss the appropriate level of reserve balances,” but they emphasized that any balance sheet expansion in the coming months “should be clearly distinguished from past large-scale asset purchase programs.” Overall, the FOMC minutes still point toward a further rate cut later this year, which we currently expect in December, though continued weakness could lead to additional or earlier cuts. The FOMC minutes also showed a continued focus on inflation, and our forecast of an additional rate cut this year was further supported this week by September inflation measures, which generally showed little pickup aside from persistent strength in the core Consumer Price Index (CPI). The Job Openings and Labor Turnover Survey (JOLTS) continued to show a healthy but slowing job market in August, with most hires being job-to-job hires and with job openings falling to the lowest level since March 2018. Consumer credit rose in August, driven entirely by an increase in nonrevolving credit (largely student and auto loans) while revolving credit (largely credit cards) fell. This report is consistent with our expectation of strong but slowing consumer spending for the remainder of the year. Finally, an index of small business optimism fell in September to the lowest level since March, as the share of firms expecting the economy to improve dropped to the lowest level since January.

- **The Consumer Price Index (CPI)** was unchanged in September due to a 1.4 percent decline in energy prices, and 1.7 percent higher than a year ago. Core CPI rose 0.1 percent in September and 2.4 percent from a year ago. **The Producer Price Index (PPI)** for final demand of goods and services fell 0.3 percent in September but rose 1.4 percent from a year ago. Core PPI rose 1.7 percent annually. **Import prices** rose 0.2 percent in September but fell 1.6 percent from a year ago. Excluding fuels, import prices fell 0.1 percent in September and 1.1 percent from a year ago.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings fell by 123,000 in August to 7.1 million, according to the Bureau of Labor Statistics. Total hires dropped by 199,000 to 5.8 million, while total separations fell by 172,000 to 5.6 million. The job openings rate, hires rate, and quits rate all fell one-tenth to 4.4 percent, 3.8 percent, and 2.3 percent respectively.
- **Consumer (non-mortgage) credit outstanding** increased by \$17.9 billion in August to \$4.14 trillion, according to the Federal Reserve Board. Revolving credit fell \$1.9 billion while nonrevolving credit jumped \$19.8 billion.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** fell 1.3 points in September to 101.8, with the net share of firms expecting the economy to improve falling 3 percentage points to 9.0 percent.



Source: Bureau of Labor Statistics



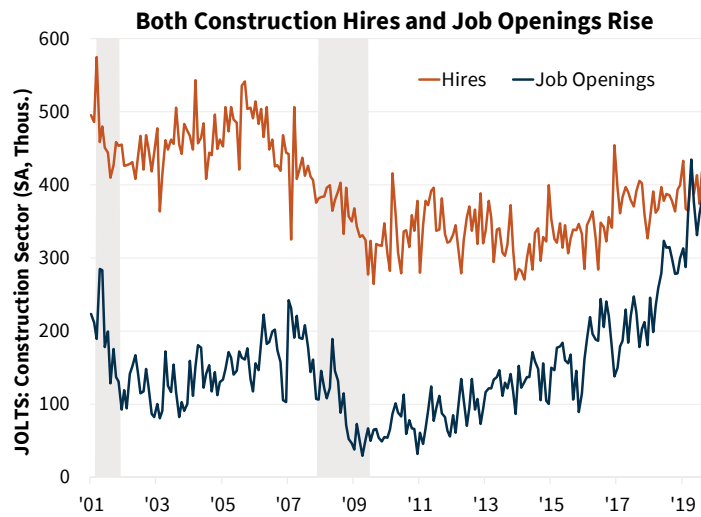
Source: National Federation of Independent Business



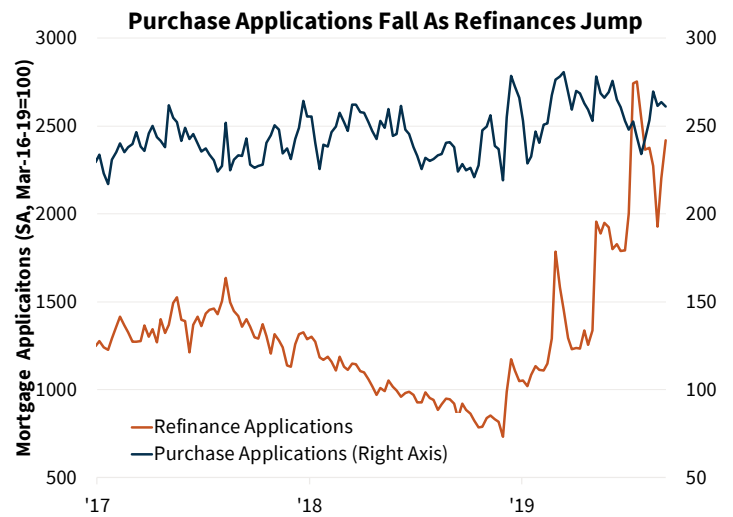
Housing: Construction Hires Rise, Mortgage Rates Fall

A quiet week for housing-related news provided little concrete insight into our housing outlook. The JOLTS reported that construction job openings rose in August for the second straight month after a string of sharp drops in May and June. Construction hires also rose, recovering from the drop in July, but most of these hires were from employees leaving one job for another, with only a small number of workers coming in from the sidelines. A shortage of labor continues to be an obstacle for home builders, though a sustained increase in construction hires could lead to an increase in new home construction. The average rate on 30-year fixed-rate mortgages declined by 8 basis points to 3.57 percent this week, according to Freddie Mac, falling back to their early September range and more than 1.3 percentage points below year-ago levels. Mortgage applications increased last week, driven by a surge in refinance applications as homeowners jumped to take advantage of the decline in mortgage rates. Purchase applications, however, erased the slight gain seen two weeks ago. Though trade and economic uncertainty, as well as a general lack of affordable supply, seem to be [weighing on homebuying sentiment](#), a strong labor market and low mortgage rates have contributed to increased homebuying demand, particularly from first-time homebuyers. According to Freddie Mac, 46 percent of the loans purchased by Freddie Mac in 2019 have been first-time homebuyers, the highest share in two decades.

- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that construction job openings rose 19,000 in August to 379,000, according to the Bureau of Labor Statistics. The July number was revised down by 13,000 to 360,000. Construction hires jumped by 44,000 to 418,000. Total separations increased by 38,000, showing that most of the hires in August were workers leaving one job for another. The job openings rate rose two-tenths to 4.8 percent, and the hires rate rose six-tenths to 5.6 percent. The quits rate fell one-tenth to 2.3 percent.
- **Mortgage applications** rose 5.2 percent in the week ending October 4, according to the Mortgage Bankers Association. Refinance applications jumped 9.8 percent while purchase applications fell 0.9 percent.



Source: Bureau of Labor Statistics



Source: Mortgage Bankers Association

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