

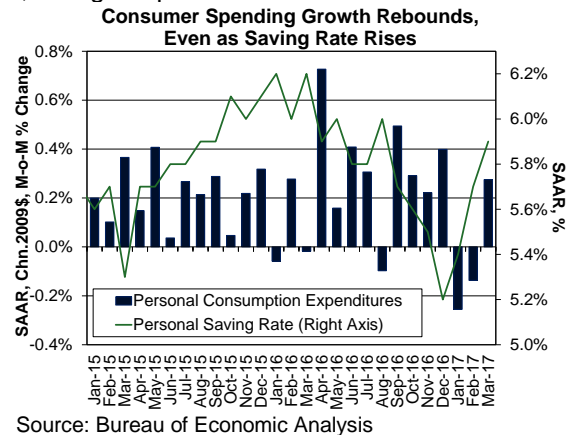


Weekly Note – May 5, 2017

### Economics: Getting Back to Work

The pickup in hiring in the April jobs report supports the popular view that March’s weak headline was a weather-induced slowdown. The trend in nonfarm payrolls so far this year points to a steady improvement in job gains, propelling the labor market further into full employment territory. The unemployment rate dipped to a fresh expansion low. More importantly, the broadest measure of labor underutilization, the U-6 rate, fell for the sixth time in the past seven months to the lowest level since November 2007. The report is consistent with the May Federal Open Market Committee Meeting (FOMC) [statement](#) from earlier in the week, which noted that the committee viewed the first quarter growth slowdown as likely to be transitory amid a strengthening labor market. The jobs report and the FOMC statement support our expectation of a faster pace of monetary policy normalization this year, with rate hikes in June and September. In other news this week, real consumer spending rebounded in March from the first back-to-back drops in January and February since 2009. Despite a solid gain in spending, the saving rate rose for the third straight month to a seven-month high. Looking toward second quarter consumer spending, auto sales increased in April for the first time in four months but remained 1.5 million units below the expansion high reached in December 2016. Given a paltry gain in first quarter output, productivity fell on a quarterly basis for the first time in three quarters, but the year-over-year gain held steady at the best rate since Q2 2015. The trade deficit was little changed in March, with both imports and exports falling. Factory orders edged up in March, marking the fourth consecutive gain. Core capital goods orders, a leading indicator for business fixed investment in equipment, were revised higher for March and have risen for six straight months. However, April’s survey of purchasing managers reported the slowest pace of expansion in manufacturing activity this year.

- **Nonfarm payroll employment** expanded by 211,000 in April, according to the Bureau of Labor Statistics. The three-month average gain slowed to 174,000 from 176,000 in March. Job gains in the prior two months were revised down 6,000 on net. Both the unemployment rate and the labor force participation rate ticked down one-tenth to 4.4 percent and 62.9 percent, respectively. The U-6 rate fell three-tenths to 8.6 percent. The average workweek edged up one-tenth to 34.4 hours. Average hourly earnings increased 0.3 percent from March and 2.5 percent from April 2016.
- **Personal income**, adjusted for inflation, improved 0.5 percent in March, according to the Bureau of Economic Analysis. Real personal consumption expenditures (PCE) rose 0.3 percent and the saving rate increased two-tenths to 5.9 percent. The PCE deflator declined 0.2 percent from February and rose 1.8 percent from March 2016. Excluding food and energy, core prices fell 0.1 percent from a month ago and rose 1.6 percent from a year ago.
- **Nonfarm business productivity** fell 0.6 percent annualized in Q1 2017 but increased 1.1 percent from Q1 2016, according to the Bureau of Labor Statistics. Compensation rose 2.4 percent, and unit labor costs rose 3.0 percent.
- **The Institute for Supply Management (ISM) Manufacturing Index** fell 2.4 points to 54.8 in April (any reading above 50 indicates expansion). Drops in the employment and new orders components drove the decline. **The ISM Nonmanufacturing Index**, a gauge of service sector activity, rose 2.3 points to 57.5 in April.
- **Light vehicle sales** rose 1.6 percent to a 16.9 million annualized pace in April, according to Autodata.
- **The U.S. trade deficit** narrowed \$54 million to \$43.7 billion in March, according to the Census Bureau. The drop in imports barely outweighed the decline in exports. The inflation-adjusted goods deficit, used in the calculation of net exports in the GDP estimate, widened by \$47 million to \$60.0 billion.
- **Factory orders** rose 0.2 percent in March, according to the Census Bureau. Nondurable goods orders, the new piece of data in the report, declined for the first time in eight months, falling 0.5 percent.

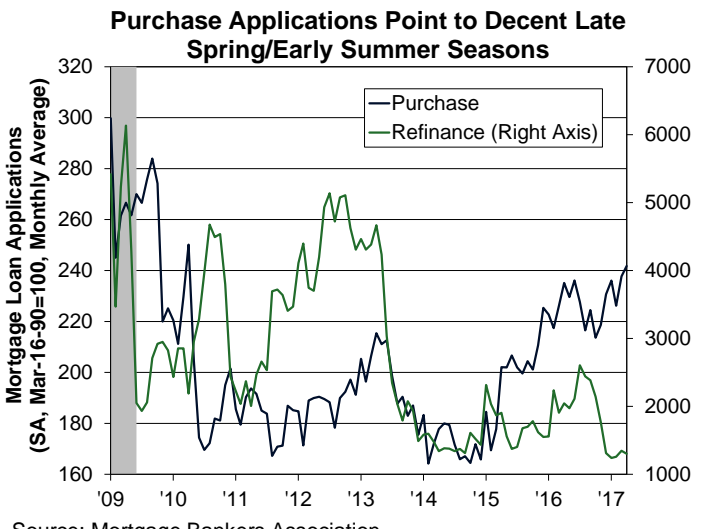
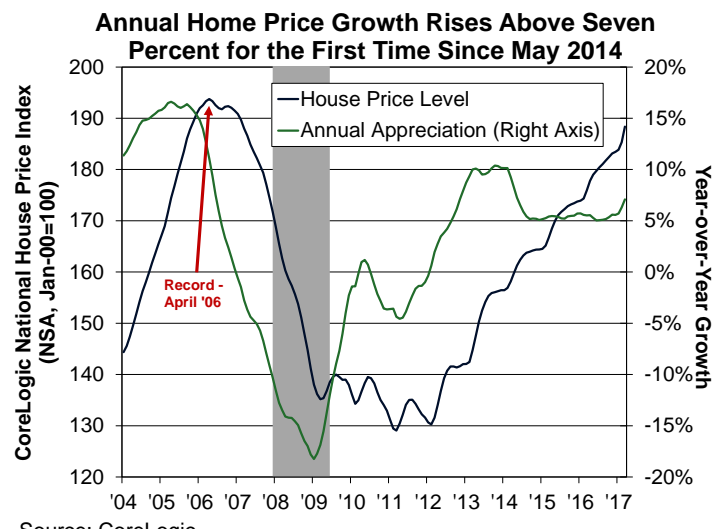




# Housing: Improvement Should Continue This Quarter

This week's data suggest that the housing sector will continue to be in good shape this quarter after making the largest contribution to economic growth in nearly two years during the first quarter. Despite the decline in both single-family and multifamily housing starts in March, the dollar value of new single-family and multifamily construction rose in March for the sixth consecutive month. While March construction spending for new single-family homes is at an expansion high, it remains 45 percent below its peak at the start of 2006. By contrast, spending for new multifamily construction is at an all-time high. Home price gains continued to strengthen in March, with the CoreLogic House Price Index posting the strongest annual growth since May 2014. While the index tends to get downwardly revised in subsequent months, the trend of accelerating annual gains that began last summer remains intact, thanks to the extremely lean inventory of existing homes. Tight inventory continues to be a headwind for home sales. Fortunately, the decline in mortgage rates from mid-March to mid-April helped spur purchase mortgage demand, leading to a rise in average applications in April for the second consecutive month. The fall in mortgage rates didn't benefit refinance demand, however, as refinance applications dropped in April for the first time in three months, resuming the declining trend seen between August 2016 and January 2017. Freddie Mac's survey showed that, after rising during the last week of April for the first time in five weeks, the average 30-year fixed mortgage rate edged down one basis point this week to 4.02 percent.

- **Private residential construction spending** rose 1.2 percent in March, according to the Census Bureau. The gain was broad-based. Spending on new single-family construction edged up 0.3 percent, the sixth consecutive monthly rise, compared with a third straight increase for the multifamily segment, which rose 2.0 percent. Home improvement spending increased 2.2 percent. From last March, new single-family and multifamily construction spending rose 5.0 percent and 7.7 percent, respectively.
- **CoreLogic National Home Price Index**, a repeat sales measure, increased 1.6 percent in March (not seasonally adjusted). According to the CoreLogic index, prices rose 7.1 percent from a year ago, and nominal home prices have risen 46 percent since their trough six years ago but remain 2.8 percent below their April 2006 peak.
- **Mortgage applications** ticked down 0.1 percent for the week ending April 28, according to the Mortgage Bankers Association. Purchase applications jumped 4.2 percent, the first rise in three weeks. Refinance applications dropped 4.7 percent, the largest decline this year. The survey's average 30-year fixed mortgage rate increased for the first time in four weeks, rising three basis points to 4.23 percent. On average in April, purchase applications rose 1.7 percent following a 5.1 percent gain in March, sending purchase mortgage demand to the highest monthly reading in seven years, while refinance applications fell 3.2 percent.



Source: CoreLogic  
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