Fannie Mae

Economic and Strategic Research

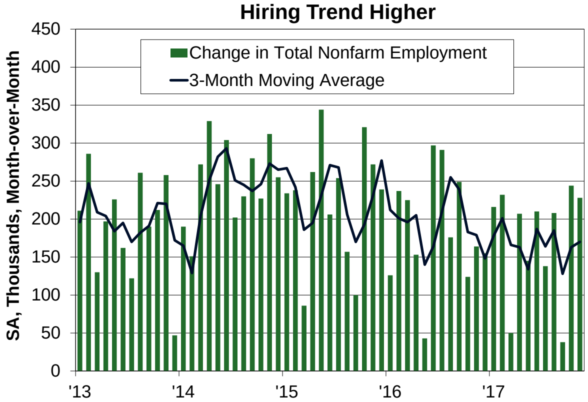
Weekly Note – December 8, 2017

Economics: Labor Market Keeps Humming Along

This week's news featured the November jobs report, which showed solid, broad-based employment gains. The strength in manufacturing payrolls is consistent with the resurgence in business investment and core capital goods orders. Even the retail sector, which lost jobs in 8 of the first 11 months of 2017, saw the largest employment increase since January and should soothe concerns about the health of bricks-and-mortar store sales going into the holiday season. Residential construction payrolls have posted healthy back-to-back monthly gains, hinting that residential investment will likely add to growth this quarter for the first time in three quarters. Average hourly earnings and the average workweek edged up, pointing to an upbeat picture for labor income when combined with the strength in job gains. The household survey was largely uneventful, as the unemployment and participation rates were unchanged during the month. Overall, the report supports our view that domestic demand has regained momentum late in the year, setting up the economy for a more upbeat 2018 than previously anticipated. In other news this week, the trade deficit widened in October by the largest amount since January, as imports rose amid flat exports. Factory orders fell slightly in October after rising the prior two months, but core capital goods orders and shipments were revised higher, boding well for business equipment spending. Annual consumer credit growth was unchanged for the third consecutive month in October, arresting a steady deceleration in credit growth that had started in February. Consumer sentiment slipped for the second consecutive month in early December, driven by another drop in consumer expectations. A survey of purchasing managers for the service industry suggested the pace of expansion for the sector slowed for the first time in four months in November. Lastly, third quarter productivity growth was unrevised, showing the fastest annual pace in more than two years.

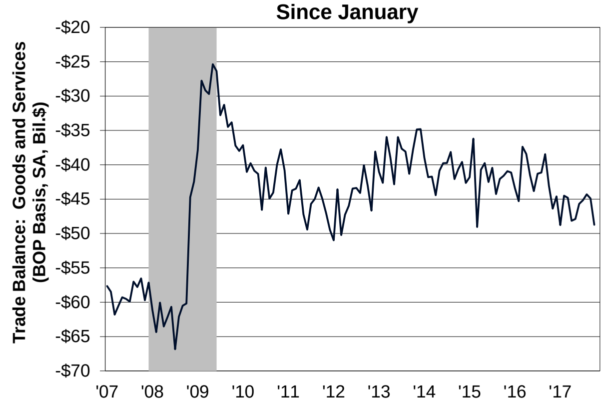
- **Nonfarm payroll employment** expanded by 228,000 in November, according to the Bureau of Labor Statistics. A small net upward revision for the prior two months put the three-month average gain at 170,000. The average workweek edged up to 34.5 hours. Average hourly earnings rose 0.2 percent during the month and 2.5 percent from a year ago. The unemployment rate and the labor force participation rate were unchanged at 4.1 percent and 62.7 percent, respectively. The broadest measure of labor underutilization, the U-6 rate, edged up one-tenth to 8.0 percent.
- **Nonfarm business productivity** increased 3.0 percent in Q3 2017, according to the Bureau of Labor Statistics. On an annual basis, productivity improved 1.5 percent, while unit labor costs fell 0.7 percent.
- **The U.S. trade deficit** increased by $3.8 billion in October to $48.7 billion, according to the Census Bureau. Exports were flat and imports increased 1.6 percent. The inflation-adjusted goods deficit, used in the calculation of net exports in the gross domestic product estimate, widened $3.1 billion to $65.3 billion.
- **Factory orders** edged down 0.1 percent in October, while factory shipments rose 0.6 percent, according to the Census Bureau. New orders for nondurable goods, the new piece of data in the report, increased 0.7 percent.
- **Consumer (non-mortgage) credit outstanding**, expanded by $20.5 billion in October, according to the Federal Reserve Board. Nonrevolving credit increased $12.2 billion and revolving credit expanded $8.3 billion. From a year ago, nonrevolving credit grew 5.1 percent and revolving credit rose 6.1 percent.
- **The University of Michigan Consumer Sentiment Index** fell 1.7 points to 96.8 in the December preliminary reading, as the decline in the expectations component outweighed the gain in the present conditions component.
- **The Institute for Supply Management (ISM) Nonmanufacturing Index**, a gauge of service sector activity, decreased 2.7 points in November to 57.4 (any reading above 50 indicates expansion).

Another Solid Monthly Payroll Gain Lifts the Hiring Trend Higher



Source: Bureau of Labor Statistics

Trade Deficit Reaches Widest Level Since January

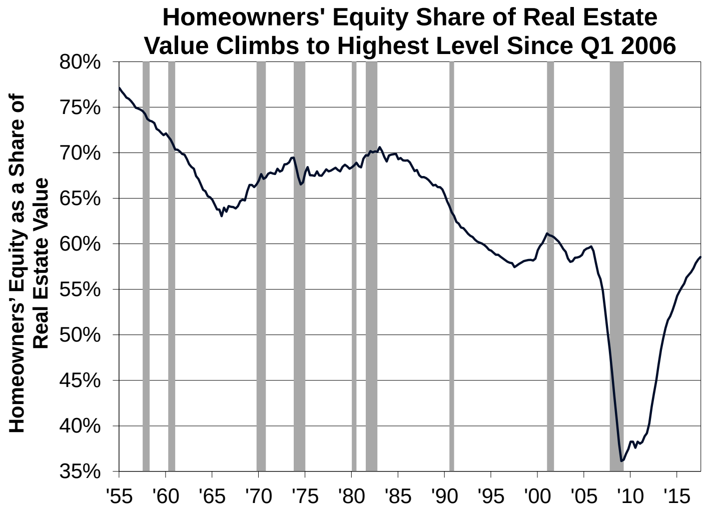


Source: U.S. Census Bureau

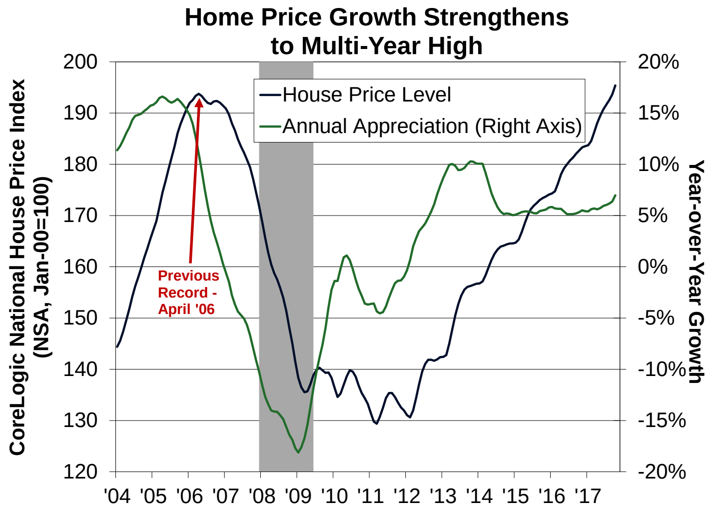
Housing: Household Net Worth Expands Further

A quiet week of housing data offered largely positive news. Strong home price appreciation helped boost third-quarter household net worth, and mortgage demand rebounded strongly last week. The Federal Reserve reported household net worth climbed to a new record high in the third quarter, driven by gains from both stock market wealth and housing wealth. Homeowners' equity as a share of real estate value reached the highest level in 11 years. The Federal Reserve uses the CoreLogic Home Price Index to estimate the value of real estate assets. During the third quarter, the CoreLogic index rose 6.2 percent year over year, the strongest gain in three years. In October, the annual increase in the index reached the 7.0 percent for the first time since May 2014, although initial estimates are prone to downward revisions in subsequent releases. The index has increased on an annual basis every month since February 2012 and is nearly 1 percent higher than the pre-crisis peak set in April 2006. However, adjusting for inflation, prices are still 15.7 percent below their peak. Homes priced below the median continue to appreciate faster than homes priced above the median. In addition, the lowest price tier (75 percent or less of the median) and the low-to-middle tier (between 75 and 100 percent of the median) are the only tiers to have surpassed their pre-crisis peaks. Regionally, 37 states, including Washington, D.C., have seen prices rise above their pre-crisis peaks. Mortgage demand increased last week, helped by the fifth consecutive weekly rise in purchase applications to the highest level since early September. After falling to the lowest level since early January the prior week, refinance applications rebounded, posting the largest gain since mid-July. Mortgage rates rose this week for the first time in three weeks, as the average 30-year fixed mortgage rate increased four basis points to 3.94 percent, according to Freddie Mac.

- **U.S. household and nonprofit organization net worth**—the value of assets minus liabilities—rose $1.7 trillion in the third quarter to $96.9 trillion, according to the Federal Reserve. **Owners' equity in real estate** increased $286 billion to $14.1 trillion. **Owners' equity in real estate as a percentage of household real estate value** improved 0.3 percentage points to 58.6 percent. **Single-family mortgage debt outstanding** rose 3.5 percent annualized.
- **The CoreLogic National Home Price Index**, a repeat sales measure, increased 0.9 percent in October (not seasonally adjusted). From a year ago, the index increased 7.0 percent. Prices in the lowest price tier increased 9.5 percent year over year, while prices in the low-to-middle price tier rose 8.5 percent annually. The middle-to-moderate price tier (between 100 and 125 percent of the median) and the high price tier (greater than 125 percent of the median) posted 7.2 percent and 5.7 percent annual gains, respectively. Regionally, the state of Washington showed the largest annual gain of all states with a 12.5 percent increase, followed by Utah and Nevada, each at 10.1 percent.
- **Mortgage applications** rose 4.7 percent for the week ending December 1, according to the Mortgage Bankers Association. Purchase applications improved 2.4 percent, driven by 1.6 percent and 4.4 percent increases in conventional and government purchase applications, respectively. Refinance applications posted a 9.0 percent gain, as conventional and government refinance applications increased 8.6 percent and 10.7 percent, respectively. The MBA survey's average 30-year fixed mortgage rate fell one basis point to 4.19 percent.



Source: Federal Reserve Board



Source: CoreLogic

Frank Shaw and Rebecca Meeker
Economic and Strategic Research Group

December 8, 2017