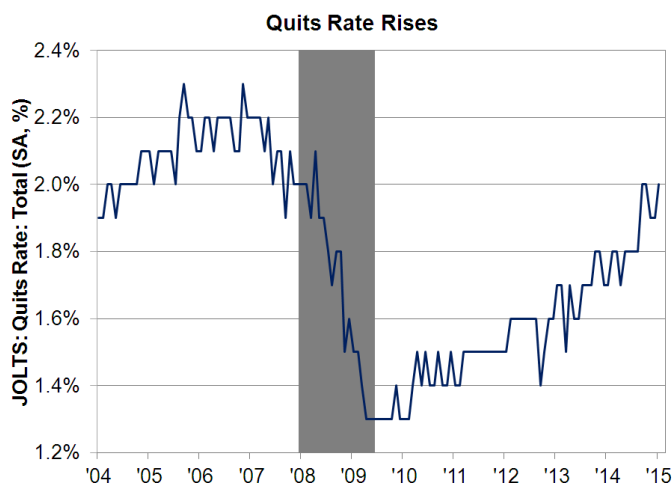


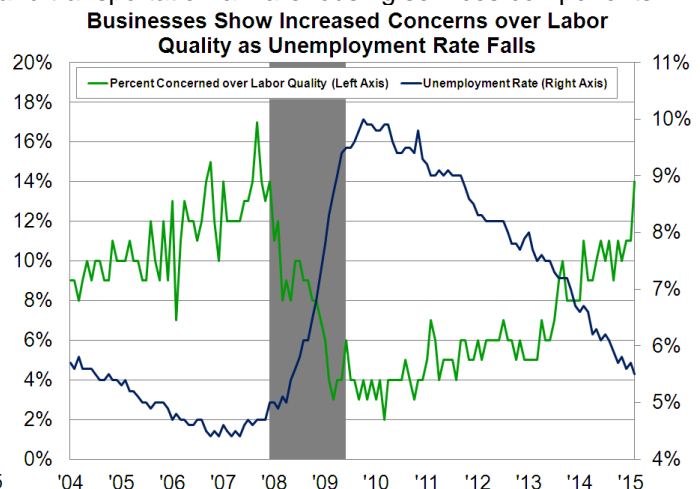
Economics: Waiting for Spring

This week's news featured a glimpse into February consumer spending and it wasn't a pretty picture. Retail sales softened largely across the board, except for internet sales, suggesting that the weather may have had a material impact. The drop in consumer sentiment in early March to a four-month low following a decline in the prior month was somewhat surprising, but the rebound in household net worth in the fourth quarter will provide support to consumers. Overall, we expect consumer spending growth to slow by about one and a half percentage points in the current quarter from the 4.2 percent annualized pace in the prior quarter. Two surveys this week point to continued tightening in the labor market, supporting our view that wage and salary income growth will pick up later this year. On the business side, small firms reported difficulty filling job openings. The share of firms indicating that the quality of labor is the "single most important problem" rose to the highest reading since the end of 2007, when the unemployment rate was 5 percent. On the worker side, a rising quits rate suggests increased confidence in the labor market. In the past, the trend in the quits rate has tracked well with the wage and salary component in the Employer Cost Index, with a lag of two-to-three quarters. February wholesale prices were quite weak, and all eyes will focus on next week's Federal Open Market Committee meeting to see how recent price trends will affect the Fed's inflation outlook. Given the strength in the labor market, we expect the Fed to modify its statement, dropping the language that it can be "patient" in beginning to normalize monetary policy.

- **Retail sales** pulled back 0.6 percent in February, according to the Census Bureau, driven by sharp drops in auto and building materials sales. Sales at gasoline stations rebounded, mirroring rising gasoline prices, while non-store retailers (i.e. internet sales) posted a healthy rise. Core sales, an input used to estimate consumer spending, were flat after a 0.1 percent drop in January.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** edged up one-tenth to 98.0 in February. The share of firms reporting that they were unable to fill positions rose to 29 percent, the highest level since April 2006, while the share of firms reporting that the quality of labor is the most important issue surged to 14 percent.
- **The Reuters/University of Michigan Consumer Sentiment Index** fell four points to a four-month low of 91.2 in early March, due to weaker assessments of current conditions and a worsening outlook. Higher gasoline prices may have helped pull sentiment lower because one-year inflation expectations rose to a six-month high of 3.0 percent.
- **The Job Opening and Labor Turnover Survey (JOLTS)** from the Bureau of Labor Statistics (BLS) showed that the January job openings rate was unchanged at 3.4 percent, and that the hires rate fell two-tenths to 3.5 percent. The quits rate, an indicator of labor market confidence, rose one-tenth to return to its post-recession high of 2.0 percent.
- **Import Prices** (BLS) rose for the first time in seven months, edging up 0.4 percent in February, driven by the biggest monthly gain in fuel prices in more than three years. The **Producer Price Index (PPI)** (BLS) and the core index both fell 0.5 percent in February. Energy prices were flat; however, the decline was largely due to a technical factor involving the way that the PPI methodology calculates margins in the trade and transportation & warehousing services components.



Source: The Bureau of Labor Statistics



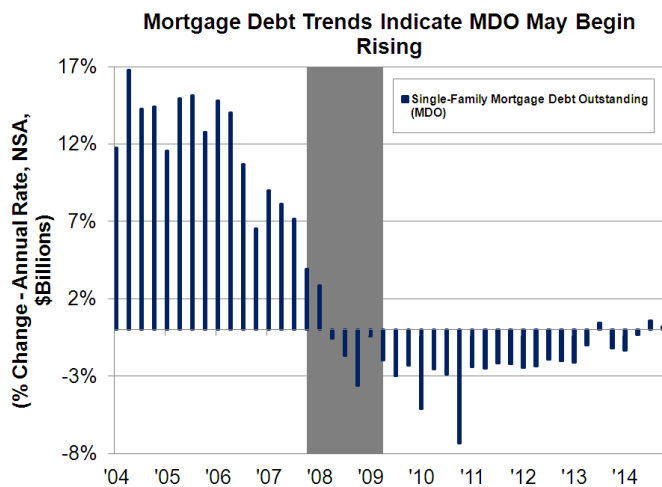
Source: NFIB and The Bureau of Labor Statistics

Housing: Let the Healing Continue

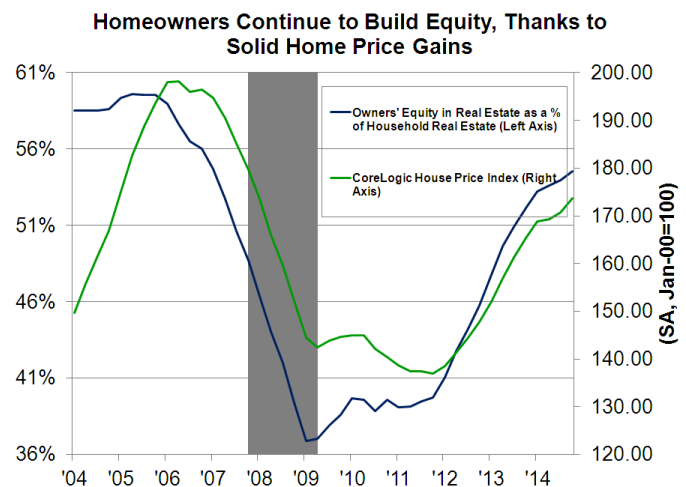
News from the mortgage market was less discouraging this week. Mortgage rates have moved higher since last Friday's strong February employment report, back to where they were at the start of the year, with Freddie Mac reporting the 30-year fixed-rate mortgage rose 11 basis points, averaging 3.86 percent in the latest week. Refinance mortgage applications have responded accordingly, pulling back for the fourth time over the past five weeks to the level seen at the start of 2015. Purchase demand fared better, rebounding for the week. The Federal Reserve's report on household net worth for the fourth quarter was upbeat, showing continued healing of the real estate sector. CoreLogic Home Price Index, the measure used by the Federal Reserve to estimate the value of household real estate holding, was up nearly five percent during the fourth quarter from a year ago, helping boost the equity position of homeowners. Owners' equity as a share of real estate holding continued to edge higher, reaching 54.5 percent during the fourth quarter, significantly higher from the trough of less than 37 percent in early 2009 but still well below the peak of nearly 60 percent in 2005. At the same time, the deleveraging process in mortgage debt outstanding appears to be coming to an end, as mortgage debt outstanding rose slightly for the second consecutive quarter, marking only the third quarterly increase since the first quarter of 2008.

➤ **The net worth of U.S. households and nonprofit organizations**—the value of assets minus liabilities—rose 1.9 percent, or about \$1.5 trillion, to a record \$82.9 trillion in the fourth quarter, rebounding from a slight drop in the previous quarter according to the Federal Reserve, thanks to solid gains in both financial and housing wealth. **The owners' equity in real estate as a percentage of household real estate** rose to 54.5 percent. Meanwhile, **single-family mortgage debt outstanding** edged up 0.1 percent. From a year ago, mortgage debt outstanding fell 0.2 percent, the seventh consecutive annual drop.

➤ **mortgage Applications** dropped 1.3 percent for the week ending March 6, according to the Mortgage Bankers Association Weekly Mortgage Applications. Purchase applications increased 1.9 percent, with the average loan size jumping to \$294,900, the highest level in the history of the survey. Refinance applications decreased 2.9 percent to the lowest level since January 2015. The average contract interest rate for 30-year fixed-rate mortgages increased five basis points to 4.01 percent, the highest level since the week ending January 2.



Source: Federal Reserve Board



Source: Federal Reserve Board and CoreLogic

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March 13, 2015

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