



'Noisy' Data

A soothsayer warned Julius Caesar to “Beware the Ides of March”, and perhaps the same can be said for some economic series during the winter months. Some series are more prone to statistical “noise” during low-volume months, such as housing starts and home sales. At other times series can exhibit unexpected changes from one month to the next when weather is exceptionally mild or severe.

Payroll employment for March increased by 120,000 less than many economists expected and comparatively sluggish compared to the better than 200,000 average increase over the previous three months. What many headlines missed, though, is that the first quarter of 2012 still registered the best quarterly payrolls performance since the spring of 2006. The unusually warm winter likely shifted some hiring into the first two months of the year, taking away from a stronger March showing. Just as important, there was a steady decline in jobless claims, and a lift in aggregate hours worked, both of which suggest that March may be more of a “noisy” month, rather than a break in momentum.

Ironically, some sectors that detracted from employment gains last month, such as retail and construction, have been doing well during April--another indication the March softness is temporary. The household survey looked gloomy as well--household employment fell by 31,000, after gaining 428,000 in February, and the labor-force participation rate dipped to 63.8 percent. On the other hand, the unemployment rate ticked down to 8.2 percent, the lowest since January 2009. Another positive note was fewer people lost their jobs in March, and more people left jobs voluntarily. Also, a broad measure of underemployment, which includes discouraged workers and those who are working part-time but want full-time jobs, declined 0.4 percentage points to 14.5 percent.

Despite one “noisy” month, the outlook is for the labor market to remain on track this year with an increase in job growth over 2011 and a further acceleration in 2013. Considering the full picture of the job market, the economy continues to make progress.

March retail sales showed that consumers continued to spend aggressively, bringing first-quarter sales 2 percent above sales in the previous quarter. Gasoline prices were up in the first quarter, but the unseasonably warm weather helped to bring down utilities costs, which offset some of the pain from higher gasoline prices. Also, the ongoing improvement in the job market is leading to additional consumption expenditures.

Retail growth in March was led by a 3 percent surge in sales at building supply stores, which was probably related to the warm winter weather. Other segments such as gas stations, furniture stores, auto dealers, electronics and appliance stores, and clothing stores also showed a very healthy monthly increase of near or slightly above 1 percent. Sales also grew 6.5 percent year-over-year, slightly higher than the annual growth in the previous two months.

Housing starts and permits for March showed a contradictory pattern. Residential starts unexpectedly fell by 5.8 percent to 654,000, the lowest since October, with multifamily starts



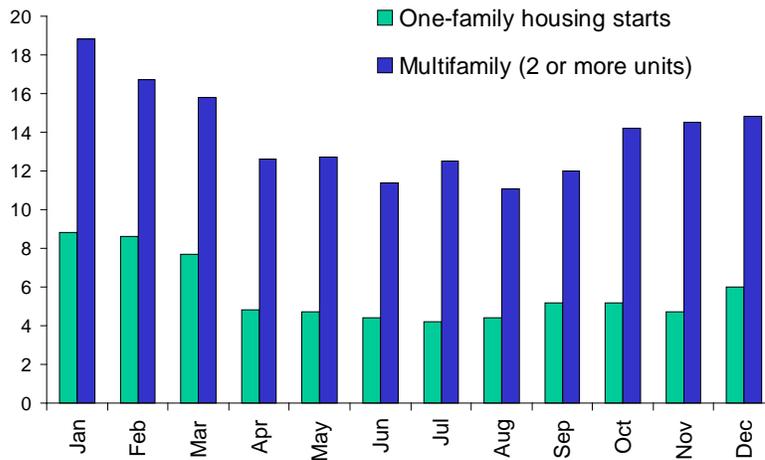
down a whopping 17 percent and single-family off only 0.2 percent. In contrast, building permits in March were up 4.5 percent to 747,000, led by multifamily which jumped 21 percent; single-family permits fell by 3.5 percent. Why such a disparate pattern?

Relatively small sample sizes during winter months (when new housing construction tends to be subdued) and unusually mild or severe weather (which tends to be most disruptive during winter months) add 'noise' to seasonally adjusted, annual rate estimates for housing starts and permits. Since 1959, one-family starts have moved 9 percent on average between successive winter months but only 4 percent month-to-month during the summer, as shown in the accompanying Exhibit. Similarly, multifamily starts have more month-to-month volatility during winter than summer, about 17 percent during January through March compared with about 12 percent during April through September. Building permits show a similar pattern but lower month-to-month variability because abnormal weather conditions (or other unseasonable phenomena) may affect the lag between permit issuance and construction but have much less impact on the timing of the authorization.



Housing Starts Data Are More Variable in Winter

Percent (Mean of absolute monthly percent change)



Source: Census Bureau (January 1959 to March 2012, monthly percent change)

Frank E. Nothhaft
 Chief Economist
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April 2012 Economic and Housing Market Outlook



Office of the Chief Economist

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Major Economic Indicators

Indicator	2011				2012				2013				Annual Totals						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2007	2008	2009	2010	2011	2012	2013
Real GDP (%)	0.4	1.3	1.8	3.0	2.3	2.5	2.7	2.9	3.0	3.3	3.6	4.0	2.2	-3.3	-0.5	3.1	1.6	2.6	3.5
Consumer Prices (%) a.	4.5	4.4	3.1	1.3	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	4.0	1.6	1.5	1.2	3.3	2.1	2.0
Unemployment Rate (%) b.	9.0	9.0	9.1	8.7	8.3	8.2	8.1	8.0	7.9	7.8	7.7	7.6	4.6	5.8	9.3	9.6	9.0	8.2	7.8
30-Year Fixed Mtg. Rate (%) b.	4.9	4.7	4.3	4.0	3.9	4.1	4.3	4.5	4.7	4.9	5.0	5.2	6.3	6.0	5.0	4.7	4.5	4.2	4.9
1-Year Treas. Indexed ARM Rate (%) b.	3.3	3.1	2.9	2.9	2.8	2.8	2.9	3.0	3.0	3.1	3.2	3.3	5.6	5.2	4.7	3.8	3.0	2.9	3.2
10-Year Const. Mat. Treas. Rate (%) b.	3.5	3.2	2.4	2.1	2.0	2.2	2.4	2.6	2.9	3.1	3.2	3.4	4.6	3.7	3.3	3.2	2.8	2.3	3.1
1-Year Const. Mat. Treas. Rate (%) b.	0.3	0.2	0.1	0.1	0.2	0.2	0.3	0.4	0.4	0.5	0.6	0.7	4.5	1.8	0.5	0.3	0.2	0.3	0.6

Indicator	2011				2012				2013				Annual Totals						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2007	2008	2009	2010	2011	2012	2013
Housing Starts c.	0.58	0.57	0.62	0.67	0.69	0.70	0.74	0.78	0.83	0.88	0.93	0.98	1.36	0.91	0.55	0.59	0.61	0.73	0.91
Total Home Sales d.	4.11	4.01	4.07	4.22	4.38	4.40	4.40	4.40	4.60	4.75	4.90	5.05	5.19	4.14	4.24	4.03	4.09	4.40	4.83
FMHPI House Price Appreciation (%) e.	-1.7	1.6	-1.6	-1.2	-1.0	1.0	-1.0	0.0	0.0	1.0	0.5	0.0	-4.9	-11.7	-2.3	-5.9	-3.0	-1.0	1.5
S&P/Case-Shiller® Home Price Index (%) f.	-4.0	4.0	-0.1	-3.8	-2.0	2.0	-1.0	0.0	0.0	1.0	0.5	0.0	-8.4	-18.4	-2.5	-3.7	-4.0	-1.0	1.5
1-4 Family Mortgage Originations g.																			
Conventional	\$263	\$220	\$277	\$338	\$264	\$270	\$225	\$191	\$170	\$240	\$236	\$164	\$2,312	\$1,310	\$1,549	\$1,300	\$1,098	\$950	\$810
FHA & VA	\$77	\$70	\$73	\$72	\$76	\$85	\$75	\$64	\$60	\$80	\$74	\$46	\$120	\$290	\$451	\$377	\$292	\$300	\$260
Total	\$340	\$290	\$350	\$410	\$340	\$355	\$300	\$255	\$230	\$320	\$310	\$210	\$2,432	\$1,600	\$2,000	\$1,677	\$1,390	\$1,250	\$1,070
ARM Share (%) h.	8	11	12	14	17	15	15	15	15	15	15	15	10	7	3	5	11	16	15
Refinancing Share - Applications (%) i.	69	70	78	81	81	75	70	60	60	60	60	60	42	48	70	76	75	72	60
Refinancing Share - Originations (%) j.	71	56	68	80	75	70	60	60	60	60	59	59	49	50	68	67	69	66	60
Residential Mortgage Debt (%) k.	-2.6	-1.9	-2.1	-1.6	-1.5	-1.0	-1.0	-0.5	1.0	2.0	2.0	3.0	7.1	-0.4	-1.6	-3.0	-2.0	-1.0	2.0

Note: Quarterly and annual forecasts (or estimates) are shown in shaded areas; totals may not add due to rounding; quarterly data expressed as annual rates.

Annual forecast data are averages of quarterly values; annual historical data are reported as Q4 over Q4.

a. Calculations based on quarterly average of monthly index levels; index levels based on the seasonally-adjusted, all-urban consumer price index.

b. Quarterly average of monthly unemployment rates (seasonally-adjusted); Quarterly average of monthly interest rates (not seasonally-adjusted).

c. Millions of housing units; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).

d. Millions of housing units; total sales are the sum of new and existing detached single-family homes; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).

e. Quarterly growth rate of Freddie Mac's House Price Index (FMHPI); not seasonally-adjusted; annual rates for yearly data.

f. National composite index (quarterly growth rate); not seasonally-adjusted; annual rates for yearly data.

g. Billions of dollars (not seasonally-adjusted).

h. Federal Housing Finance Agency (FHFA); quarterly averages of monthly shares of number of loans of conventional, home-purchase mortgage closings (not seasonally-adjusted).

i. Primary Mortgage Market Survey®; quarterly averages of monthly shares of all single-family mortgage applications (not seasonally-adjusted).

j. Home Mortgage Disclosure Act for all single-family mortgages (not seasonally-adjusted); Annual share is dollar-weighted average of quarterly shares.

k. Federal Reserve Board; growth rate of residential mortgage debt, the sum of single-family and multifamily mortgages (not seasonally-adjusted, annual rate)

Prepared by Office of the Chief Economist and reflects views as of 4/24/2012 (MAS); Send comments and questions to chief_economist@freddiemac.com.

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