



JULY 2018

Economic Growth Moderates in Early 2018; Labor Market Continues to Be Strong

Revised estimates of Gross Domestic Product (GDP) in the first quarter of this year showed further deceleration—down to 2.0 percent from 2.9 percent in last year’s fourth quarter. However, conditions remain favorable for much stronger growth in the second quarter, backed by a narrowing trade deficit and upticks in business and consumer spending. We forecast real GDP growth of 3.4 percent in the second quarter and 2.7 percent for all of 2018.

The U.S. labor market continues to be robust, now at 93 consecutive months of job growth. Although the unemployment rate ticked up to 4.0 percent in June, the increase was mainly the result of more people looking for work. The labor force participation rate also increased two-tenths of a percentage point, to 62.9 percent. Despite the strength in the labor market, average hourly earnings grew 2.7 percent year-over-year. We expect job gains to hold steady, with the unemployment rate averaging 3.9 percent and 3.8 percent in 2018 and 2019, respectively.

Forecast Snapshot (July 2018)

Summary (annualized)	2017	2018	2019
30-year FRM (%)	4.0	4.6	5.1
Total home sales (M)	6.12	6.27	6.44
House price growth (%)	7.3	6.7	4.8
Total originations (\$B)	\$1,818	\$1,686	\$1,691



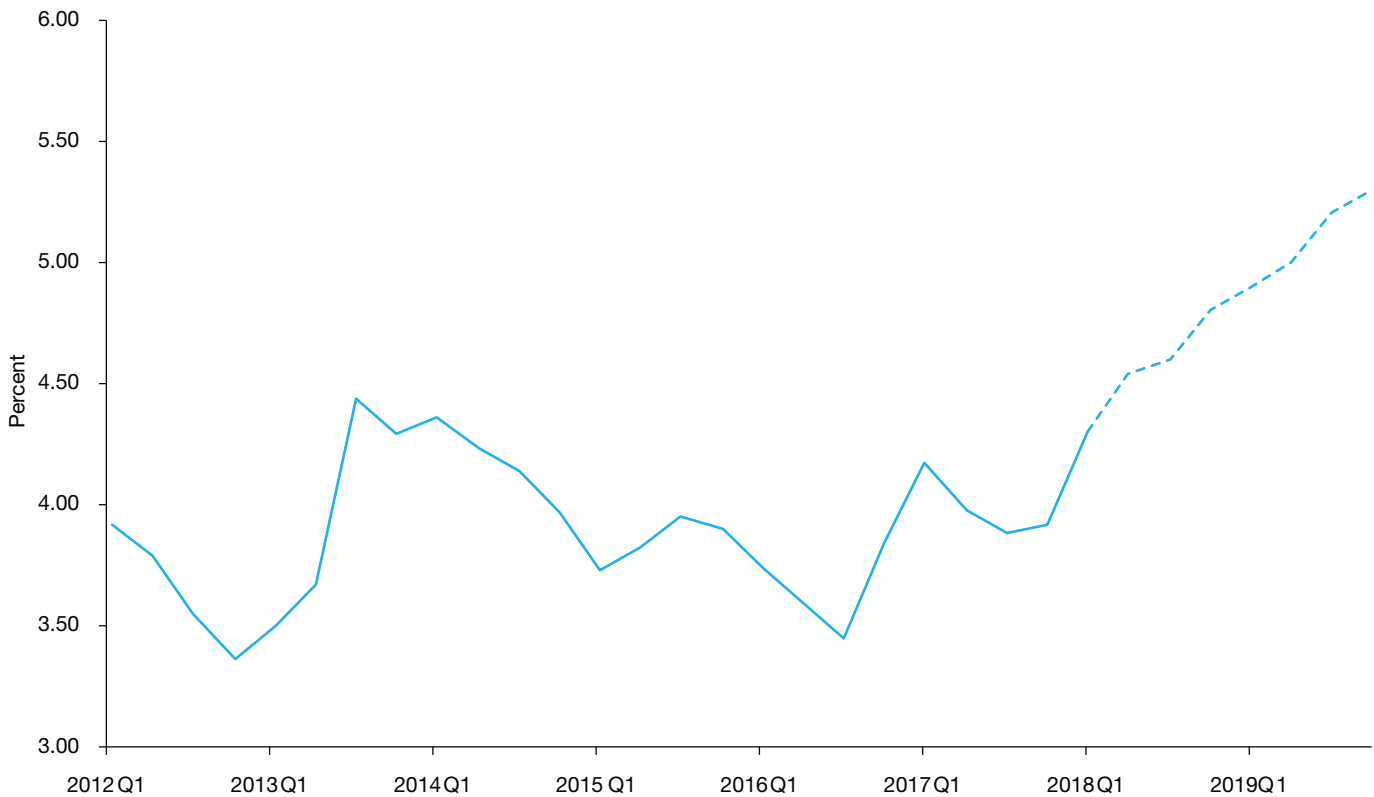
Mortgage rates maintain recent decline

The 30-year fixed mortgage rate has been slightly declining since mid-June and was 4.53 percent in the second week of July. Rates have stepped back because of declining long-term Treasury yields, which continue to be pushed down by anxieties from a potential trade war. Our forecast has the 30-year fixed-rate mortgage averaging 4.6 percent this year, and rising to 5.1 percent next year.

Exhibit 1

Mortgage rates headed higher by 2019

Freddie Mac Primary Mortgage Market Survey®



Source: Freddie Mac Primary Mortgage Market Survey® (PMMS®)

Note: Dashed line indicates forecasted data.



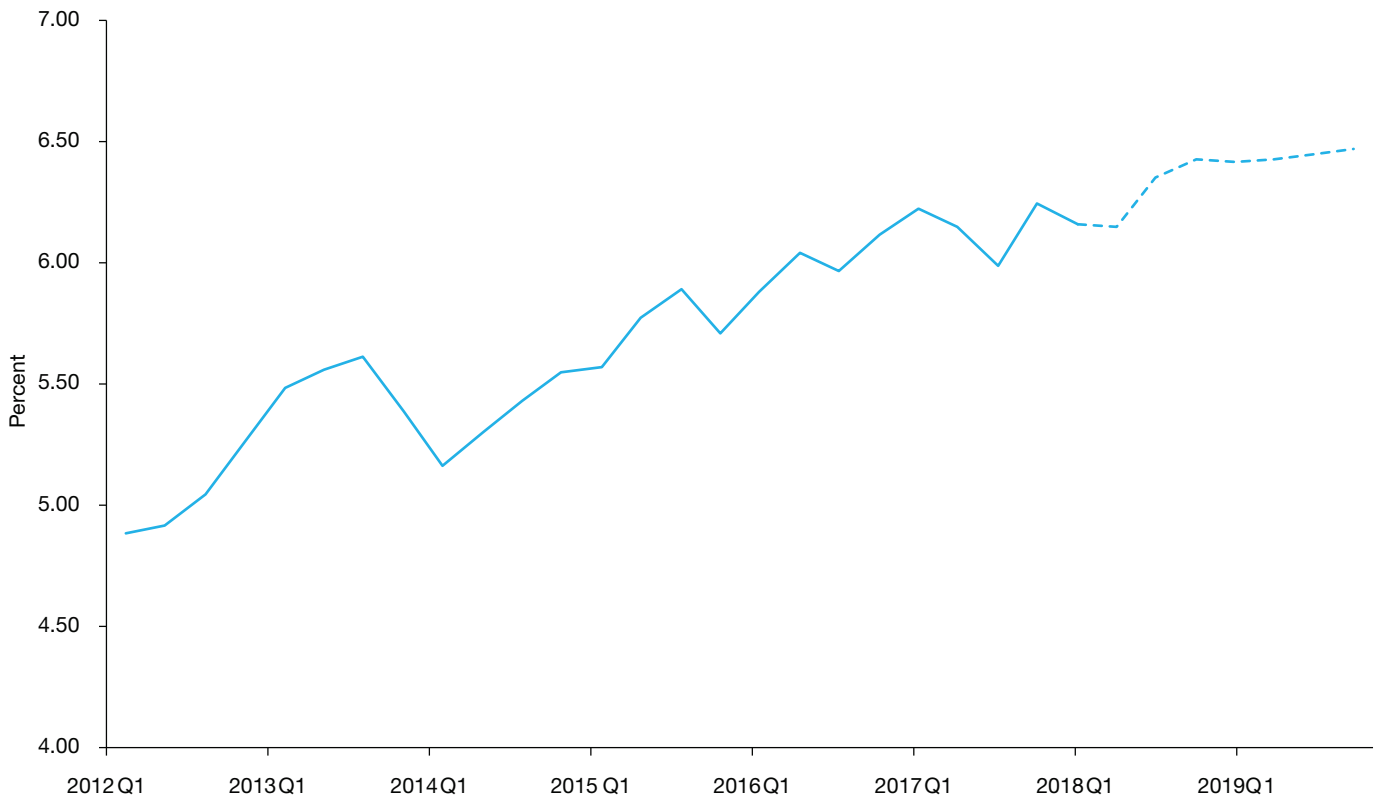
New home sales: slowly increasing to meet underlying demand

The pace of existing-home sales has been disappointing this year, as tight inventory conditions continue to suppress overall activity despite solid demand. Conversely, new home sales continue to rise, with homebuilders increasing production—albeit slowly. Our forecast for total home sales (new and existing) remains unchanged. We expect modest sales growth over the next two years, with 6.27 million sales in 2018 and 6.44 million in 2019.

Exhibit 2

Home sales expected to pick up in the long run despite recent decline

Home sales (existing + new)



Source: U.S. Census Bureau, Freddie Mac July 2018 Economic and Housing Research Outlook
 Note: Dashed line indicates forecasted data.

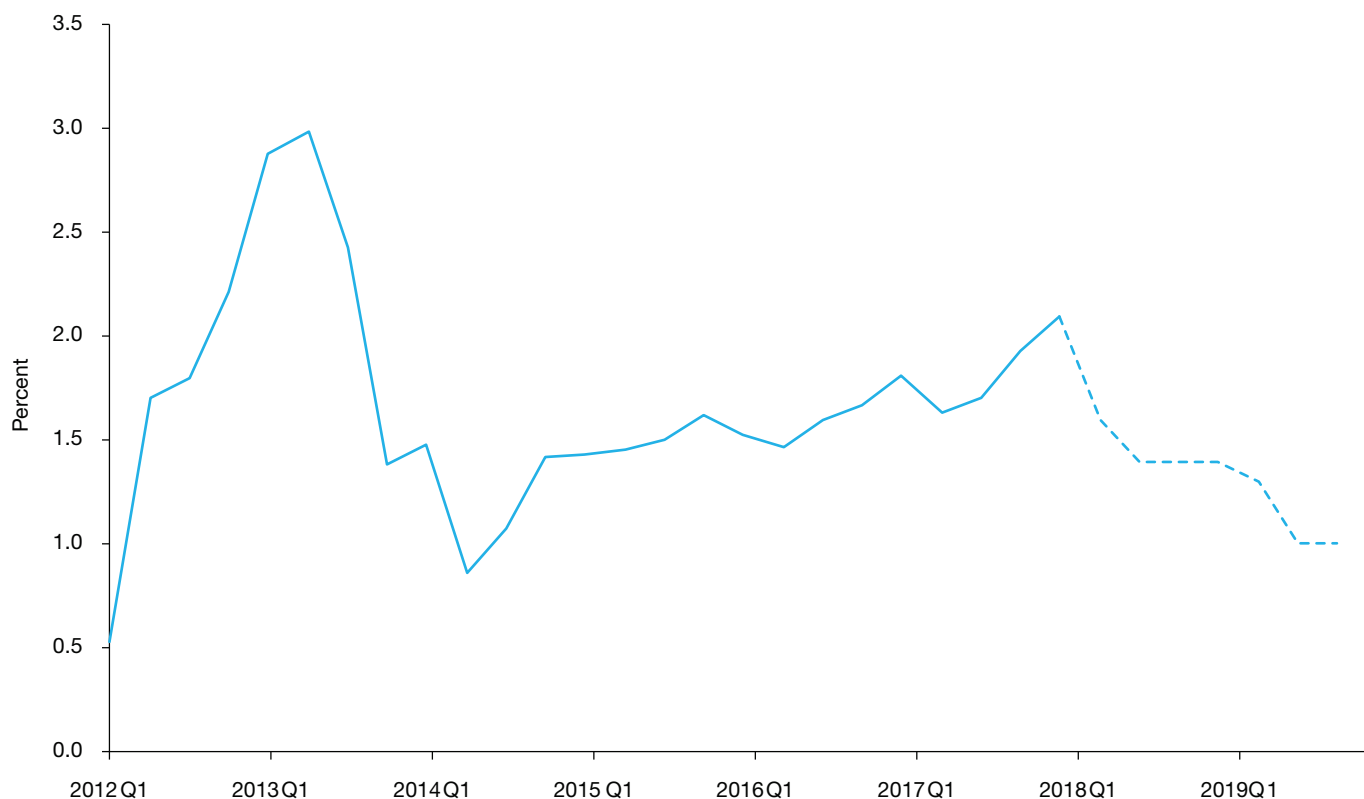


Increasing housing demand amidst tight supply continue to lead to rising home prices. The strength in new home sales should help moderate home price growth by 2019. We anticipate home price growth of 6.7 percent this year and 4.8 percent next year.

Exhibit 3

House price appreciation in the U.S.

Quarterly percent change in Freddie Mac House Price Index



Source: Freddie Mac House Price Index, July 2018 Economic and Housing Research Outlook

Note: Dashed line indicates forecasted data.



Single-family mortgage originations expected to decline in 2018

Historically, our monthly forecasts have estimated total single-family originations, including second liens and home improvement loans. With the release of this month's forecast, we are revising our estimates to include only first-lien, single-family mortgage originations (excluding home improvement loans). This adjustment more closely aligns our estimates of total single-family originations with those of the Mortgage Bankers Association and Fannie Mae, among others. We have re-estimated total single-family originations back to 2004 using this revised approach; **Exhibit 5** shows our re-benchmarked historical estimates.

This year, we forecast single-family first-lien mortgage origination volume to be \$1.69 trillion, down 7 percent from last year. We expect origination volume to be flat next year, but with activity continuing to shift from refinance to purchase due to higher mortgage interest rates. Purchase origination volume is forecasted to be \$1.19 trillion this year and \$1.29 trillion next year.

Exhibit 4

Mortgage originations likely to decline in 2018

Annual single-family mortgage originations (\$ trillions)



Source: Freddie Mac July 2018 Economic and Housing Research Outlook
 Note: Totals may not add due to rounding.

Exhibit 5

1-4 Family mortgage originations

Year	Conventional	FHA & VA	Total	Refinance Share
2004	\$2,622	\$129	\$2,751	54%
2005	\$2,921	\$82	\$3,004	51%
2006	\$2,577	\$79	\$2,655	49%
2007	\$2,123	\$105	\$2,228	51%
2008	\$1,240	\$294	\$1,535	51%
2009	\$1,503	\$450	\$1,953	69%
2010	\$1,267	\$367	\$1,634	68%
2011	\$1,173	\$286	\$1,458	66%
2012	\$1,709	\$372	\$2,081	72%
2013	\$1,525	\$355	\$1,880	60%
2014	\$1,051	\$259	\$1,310	40%
2015	\$1,290	\$406	\$1,696	47%
2016	\$1,579	\$474	\$2,053	49%
2017	\$1,390	\$429	\$1,818	36%
2018F	\$1,284	\$402	\$1,686	29%
2019F	\$1,294	\$397	\$1,691	24%

Note: Billions of dollars (not seasonally adjusted); First lien, single-family and manufactured houses originations (home improvement loans excluded).



July 2018 Economic & Housing Market Forecast

Forecasted Figures

Historical Data

As of 7/5/2018

Indicator	2017				2018				Annual Totals		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019
Major Economic Indicators											
Real GDP (%)	1.2	3.1	3.2	2.9	2.0	3.4	2.8	2.6	2.6	2.7	2.5
Consumer Prices (%) a.	3.0	0.1	2.1	3.3	3.5	2.0	2.3	2.4	2.1	2.6	2.4
Unemployment Rate (%) b.	4.7	4.4	4.3	4.1	4.1	3.9	3.8	3.8	4.4	3.9	3.8
30-Year Fixed Mtg. Rate (%) b.	4.2	4.0	3.9	3.9	4.3	4.5	4.6	4.8	4.0	4.6	5.1
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	3.2	3.1	3.2	3.3	3.6	3.8	3.9	4.1	3.2	3.8	4.5
10-Year Const. Mat. Treas. Rate (%) b.	2.4	2.3	2.2	2.4	2.8	2.9	2.9	3.0	2.3	2.9	3.5
1-Year Const. Mat. Treas. Rate (%) b.	0.9	1.1	1.3	1.6	1.9	2.2	2.3	2.4	1.2	2.2	2.9
Housing & Mortgage Markets											
Housing Starts c.	1.23	1.17	1.17	1.26	1.32	1.33	1.34	1.35	1.20	1.34	1.40
Total Home Sales d.	6.22	6.15	5.99	6.25	6.16	6.15	6.35	6.43	6.12	6.27	6.44
FMHPI House Price Appreciation (%) e.	1.8	1.7	1.7	1.9	2.1	1.6	1.4	1.4	7.3	6.7	4.8
1-4 Family Mortgage Originations f.											
- Conventional	\$278	\$358	\$384	\$370	\$284	\$353	\$355	\$292	\$1,390	\$1,284	\$1,294
- FHA & VA	\$107	\$106	\$112	\$103	\$90	\$111	\$109	\$92	\$429	\$402	\$397
- Total	\$385	\$464	\$496	\$473	\$374	\$464	\$464	\$384	\$1,818	\$1,686	\$1,691
Refinancing Share - Originations (%) g.	43	30	33	41	40	28	27	23	36	29	24
Residential Mortgage Debt (%) h.	2.9	3.7	4.1	4.0	2.0	4.6	4.8	4.9	3.7	4.1	5.2

Note: Quarterly and annual forecasts 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 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; seasonally-adjusted; annual rates for yearly data.
- f. Billions of dollars (not seasonally-adjusted).
- g. Home Mortgage Disclosure Act for all single-family mortgages (not seasonally-adjusted); annual share is dollar-weighted average of quarterly shares (2014 estimated).
- h. Federal Reserve Board; growth rate of residential mortgage debt, the sum of single-family and multifamily mortgages (not seasonally-adjusted, annual rate).

Prepared by the Economic & Housing Research group; Send comments and questions to chief_economist@freddiemac.com.



Economic & Housing Research **Forecast**

Prepared by the Economic & Housing Research group

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