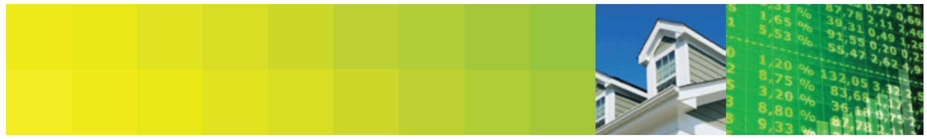


SEPTEMBER 2018

Economic Growth Quickens in the Second Quarter

The U.S. economy grew at a 4.2 percent rate in the second quarter, which exceeded the advance estimate (4.1 percent) and was the fastest pace in almost four years. The robust expansion reflects a rebound in consumer spending, as well as upward revisions to nonresidential and private inventory investments. For the year, we expect the economy to grow at a rate of 3.0 percent, before moderating to 2.4 percent next year.

August marked the 95th consecutive month of job growth, easily the longest streak recorded by the U.S. Bureau of Labor Statistics. The strong reading of 201,000 added jobs last month helped keep the unemployment rate at 3.9 percent. The healthy labor market should continue to fuel sustained business and consumer spending. We forecast the unemployment rate to remain at 3.9 percent in 2018, and drop to 3.8 percent in 2019.

Forecast Snapshot (September 2018)

Summary (annualized)	2017	2018	2019
30-year FRM (%)	4.0	4.5	5.1
Total home sales (M)	6.12	6.07	6.18
House price growth (%)	7.2	5.5	4.5
Total originations ($B)	$1,810	$1,649	$1,650

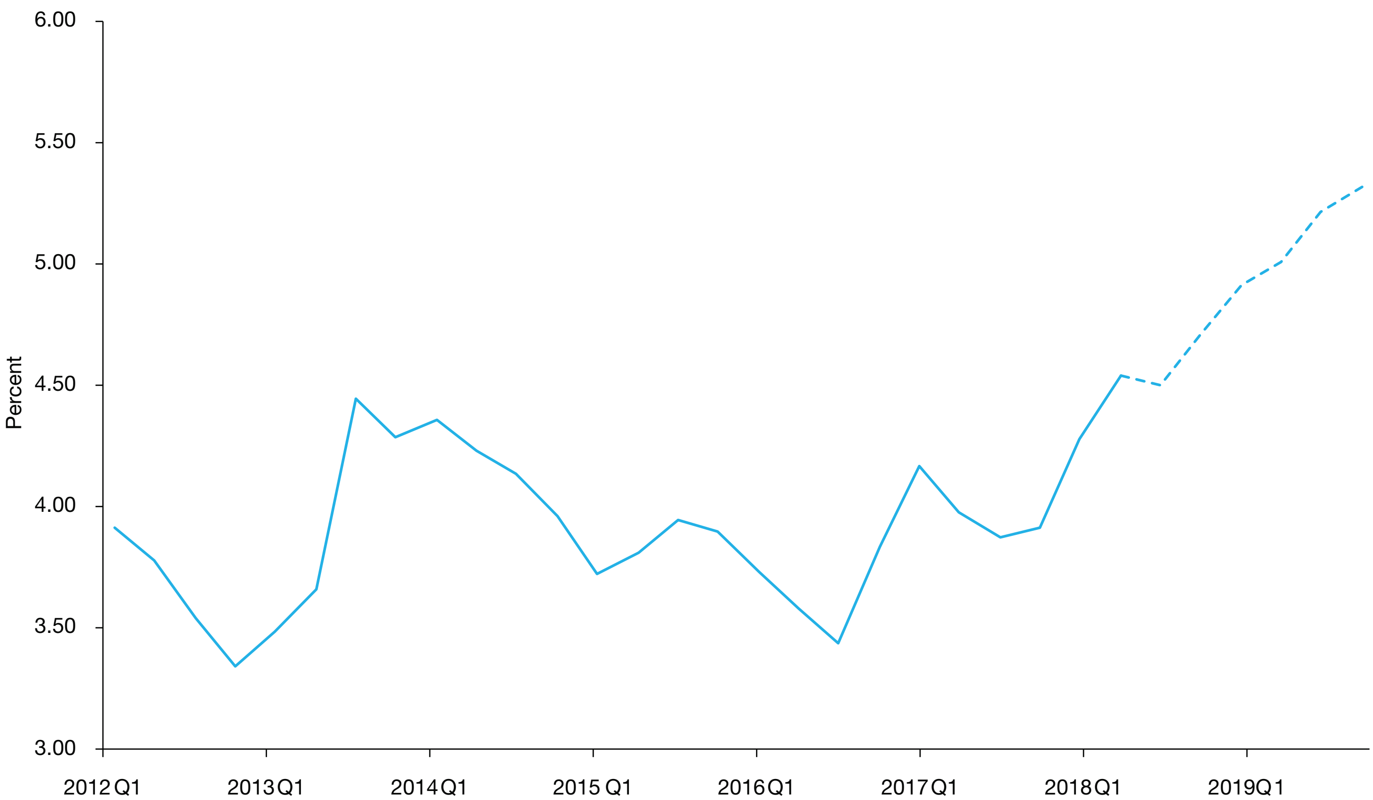
Mortgage rates stabilized this summer, but may be on the rise again

After a quick run-up earlier this year, mortgage rates inched backward over the summer and have most recently started to trend higher again. The U.S. weekly average mortgage rate reached 4.66 percent in May of this year and was 4.60 percent as of September 13. Looking ahead, we anticipate the 30-year fixed-rate mortgage to gradually increase again, averaging 4.5 percent this year and 5.1 percent in 2019.

Exhibit 1

Mortgage rates expected to continue to rise in 2019

Freddie Mac Primary Mortgage Market Survey®



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

Note: Dashed line indicates forecasted data.

Sales activity is weakening

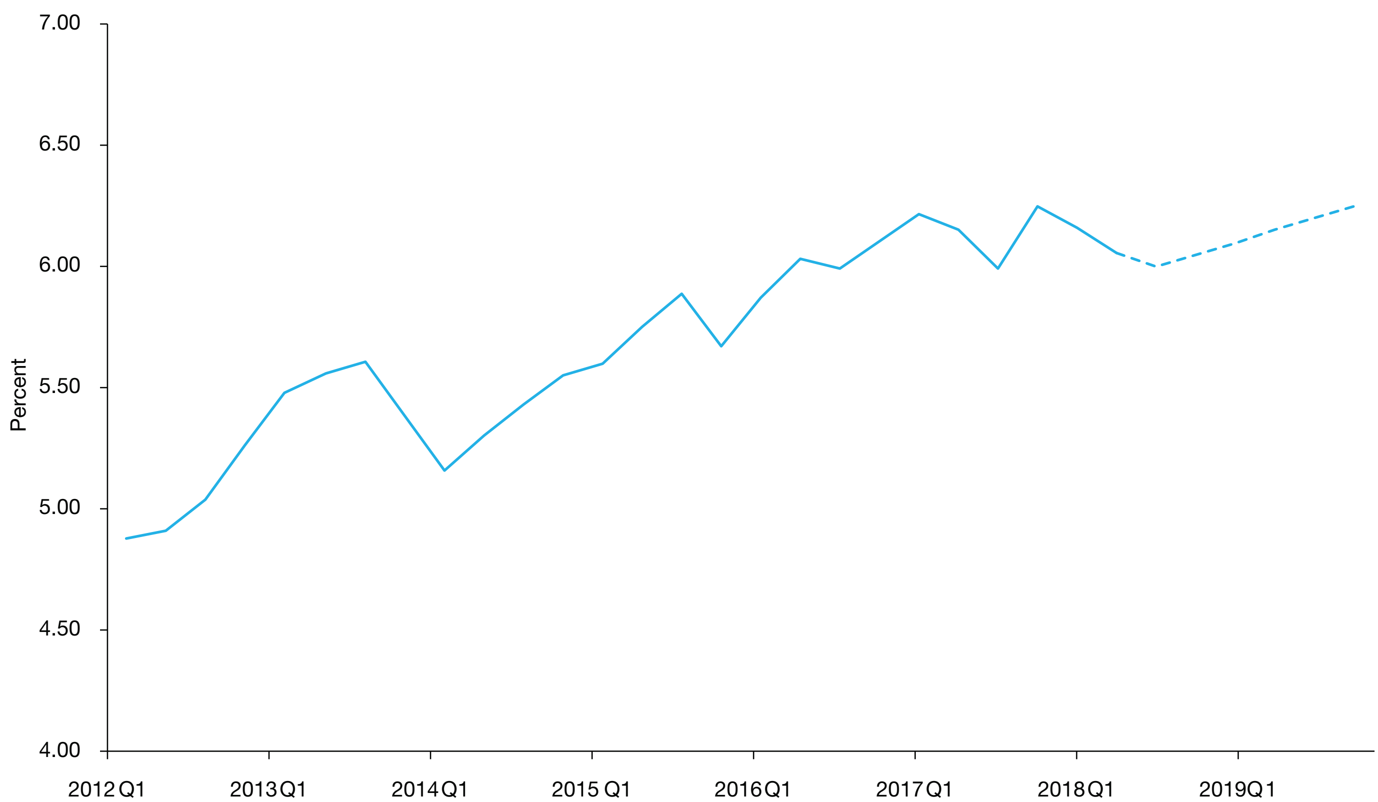
Home sales declined in the second quarter and showed further weakness going into the third quarter. Specifically, total single-family home sales (new and existing) decreased for a fourth consecutive month in July to an annualized rate of 5.97 million units. New home construction also lost momentum in the second quarter, falling 4.5 percent from the first quarter.

Based on this downward trend, we have lowered our home sales and housing starts projections for the remainder of this year and next. We now expect total home sales to decline 0.9 percent to 6.07 million in 2018, before increasing 1.8 percent to 6.18 million in 2019. Housing starts are now forecast to rise 7.5 percent this year and 4.7 percent in 2019.

Exhibit 2

Sales activity is weakening in 2018, but a rebound is expected

Home sales (existing + new)



Source: U.S. Census Bureau, Freddie Mac September 2018 Economic and Housing Research Forecast

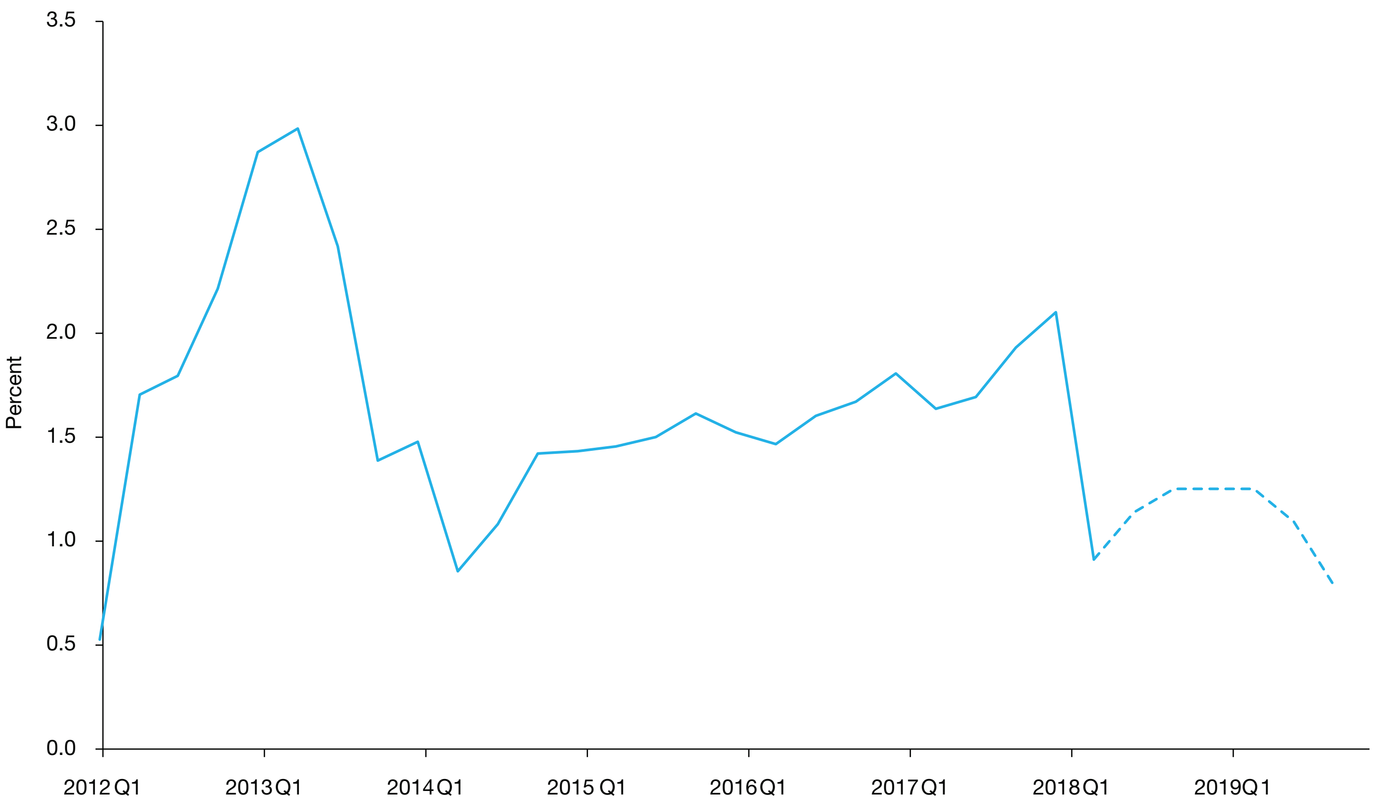
Note: Dashed line indicates forecasted data.

Amidst homebuyers' budget constraints and slight improvements in supply levels, home prices grew at a slower pace last quarter. The Freddie Mac House Price Index (FMHPI) increased 0.9 percent in the second quarter, down from a robust 2.1 percent increase in the first quarter. For the year, we anticipate that home prices will increase 5.5 percent, with the growth rate moderating to 4.5 percent in 2019.

Exhibit 3

Home price appreciation in the U.S.

Quarterly percent change in Freddie Mac House Price Index



Source: Freddie Mac House Price Index, September 2018 Economic and Housing Research Forecast

Note: Dashed line indicates forecasted data.

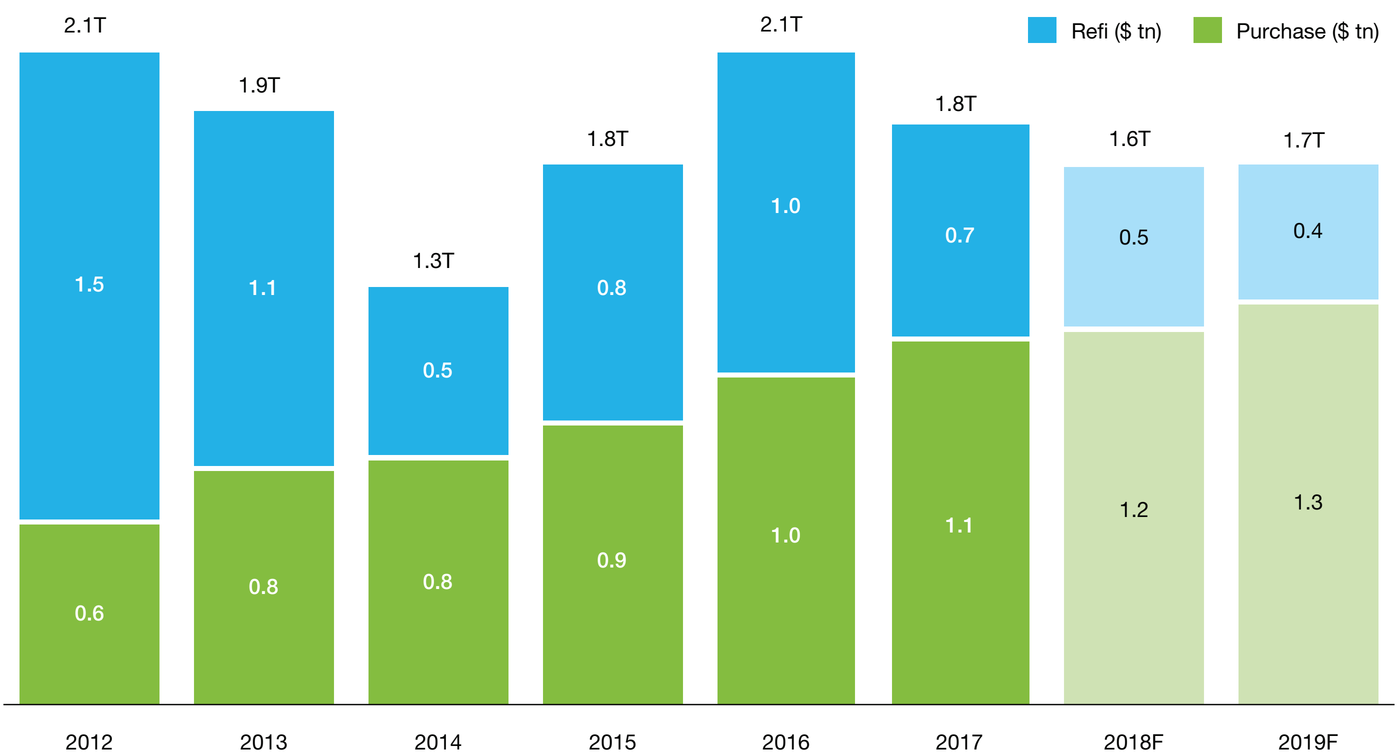
Fewer home sales and slower price growth weigh on originations

The slowdown in home sales and price growth have caused us to further revise our forecast for single-family mortgage originations. We now forecast single-family mortgage originations in 2018 to decline to $1.65 trillion (down 8.9 percent year-over-year).

Exhibit 4

Mortgage originations likely to decline in 2018

Annual single-family mortgage originations ($ trillions)



Source: Freddie Mac September 2018 Economic and Housing Research Forecast

Note: Totals may not add due to rounding; * Includes only 1st liens

Quarterly Refinance Report

According to Freddie Mac's Quarterly Refinance Statistics second quarter data set, "cash-out" borrowers, those that increased their loan balance by at least five percent, represented 77 percent of all refinance loans—up from 57 percent a year ago.

While the share of cash-out refinances last quarter was the highest since the third quarter of 2008 (78 percent), the total dollar volume of cash-out refinance activity remains much lower than the highs seen a decade ago. Adjusted for inflation (in 2017 dollars), an estimated $15.5 billion in net home equity was cashed out in the second quarter, down slightly from $15.7 billion a year earlier and substantially less than the peak cash-out refinance volume of $102.3 billion in the second quarter of 2006.

Borrowers who refinanced their first-lien mortgage last quarter either kept the same interest rate or took slightly higher interest rates. Many of these borrowers refinanced not for rate reduction, but for cashing out equity to consolidate other higher interest debt, pay other bills or use towards home improvements.

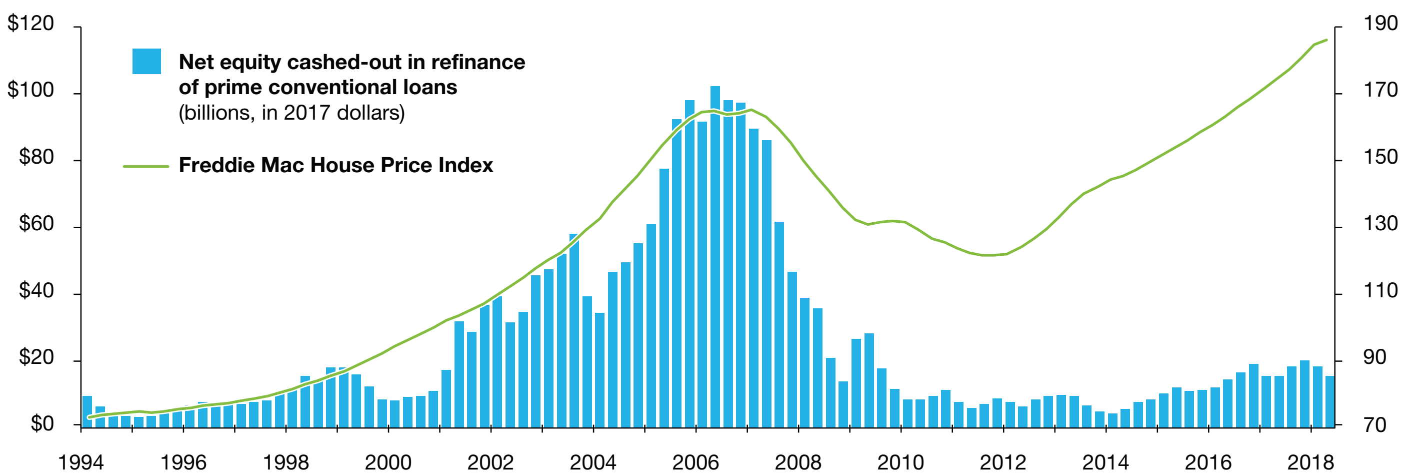
Are homeowners cashing out?

In 2006, a lot of homeowners took advantage of their rising home equity and cashed-out an estimated $102.3 billion (in 2017 dollars). **Exhibit 5** illustrates that in recent years, even with house prices surpassing the 2006 levels, homeowners are not cashing-out the equity in their homes the way they did in 2006. Even though the cash-out share of refinances are approaching the highs of 2005 and 2006, the dollar volume cashed-out is well below the volume extracted in 2005 and 2006.

More than 95 percent of refinancing borrowers chose a fixed-rate loan. Fixed-rate loans were preferred regardless of their original loan product. For example, 93 percent of borrowers who had a hybrid ARM refinanced into a fixed-rate loan. In contrast, only 3 percent of borrowers who had a fixed-rate loan refinanced into an ARM.

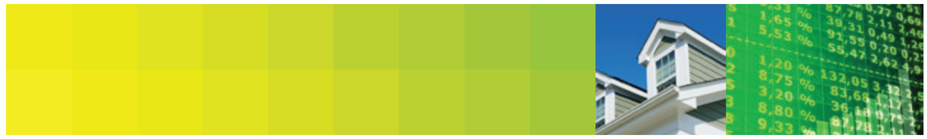
Exhibit 5

Borrowers cash-out about $15 billion (in 2017 dollars) when refinancing



Sources: Second Quarter 2018, Equity cashed-out adjusted for inflation (2017 CPI – All Urban Consumers SA), Freddie Mac House Price Index for the United States (SA).

Freddie Mac



Economic & Housing Research **Forecast**

September 2018 Economic & Housing Market Forecast

Forecasted Figures
Historical Data

As of 9/6/2018

Indicator	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	Annual Totals 2017	Annual Totals 2018	Annual Totals 2019
Major Economic Indicators											
Real GDP (%)	1.8	3.0	2.8	2.3	2.2	4.2	3.0	2.6	2.5	3.0	2.4
Consumer Prices (%) a.	3.0	0.1	2.1	3.3	3.5	1.7	2.3	2.4	2.1	2.5	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	4.5	4.7	4.0	4.5	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	2.4	2.4	1.2	2.2	2.9
Housing & Mortgage Markets											
Housing Starts c.	1.23	1.17	1.17	1.26	1.32	1.26	1.28	1.30	1.20	1.29	1.35
Total Home Sales d.	6.22	6.15	5.99	6.25	6.16	6.06	6.00	6.05	6.12	6.07	6.18
FMHPI House Price Appreciation (%) e.	1.8	1.7	1.7	1.9	2.1	0.9	1.1	1.3	7.2	5.5	4.5
1-4 Family Mortgage Originations f.											
- Conventional	$270	$354	$385	$373	$284	$346	$340	$285	$1,382	$1,255	$1,263
- FHA & VA	$107	$106	$112	$103	$90	$109	$105	$90	$429	$394	$387
- Total	$377	$460	$497	$476	$374	$455	$445	$375	$1,810	$1,649	$1,650
Refinancing Share - Originations (%) g.	44	30	33	41	40	29	24	23	37	29	25
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.

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