Economic & Housing Research **Forecast**

MAY 2019

A Steadily Growing Housing Market

After increasing throughout April, mortgage rates declined at the start of May. The combined positive impact of low mortgage rates, a strong labor market, low unemployment, and modest wage growth supports our forecast for a steadily growing housing market in 2019.

Real Gross Domestic Product grew at an annual rate of 3.2% in the first quarter, beating expectations. Transitory factors like private inventory investment were behind the first quarter surge and are unlikely to persist throughout the year. We expect GDP to grow 2.3% in 2019 before slowing to 1.8% in 2020.

The Bureau of Labor Statistics reported an unemployment rate of 3.6% in April, which marked a 50-year low. This has informed our decision to lower our unemployment rate forecast to 3.7% for the second quarter of 2019, and we expect it to remain flat for the remainder of 2019, before increasing in 2020. Overall, we expect the unemployment rate to be 3.8% and 3.9% in 2019 and 2020, respectively.

Forecast Snapshot (May 2019)

Summary (annualized)	2017	2018	2019	2020
30-year PMMS (%)	4.0	4.5	4.3	4.5
Total home sales (M)	6.12	5.96	5.98	6.14
House price growth (%)	7.2	4.8	3.6	2.6
Total originations ($B)	$1,810	$1,636	$1,733	$1,701

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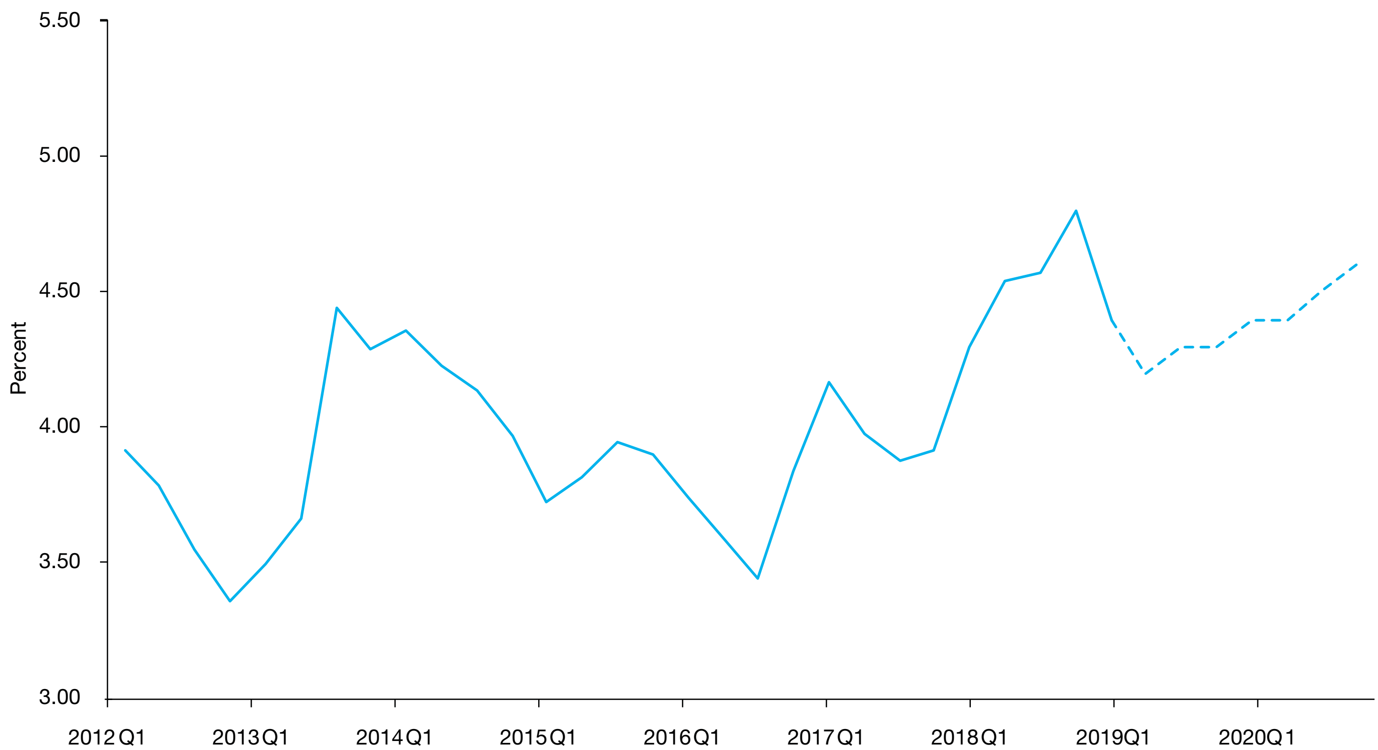
Mortgage rates continue to decline since the beginning of 2019

We still expect the 30-year fixed-rate mortgage to continue its downward trend, averaging 4.3% in 2019, before increasing to 4.5% in 2020.

Exhibit 1

Mortgage rates have declined since the beginning of 2019

Freddie Mac Primary Mortgage Market Survey®



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

Note: Dashed line indicates forecasted data.

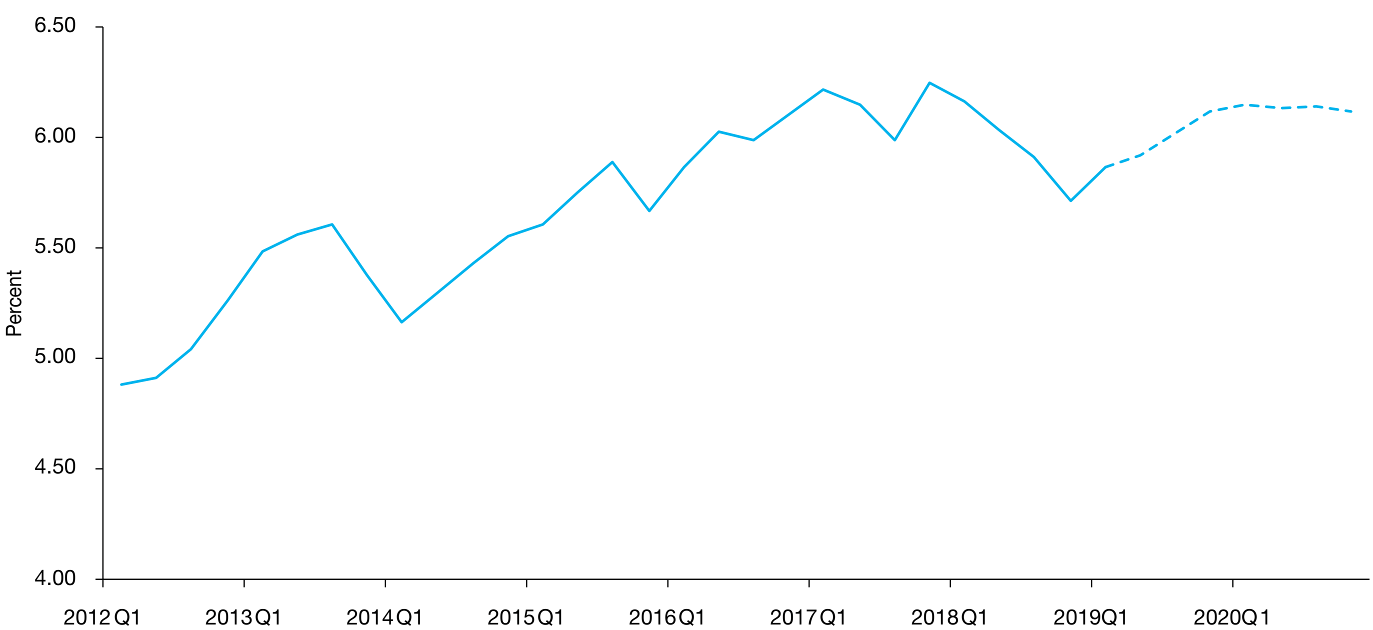
Homes sales showing signs of recovery

Existing home sales have benefited from low mortgage rates and a healthy job market. We expect stronger home sales and housing starts in the coming months. This will bring full-year housing starts and sales in 2019 back to around the same level we saw in 2018.

Exhibit 2

Home sales expected to regain momentum

Home sales (existing + new)



Source: U.S. Census Bureau, Freddie Mac May 2019 Economic and Housing Research Forecast

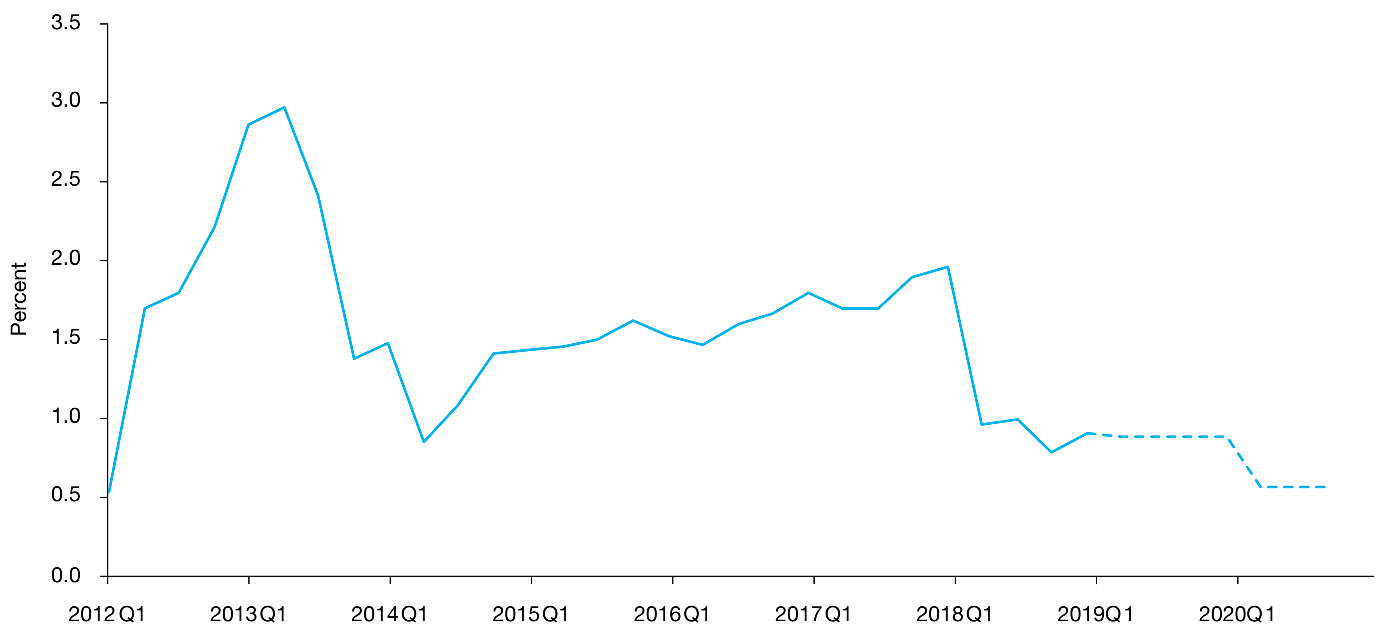
Note: Dashed line indicates forecasted data.

House price appreciation in the first quarter of 2019 was slightly higher than previously anticipated. This has led us to revise up our 2019 annual forecast for home price growth to 3.6%. On the other hand, we expect house price growth to moderate to 2.6% in 2020.

Exhibit 3

Home price appreciation in the U.S.

Quarterly percent change in Freddie Mac House Price Index



Source: Freddie Mac House Price Index, May 2019 Economic and Housing Research Forecast

Note: Dashed line indicates forecasted data.

Mortgage originations expected to increase with low mortgage rates

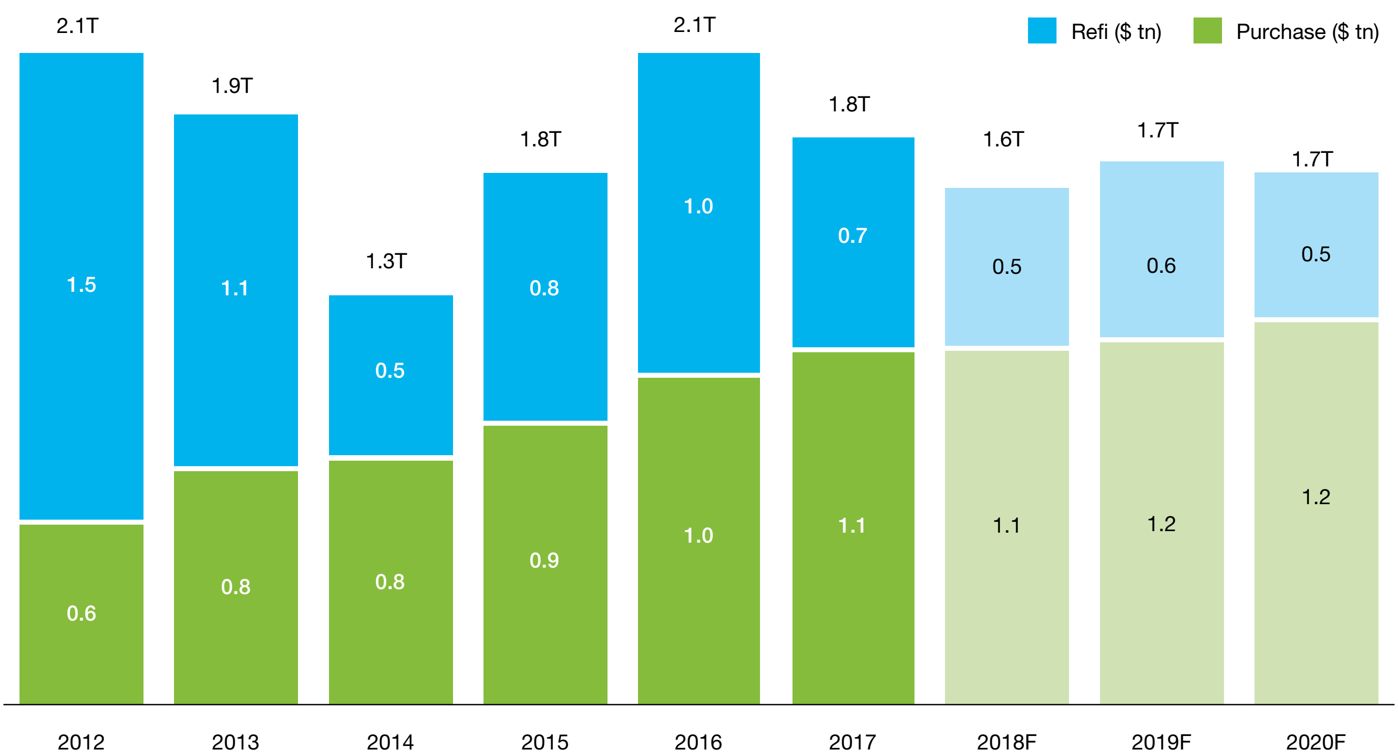
The originations market will recover from its 2018 slump this year driven by declining mortgage rates, which continue to provide an impetus to first-time homebuyers as well as homeowners looking to refinance.

Moving forward, we will be forecasting the growth rate for single-family residential mortgage debt of households and nonprofit organizations. This replaces our forecasts for total residential mortgage debt, which included multifamily mortgages as well. The change is an effort to be consistent with our mortgage originations forecasts, which reflect only single-family mortgages. We expect the growth rate of outstanding residential mortgage debt to be 2.9% in both 2019 and 2020.

Exhibit 4

Mortgage originations likely to increase in 2019

Annual single-family mortgage originations ($ trillions)



Source: Freddie Mac May 2019 Economic and Housing Research Forecast

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

May 2019 Economic & Housing Market Forecast

Forecasted Figures

Historical Data

As of 5/6/2019	2018				2019				Annual Totals			
Indicator	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**2017**	**2018**	**2019**	**2020**
Major Economic Indicators												
Real GDP Growth (%)	2.2	4.2	3.4	2.2	3.2	1.5	2.3	2.2	2.5	3.0	2.3	1.8
Consumer Prices (%) a.	3.2	2.1	2.0	1.5	0.9	2.0	2.1	2.3	2.1	2.2	1.8	2.1
Unemployment Rate (%) b.	4.1	3.9	3.8	3.8	3.9	3.7	3.7	3.7	4.4	3.9	3.8	3.9
30-Year Fixed Mtg. Rate (%) b.	4.3	4.5	4.6	4.8	4.4	4.2	4.3	4.3	4.0	4.5	4.3	4.5
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	3.6	3.8	3.9	4.1	3.9	3.7	3.8	3.8	3.2	3.8	3.8	3.8
10-Year Const. Mat. Treas. Rate (%) b.	2.8	2.9	2.9	3.1	2.7	2.5	2.5	2.5	2.3	2.9	2.6	2.7
1-Year Const. Mat. Treas. Rate (%) b.	1.9	2.3	2.5	2.7	2.5	2.4	2.4	2.4	1.2	2.4	2.4	2.4
Federal Funds Effective Rate (%) b.	1.5	1.7	1.9	2.2	2.4	2.4	2.4	2.4	1.0	1.8	2.4	2.4
Housing & Mortgage Markets												
Housing Starts c.												
- Single-Family	0.89	0.90	0.88	0.83	0.85	0.88	0.90	0.90	0.85	0.87	0.88	0.98
- Multifamily	0.43	0.37	0.36	0.36	0.34	0.38	0.38	0.39	0.35	0.38	0.37	0.35
Total	1.32	1.26	1.23	1.19	1.19	1.26	1.28	1.29	1.20	1.25	1.26	1.33
Home Sales (incl. Condos) d.												
- Existing Home Sales	5.51	5.41	5.31	5.14	5.21	5.30	5.40	5.50	5.51	5.34	5.35	5.48
- New Home Sales	0.66	0.63	0.61	0.58	0.66	0.62	0.62	0.62	0.61	0.62	0.63	0.65
Total	6.16	6.04	5.91	5.72	5.87	5.92	6.02	6.12	6.12	5.96	5.98	6.14
FMHPI House Price Appreciation (%) e.	2.0	1.0	1.0	0.8	0.9	0.9	0.9	0.9	7.2	4.8	3.6	2.6
1-4 Family Mortgage Originations f.												
- Conventional	$289	$350	$341	$302	$282	$382	$384	$330	$1,400	$1,282	$1,378	$1,360
- FHA & VA	$88	$90	$94	$82	$75	$101	$96	$83	$410	$354	$355	$341
Total	$377	$440	$435	$384	$357	$483	$480	$413	$1,810	$1,636	$1,733	$1,701
- Purchase Originations f.	$226	$312	$326	$284	$220	$323	$330	$291	$1,147	$1,149	$1,164	$1,238
- Refinance Originations f.	$151	$128	$109	$100	$137	$160	$150	$122	$663	$487	$569	$463
Refinancing Share - Originations (%) g.	40	29	25	26	39	33	31	30	37	30	33	27
Residential Mortgage Debt (%) h.	2.8	2.9	2.9	1.9	3.0	3.0	2.9	2.9	2.9	2.6	2.9	2.9

Note: Quarterly and annual forecasts (or estimates) are shown in shaded areas; totals may not add due to rounding; annual forecast data are averages of quarterly values, except GDP and CPI which are reported as Q4 over Q4.

a. Calculations based on quarterly averages of monthly index levels; index levels based on the seasonally-adjusted, all-urban consumer price index; reported as an annual rate.

b. Quarterly average of monthly unemployment rates (seasonally-adjusted); Quarterly average of monthly interest rates (not seasonally-adjusted); reported as an annual rate.

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

d. Includes 2-unit structures or more.

e. 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).

f. Quarterly growth rate of Freddie Mac's House Price Index; seasonally-adjusted; annual rates for yearly data.

g. Billions of dollars (not seasonally-adjusted). Includes only 1st lien mortgage originations.

h. Home Mortgage Disclosure Act for 1st lien single-family mortgages (not seasonally-adjusted); Annual share is dollar-weighted average of quarterly shares.

i. Federal Reserve Board; growth rate of single-family residential mortgage debt (households and nonprofit organizations; home mortgages; liability, seasonally-adjusted), reported as annual rate.

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

FIRST QUARTER 2019 REFINANCE REPORT:

Cash-Out Volumes Remain Low

Based on Freddie Mac's Quarterly Refinance Statistics, "cash-out" borrowers, those that increased their loan balance by at least 5%, represented 76% of all refinance loans in the first quarter of 2019. That's down from 82% at the end of 2018. The "cash-out" share of refinances peaked during the third quarter of 2006 when it reached 89%. While the share of cash-out refinances is near its historical high, the total cash-out volume remains much lower than the previous decade. Adjusted for inflation in 2018 dollars, an estimated $16.6 billion in net home equity was cashed out during the refinance of conventional prime-credit home mortgages in the first quarter of 2019, down from $19.1 billion a year earlier and substantially less than the peak of $104.8 billion during the second quarter of 2006.

On average, borrowers who refinanced their first lien mortgage in the first quarter of 2019, took an almost 20-basis point increase in their mortgage interest rate, compared with a decrease of about 70 basis points a year earlier, and much lower than the almost 190 basis point reduction during the second quarter of 2013.

More than 95% of refinancing borrowers chose a fixed-rate loan. Fixed-rate loans were preferred regardless of what the original loan product had been. For example, 91% of borrowers who had a hybrid ARM refinanced into a fixed-rate loan during the first quarter of 2019. In contrast, only 3% of borrowers who had a fixed-rate loan chose an ARM.

Prepared by the Economic & Housing Research group

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