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April 2011 Economic Outlook
Office of the Chief Economist

Spring in the Market

Cherry blossoms sprouting around the Washington, DC area were a sure sign that spring had arrived after a cold winter. As these flowers were in full bloom, the U.S. Department of Labor released the employment report for March: Unemployment declined for the fourth straight month to 8.8 percent, and net employment sprung up by 216,000, the largest monthly job gain since last May and a hopeful signal that the labor market was warming up. On a March-over-March basis, employment was up by 1.3 million.

The March employment spurt was largely reflected in several service-providing industries, mining, and manufacturing. In contrast, local government employment was down again, and construction and real estate employment remained weak. Construction jobs have largely trended downward over the past five years, with total construction employment down nearly 30 percent from its peak in April 2006. Likewise, jobs in the real estate industry (which is distinct from construction in the Labor Department's count) remain more than 100,000 below (7 percent less than) the peak during the spring of 2006. While the monthly job gains for this sector have been weak and inconsistent, nonetheless real estate employment was up by 10,000 since last November.

The housing market may also be poised to shake off the frigid sales pace of January and February, when new home sales slipped to the lowest pace since the Census Bureau began the series in 1963. Driven by low mortgage rates and home prices well below peaks, homebuyer affordability is at the highest level in at least forty years, according to the National Association of Realtors®. Indeed, sales contract signings for existing homes were up in February, positioning the market for a bounce up in settlements during the second quarter, the traditional time for the seasonal upswing in sales.

The encouraging labor market report coupled with high homebuyer affordability should translate into a home-sales pick up, starting this spring. Sales comparisons with a year ago will understate sales growth, because these comparisons are affected by the 2010 tax-credit that helped to bring many buyers into the market through last April. Look for home sales to be up about 5 percent in 2011 compared with 2010, on a calendar year basis.

With the Federal Reserve maintaining its accommodative monetary policy and Treasury note purchase program, short-term rates will remain low and supportive of household borrowing. The coupon difference between 30-year and 15-year fixed-rate mortgages has gradually widened to about three-quarters of a percentage point, in part reflecting the lower yields on shorter-term instruments. Homebuyers generally opt for 30-year financing, while borrowers who refinance tend to choose 15-year (and to a lesser extent, 20-year) fixed-rate loans. Refinancers not only benefit from the much lower interest rate on 15-year loans, but the faster amortization schedule means they accumulate home equity wealth more quickly.

While refinance continues to account for over two-thirds of all loan applications, it will likely account for a much smaller share later this year, for two important reasons. First, the number of borrowers who are "in-the-money" and financially positioned to refinance falls with each passing week, as more close on their new low-rate loan. Second, the consensus view is that long-term interest rates will inch higher over 2011, reducing the financial gain and incentive to refinance.

The rental market should continue to have gradually warmer market conditions as well, with rents continuing to pickup and vacancies dipping on class-A properties and in stronger metro areas. Rents and vacancy rates are also stabilizing for most other properties and locales.

So expect the economy and housing market to follow the cherry trees' lead: Shake off the cold and show a bit of spring in activity.

Frank E. Nothaft
Chief Economist

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April 2011 Economic and Housing Market Outlook

Office of the Chief Economist

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Major Economic Indicators

Indicator	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2007	2008	2009	2010	2011	2012
Real GDP (%)	3.7	1.7	2.6	3.1	2.5	3.4	4.1	4.1	4.0	4.0	4.0	4.0	2.3	-2.8	0.2	2.8	3.5	4.0
Consumer Prices (%) a.	1.3	-0.5	1.4	2.6	5.0	2.0	1.3	1.3	1.3	1.4	1.6	1.7	4.0	1.6	1.5	1.2	2.4	1.5
Unemployment Rate (%) b.	9.7	9.7	9.6	9.6	8.9	8.8	8.7	8.5	8.4	8.3	8.2	8.1	4.6	5.8	9.3	9.7	8.7	8.3
30-Year Fixed Mtg. Rate (%) b.	5.0	4.9	4.4	4.4	4.9	5.0	5.2	5.4	5.6	5.8	6.0	6.1	6.3	6.0	5.0	4.7	5.1	5.9
1-Year Treas. Indexed ARM Rate (%) b.	4.3	4.0	3.5	3.3	3.3	3.3	3.4	3.5	3.6	3.7	3.8	3.9	5.6	5.2	4.7	3.8	3.4	3.8
10-Year Const. Mat. Treas. Rate (%) b.	3.7	3.5	2.8	2.9	3.5	3.6	3.8	4.0	4.2	4.4	4.5	4.7	4.6	3.7	3.3	3.2	3.7	4.4
1-Year Const. Mat. Treas. Rate (%) b.	0.4	0.4	0.3	0.3	0.3	0.3	0.4	0.5	0.6	0.7	0.8	1.0	4.5	1.8	0.5	0.3	0.4	0.8

Housing and Mortgage Markets

Indicator	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2007	2008	2009	2010	2011	2012
Housing Starts c.	0.62	0.60	0.59	0.53	0.55	0.60	0.65	0.70	0.75	0.85	0.95	1.05	1.36	0.91	0.55	0.59	0.63	0.90
Total Home Sales d.	4.89	5.22	3.95	4.47	4.75	4.90	5.00	5.15	5.50	5.50	5.50	5.50	5.72	4.84	4.94	4.63	4.95	5.50
FMHPI House Price Appreciation (%) e.	-1.6	3.9	-12.6	-5.3	-3.0	-2.0	-2.0	-1.0	0.0	1.0	2.0	3.0	-5.0	-11.9	-2.4	-4.1	-2.0	1.5
S&P/Case-Shiller® Home Price Index (%) f.	-11.0	19.9	-7.3	-14.6	-1.5	0.5	0.0	-2.0	1.0	2.0	3.0	4.0	-8.4	-18.4	-2.4	-4.1	-0.8	2.5
1-4 Family Mortgage Originations g.																		
Conventional	$243	$226	$309	$396	$235	$225	$180	$130	$150	$200	$210	$175	$2,312	$1,310	$1,549	$1,173	$770	$735
FHA & VA	$92	$90	$95	$100	$85	$95	$80	$70	$64	$86	$90	$75	$120	$290	$451	$377	$330	$315
Total	$335	$316	$404	$496	$320	$320	$260	$200	$214	$286	$300	$250	$2,432	$1,600	$2,000	$1,550	$1,100	$1,050
ARM Share (%) h.	4	6	5	4	6	6	7	8	8	9	10	11	10	7	3	5	7	10
Refinancing Share - Applications (%) i.	70	72	81	82	70	60	50	35	35	35	35	35	42	48	70	76	53	35
Refinancing Share - Originations (%) j.	70	58	75	79	70	60	50	35	35	35	35	35	49	50	68	71	53	35
Residential Mortgage Debt (%) k.	-3.8	-2.3	-2.6	-2.2	-1.0	0.0	0.0	1.0	2.0	4.0	4.0	6.0	7.1	-0.4	-1.7	-2.7	0.0	4.0

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. Annualized growth rate of Freddie Mac's Hpouse Price Index (FMHPI); not seasonally-adjusted

f. National composite index (annualized growth rate), not seasonally-adjusted

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 4/13/2011 (MAS); Send comments and questions to chief_economist@freddiemac.com.