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Office of the Chief Economist

April 2014 U.S. Economic & Housing Market Outlook

Demand Drivers

The housing market as a whole continues to recover, but we're also receiving mixed signals as well as noisy market data. Pending home sales lost ground for the past eight months, and we've seen existing homes sales follow a similar path. This, in part, is weather-related as the Midwest and Northeast showed declines, while the South and West regions were up 1.5 percent and 5.9 percent respectively in February. Regardless, existing home sales, largely due to a lack of inventory in many markets, have the potential to dip from last year's sales pace. For this reason we've reduced our home sales projection from 5.6 million to 5.5 for 2014.

On a brighter note, housing starts were up 2.8 percent in March to an annual rate of 946,000 units marking the second consecutive month-over-month improvement. While this is good news, keep in mind that housing starts are coming off low levels. One of the most positive indicators recently has been consumer confidence, which is essential to keep the economic and housing recovery on course, and it has been rising. In fact, consumer confidence as measured by the Conference Board in March 2014 was at the highest level since January 2008. After the spike in interest rates last summer, confidence dipped a bit, but it is now tracking higher. Increased confidence is welcome news, as more confident consumers are much more likely to purchase a home.

Another positive is the historically low mortgage rates, and this is helping to keep homebuyer affordability strong in many markets. This is particularly evident in the midsection of the country where the employment picture is also much improved. For areas like this we should see stronger home sales, as well as further house price appreciation.

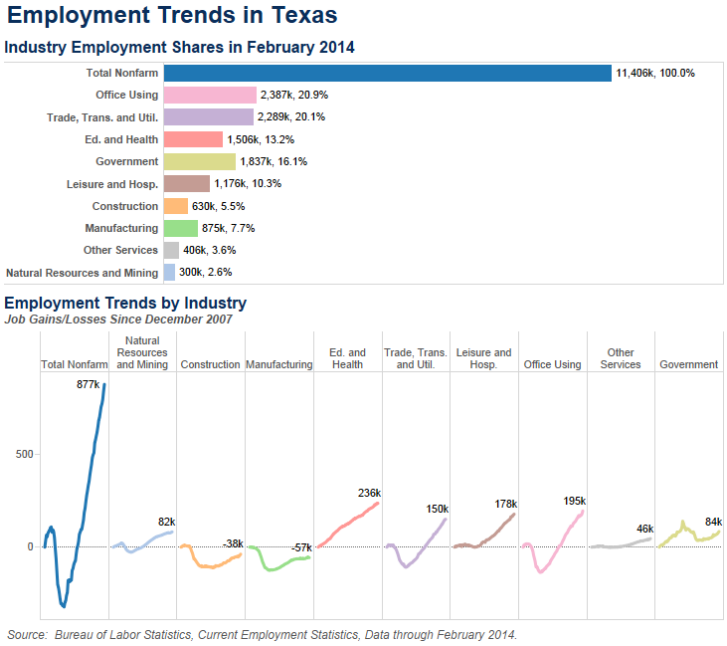
However, the number one driver of homebuyer demand is jobs and income growth. And while the economic recovery continues to chug along, producing on average 178,000 new jobs each month in 2014, the national unemployment rate remains stubbornly elevated at 6.7 percent. We see these trends reflected in the latest MiMi – Freddie Mac's new housing stability index. The national MiMi value was -3.08 points in January, which is a big improvement from just one year ago but still indicates a weak market overall. It's important to note that not all markets are recovering at the same pace. In fact, MiMi shows that 10 states plus the District of Columbia are experiencing a stable range (or normal level) of housing activity as of January. Examining MiMi by each of its four

component indicators, it is clear that the employment picture in places like Texas and Louisiana is really helping to support a robust local housing market.

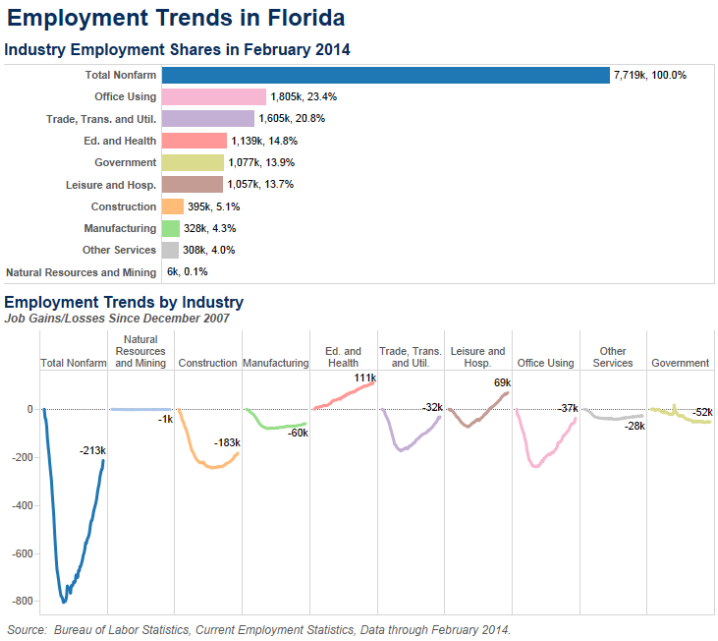
Contrast this with the Los Angeles metropolitan area: the payment-to-income indicator is elevated outside of its average range. One key factor driving this elevated indicator is the lack of inventory on the market, which has pushed house prices up beyond what the typical family earning a median income could afford without having to stretch to make their monthly mortgage payment. Lack of inventory on the market will continue to be a big supply challenge for many markets, not just in California.

Let's compare and contrast the labor market in two states: Texas, and Florida. For more details for each of the 50 states, and top 50 metros visit MiMi.

In Texas, we see a market with a strong employment situation. Total nonfarm employment in Texas through February 2014 was 11.4 million, up from 10.5 million in December 2007, just prior to the start of the Great Recession. The energy sector is one of the key employment drivers in Texas. Employment in Natural Resources and Mining is up 82,000 since December 2007. The overall unemployment rate in Texas is 5.7 percent, 0.3 percentage points below the 1990-2004 average of 6.0 percent.



Florida, on the other hand, has been slow to recover. Total nonfarm employment in February was 7.7 million, about 200,000 below the December 2007 level of 7.9 million. While construction employment has turned around recently, the overall level of construction employment was 183,000 below the December 2007 level. The overall unemployment rate in Florida is 6.2 percent, or 0.6 percentage points higher than the 1990-2004 average of 5.6 percent.



While it is a large state and significant driver of national trends, Texas is a bit of an outlier. The employment situation for most states parallels Florida's situation. In fact, Texas is one of a handful of states benefiting from the huge boom in oil and natural gas drilling. Other states directly benefiting by this boom include North Dakota, Wyoming, and Montana. Most of the rest of the country is more

similar to Florida in that employment remains below peak levels, but recent trends have been positive. All 50 states have declining unemployment rates, with 18 states experiencing at least a half percentage point reduction in their unemployment rate over the previous three months ending in February.

Going forward, increased homebuyer demand is going to depend critically on the labor market. We're going to be keeping a close eye on trends in local labor markets, as well as tracking data on home purchase applications, all available through MiMi. The next couple of months are critical in shaping the home sales data for 2014. With homebuyer affordability still high in most markets and the labor market continuing to heal, underlying trends look fairly positive over the near term. But we need to see a bounce in home purchase applications data in the next few months for 2014 to truly be the year of the emerging purchase market.

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April 17, 2014

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Indicator	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	Annual Totals 2009	2010	2011	2012	2013	2014	2015
Real GDP (%)	4.1	2.6	**2.0**	**2.8**	**3.0**	**3.2**	**3.3**	**3.3**	**3.3**	**3.3**	-0.2	2.8	2.0	2.0	2.6	**2.8**	**3.3**
Consumer Prices (%) a.	2.2	1.1	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	1.5	1.2	3.3	1.9	1.2	**2.0**	**2.0**
Unemployment Rate (%) b.	7.2	7.0	6.7	**6.6**	**6.5**	**6.4**	**6.3**	**6.2**	**6.2**	**6.1**	9.3	9.6	8.9	8.1	7.4	**6.6**	**6.2**
30-Year Fixed Mtg. Rate (%) b.	4.4	4.3	4.4	**4.5**	**4.7**	**4.9**	**5.1**	**5.3**	**5.5**	**5.7**	5.0	4.7	4.5	3.7	4.0	**4.6**	**5.4**
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	3.2	3.0	3.1	**3.2**	**3.3**	**3.5**	**3.7**	**3.9**	**4.1**	**4.3**	4.8	3.8	3.3	2.8	2.9	**3.3**	**4.0**
1-Year Treas. Indexed ARM Rate (%) b.	2.7	2.6	2.5	**2.6**	**2.7**	**2.7**	**2.8**	**2.8**	**2.9**	**3.0**	4.7	3.8	3.0	2.7	2.6	**2.6**	**2.9**
10-Year Const. Mat. Treas. Rate (%) b.	2.7	2.7	2.8	**2.9**	**3.1**	**3.3**	**3.5**	**3.7**	**3.9**	**4.0**	3.3	3.2	2.8	1.8	2.4	**3.0**	**3.8**
1-Year Const. Mat. Treas. Rate (%) b.	0.1	0.1	0.1	**0.2**	**0.2**	**0.3**	**0.3**	**0.4**	**0.5**	**0.6**	0.5	0.3	0.2	0.2	0.1	**0.2**	**0.5**

Indicator	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	Annual Totals 2009	2010	2011	2012	2013	2014	2015
Housing Starts c.	0.88	1.01	**0.93**	**1.05**	**1.15**	**1.25**	**1.30**	**1.40**	**1.40**	**1.50**	0.55	0.59	0.61	0.78	0.93	**1.10**	**1.40**
Total Home Sales d.	5.71	5.39	**5.10**	**5.40**	**5.60**	**5.90**	**5.95**	**6.00**	**6.00**	**6.05**	4.72	4.51	4.57	5.03	5.50	**5.50**	**6.00**
FMHPI House Price Appreciation (%) e.	1.5	-0.4	**1.0**	**2.5**	**1.5**	**-0.1**	**0.0**	**2.0**	**1.0**	**0.0**	-2.3	-4.9	-3.2	5.9	**9.3**	**5.0**	**3.0**
S&P/Case-Shiller® Home Price Index (%) f.	3.1	-0.3	**1.1**	**3.5**	**1.0**	**-0.6**	**0.0**	**2.0**	**1.0**	**0.0**	-2.5	-3.8	-3.7	7.2	**11.3**	**5.0**	**3.0**
1-4 Family Mortgage Originations g.																	
Conventional	**$363**	**$289**	**$256**	**$328**	**$264**	**$192**	**$233**	**$288**	**$225**	**$162**	$1,549	$1,300	$1,206	$1,750	**$1,543**	**$1,040**	**$909**
FHA & VA	$87	$61	**$64**	**$82**	**$66**	**$48**	**$62**	**$77**	**$60**	**$43**	$451	$367	$286	$372	$357	**$260**	**$242**
Total	**$450**	**$350**	**$320**	**$410**	**$330**	**$240**	**$295**	**$365**	**$285**	**$205**	$2,000	$1,667	$1,492	$2,122	**$1,900**	**$1,300**	**$1,150**
ARM Share (%) h.	9	10	**11**	**11**	**12**	**13**	**14**	**15**	**15**	**15**	3	5	11	10	9	**12**	**15**
Refinancing Share - Applications (%) i.	54	59	**52**	**41**	**34**	**33**	**30**	**20**	**15**	**15**	68	73	71	77	63	**40**	**20**
Refinancing Share - Originations (%) j.	**52**	**51**	**48**	**40**	**33**	**33**	**30**	**20**	**15**	**15**	68	67	64	70	**61**	**39**	**20**
Residential Mortgage Debt (%) k.	1.3	0.1	**0.0**	**1.0**	**2.0**	**3.0**	**3.0**	**4.0**	**4.0**	**5.0**	-1.6	-4.3	-2.2	-2.1	-0.2	**1.5**	**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.
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 (FMHPI); not seasonally-adjusted; Dec.to-Dec. for yearly data.
f. National composite index (quarterly growth rate); not seasonally-adjusted; Q4-to-Q4 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. MBA Applications Survey: activity by dollars, total market refi share percent for United States (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 4/10/2014 (PTT); Send comments and questions to chief_economist@freddiemac.com.

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