April 2013 U.S. Economic & Housing Market Outlook

Building a Lasting Recovery

The jobs report for March 2013 brought disappointing news on labor markets. Nonfarm payrolls only increased by 88,000 jobs, well below consensus. Further, while the unemployment rate did tick down to 7.6 percent in April, it was largely due to declining labor force participation, not employment growth. The monthly variations in employment can be noisy, so it is helpful to look at trends over several months. If we look at employment growth over the past few months we can see that certain sectors such as construction have realized strong gains.

From April 2006, when construction employment peaked, through December 2010 the economy lost 5.5 million nonfarm jobs, 2.2 million of those in construction representing 40 percent of all job losses. From January 2011 through March 2013 the economy gained 4.8 million jobs, but only 330,000 jobs (7 percent) were in construction. However, in the recent months the pace of construction job growth has been accelerating. Over the past year, net construction job growth represented 8 percent of all job gains, while in the last six months it represented 15 percent.

The acceleration in construction employment is reflected in increasing housing starts and rising homebuilder confidence. Housing starts were up 47 percent from March 2012 to March 2013, passing 1 million starts for the first time since June 2008. The National Association of Homebuilders Housing Market Index (NAHB HMI), which measures attitudes about market conditions and expectations for future market conditions, was at 42 in April 2013, up from 24 a year earlier. The increase in homebuilder confidence brings us back to levels not seen since the summer of 2006. However, even with the big gains, the index indicates that on average builders are not optimistic about housing markets; they are just much less pessimistic. The NAHB HMI declined in March and April, but the forward looking component of the HMI has been consistently increasing. The component of the NAHB HMI measuring expectations of sales over the next 6 months has been improving and is currently 53, meaning on average builders are expecting to see sales improve over the next 6 months.

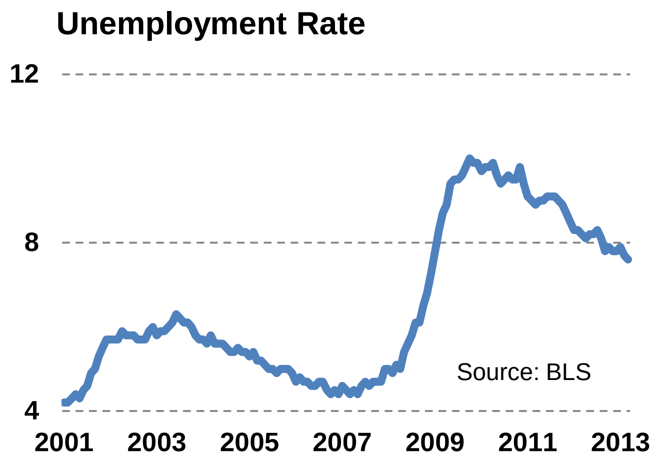
In the wake of the disappointing jobs report, mortgage rates fell during the first two weeks of April. For the week of April 11, 2013, the 30-year mortgage rate for single-family loans averaged just 3.43 percent, only 12 basis points above the all-time low of 3.31 percent reached in November 2012. The recent downward movement in rates has been driven by disappointing economic news and a continued flight to safety that has pushed down yields on the benchmark 10-year Treasury, an important benchmark for pricing new multifamily loans, to around 1.8 percent in early April.

Low mortgage rates support our projected increase in home sales and high refinance volumes, translating into higher forecasted mortgage originations in 2013 than we thought earlier this year: Single-family originations are projected to be down from 2012 volumes by no more than 10 percent. In April, FHFA announced that the Home Affordable Refinance Program (HARP) is extended through 2015. With HARP extended, analysts at Keefe, Bruyette & Woods have estimated that there may be between 700,000 to 1.7 million borrowers still eligible for a HARP refinance at the end of 2013;[1] our forecasts for 2014 refinance volumes have been increased by $100 billion to account for additional HARP refinances. For apartment buildings, a gain in property sales, increase in permanent financing due to newly completed structures, and continuing strong refinances should push origination volume in 2013 to about $150 billion, and total residential lending to nearly $2 trillion.

The latest labor-market news has been somewhat disappointing and should serve as a reminder for how far the economy needs to go to get back to a healthy level. Until aggregate unemployment decreases substantially we will not experience robust growth. Construction employment is showing signs of life, which should help to improve the overall macroeconomic picture. Housing construction is starting to pick up, but is well below historical averages. Supported by low mortgage rates we expect more homes to be built in 2013 than in any year since 2007. This increased construction employment should continue to help bring down the overall unemployment rate and build a lasting recovery.

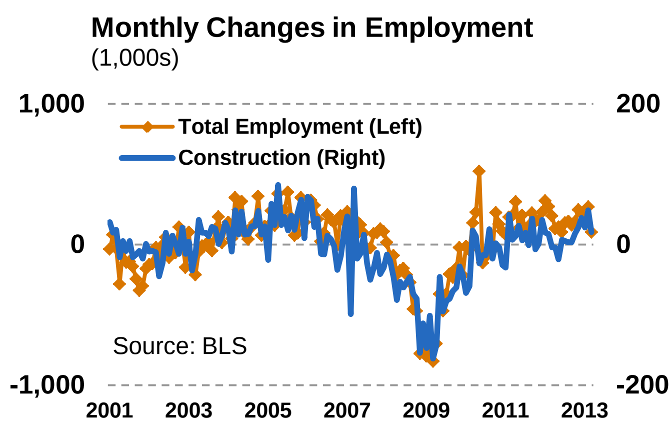
[1] Bose George, Jade Rahmani and Ryan O'Steen, "FHFA Update", Keefe Bruyette & Woods, April 15, 2013.

High Unemployment has impeded the recovery, but recent trends in construction employment are encouraging.



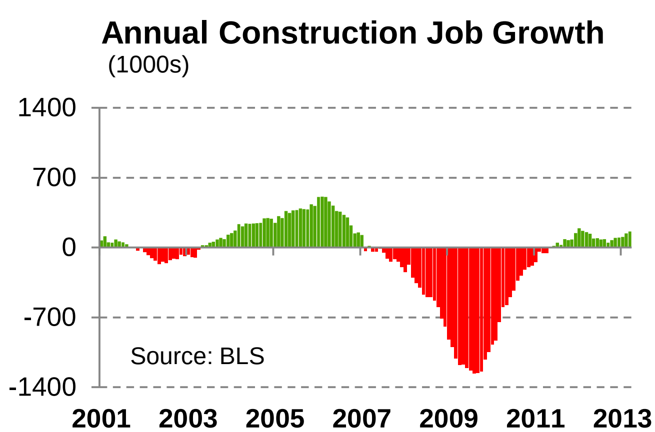
Unemployment Rate Stubbornly High

Despite fairly steady job growth over the past 2 years, unemployment remains stubbornly high. Until unemployment rate comes down further, we won't see a broad based recovery.



Construction Drives Job Growth

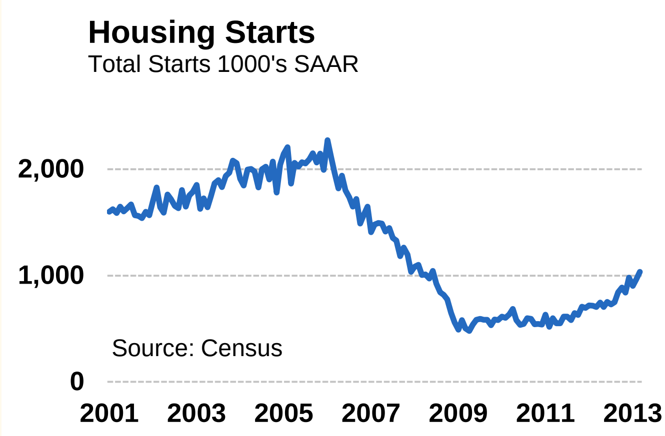
Though construction employment is about 4% of all jobs, construction employment gains represent about 15% of the gains in employment over the past 6 months.



Construction Jobs Net Positive

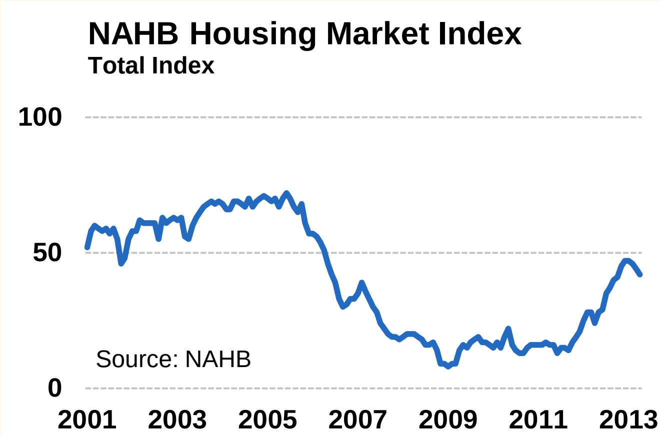
From 2009 through 2012, Construction subtracted from net job growth. Since 2012, construction has been adding to overall job growth.

Overall Construction Activity is well below peak levels, but confidence is improving.



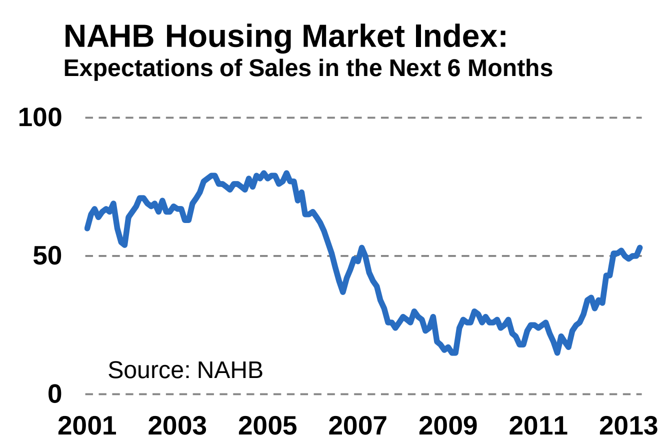
Construction Slowly Recovering

Supported by low mortgage rates, homebuilding is staging a comeback. Recent trends have been encouraging, but there is still a long way to go. Current levels of homebuilding are at about one-half of the levels reached in 2006.



Builder Confidence Improving

After nearly five years of extremely low builder confidence, optimism is returning to housing markets. The NAHB Housing Market Index has improved dramatically over the past year. While the index is still below 50, meaning over half of the respondents believe conditions are bad, the number is improving.



Expectations of Future Sales Positive

The NAHB HMI includes a component that asks about expectations of sales over the next 6 months. This component has improved, and now is above 50, meaning on average builders expect sales over the next 6 months to be good.

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April 2013 Economic and Housing Market Outlook

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	2012		2013				2014				Annual Totals					
Indicator	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Real GDP (%)	3.1	0.4	**3.0**	**1.3**	**2.4**	**2.5**	**3.3**	**3.5**	**3.6**	**3.5**	-0.1	2.4	2.0	1.7	**2.3**	**3.5**
Consumer Prices (%) a.	2.3	2.1	**2.6**	**1.4**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	1.5	1.2	3.3	1.9	**2.0**	**2.0**
Unemployment Rate (%) b.	8.0	7.8	7.7	**7.7**	**7.6**	**7.5**	**7.4**	**7.3**	**7.1**	**7.0**	9.3	9.6	8.9	8.1	**7.6**	**7.2**
30-Year Fixed Mtg. Rate (%) b.	3.6	3.4	3.5	**3.6**	**3.7**	**3.8**	**3.9**	**4.1**	**4.2**	**4.4**	5.0	4.7	4.5	3.7	**3.7**	**4.2**
1-Year Treas. Indexed ARM Rate (%) b.	2.7	2.6	2.6	**2.6**	**2.6**	**2.7**	**2.8**	**2.8**	**2.9**	**3.0**	4.7	3.8	3.0	2.7	**2.6**	**2.9**
10-Year Const. Mat. Treas. Rate (%) b.	1.6	1.7	2.0	**1.9**	**2.0**	**2.2**	**2.3**	**2.5**	**2.7**	**2.8**	3.3	3.2	2.8	1.8	**2.0**	**2.6**
1-Year Const. Mat. Treas. Rate (%) b.	0.2	0.2	0.2	**0.2**	**0.2**	**0.3**	**0.3**	**0.4**	**0.5**	**0.6**	0.5	0.3	0.2	0.2	**0.2**	**0.5**

	2012		2013				2014				Annual Totals					
Indicator	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Housing Starts c.	0.77	0.90	**0.97**	**0.98**	**1.00**	**1.05**	**1.10**	**1.15**	**1.25**	**1.30**	0.55	0.59	0.61	0.78	**1.00**	**1.20**
Total Home Sales d.	5.11	5.28	**5.38**	**5.45**	**5.50**	**5.65**	**5.75**	**5.95**	**6.10**	**6.20**	4.72	4.51	4.57	5.03	**5.50**	**6.00**
FMHPI House Price Appreciation (%) e.	0.6	0.4	**1.4**	**2.5**	**1.0**	**0.0**	**1.0**	**1.5**	**1.0**	**0.4**	-2.3	-5.4	-3.7	6.4	**5.0**	**3.5**
S&P/Case-Shiller® Home Price Index (%) f.	2.1	-0.3	**1.5**	**3.0**	**1.5**	**-1.0**	**0.5**	**2.0**	**0.7**	**0.3**	-2.5	-3.8	-3.7	7.3	**5.0**	**3.5**
1-4 Family Mortgage Originations g.																
Conventional	**$453**	**$425**	**$405**	**$430**	**$340**	**$285**	**$280**	**$340**	**$245**	**$185**	$1,549	$1,300	$1,208	**$1,627**	**$1,460**	**$1,050**
FHA & VA	$97	$105	**$95**	**$100**	**$80**	**$65**	**$50**	**$80**	**$65**	**$55**	$451	$377	$292	$373	**$340**	**$250**
Total	**$550**	**$530**	**$500**	**$530**	**$420**	**$350**	**$330**	**$420**	**$310**	**$240**	$2,000	$1,677	$1,500	**$2,000**	**$1,800**	**$1,300**
ARM Share (%) h.	8	7	**10**	**11**	**12**	**13**	**14**	**15**	**15**	**16**	3	5	11	10	**12**	**15**
Refinancing Share - Applications (%) i.	82	83	**77**	**70**	**65**	**60**	**60**	**50**	**45**	**40**	70	76	75	81	**68**	**50**
Refinancing Share - Originations (%) j.	**76**	**76**	**77**	**70**	**65**	**60**	**60**	**50**	**45**	**40**	68	67	64	**75**	**68**	**50**
Residential Mortgage Debt (%) k.	-3.0	0.1	**0.5**	**1.5**	**1.5**	**0.5**	**1.0**	**2.0**	**3.0**	**4.0**	-1.6	-4.1	-2.2	-2.0	**1.0**	**2.5**

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. 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 4/12/2013 (MAS); Send comments and questions to chief_economist@freddiemac.com.