A Slow Thaw: The Job Market in Mid-Winter

The outlook for labor market conditions is a keystone of any forecast of housing and mortgage markets, and indeed, for the economy as a whole. Recent news on jobs has been mixed… which is actually quite an improvement from 2008 and 2009, though, when the trend was definitely one-sided. Our outlook anticipates that hiring will gradually improve and the unemployment rate will trend down, albeit with an occasional uptick.

The most widely followed labor market report, the January monthly employment report, sent confusing signals. Job growth was well below expectations, at just 36,000, but the unemployment rate fell nearly half a percentage point, to 9.0 percent. The weather likely played a large role in this mixed message, as the Department of Labor reported that more than twice as many people missed work due to winter storms than occurs in a typical January. The report has details on employment by industry, and these data support the notion that the disappointing jobs number was suppressed by the storms, and may rebound in the months ahead. For example, the sectors with the biggest job losses were those that involve work out-of-doors, including transportation (employment of couriers and messengers plunged 45,000) and construction (where payrolls slid 32,000).

Other sectors showed improvement in January even despite the weather, as employment in motor vehicle production and retail trade posted gains—reflecting the acceleration in car sales and consumer spending in recent months. The underlying message of the report was that labor markets are continuing to heal, but it is difficult to tell just how much they are healing because of the temporary impact of winter storms. For a better picture of what's in store when the ground thaws out, we can look at several other labor market indicators:

- **Initial claims for unemployment insurance.** Jobless claims are the front-line indicator of labor market conditions, and weekly figures are published each Thursday for the prior week. Claims fell from a peak of 650,000 in early 2009 to around 450,000 a year ago, but trended sideways for most of 2010; this period corresponded to the "soft patch" in the overall macroeconomic recovery. Last fall, however, claims began falling again, and recently dropped below 400,000 per week, the lowest since mid-2008. Though this weekly indicator is volatile it signals a stronger labor market in 2011.
- **Insured unemployment rate.** The unemployment insurance records give an alternative unemployment rate that generally moves together with the official rate in the monthly employment report. Insured unemployment has moved down steadily, falling one-half percentage point since October, confirming that the downtrend in the official unemployment rate is not (completely) a weather-driven fluke.

- **Job openings.** The Department of Labor also publishes a separate report with detail on job openings each month, albeit several weeks after the main monthly employment report. Job openings fell sharply during the recession, from 3.5 percent in late 2006 to a low of 1.9 percent in late 2009. Since then, though, openings have moved up to around 2.5 percent, suggesting more hiring is on the way.

The pace of the jobs recovery is still expected to be far from exciting, though, as the process of deleveraging and healing the damage from the financial market crisis restrains overall economic growth. We look to other factors, therefore, to help support the housing recovery. While we expect interest rates to move higher over the remainder of the year, our forecast of rates on 30-year fixed-rate mortgages in the low-to-mid 5 percent range throughout year-end is still low by historical standards. In fact, homebuyer affordability (which benefits from lower monthly interest payments) recently reached record highs, according to the National Association of Realtors, and affordability should remain high even with the recent rate rise.

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February 14, 2011

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February 2011 Economic and Housing Market Outlook

Office of the Chief Economist

Revised 2/10/2011

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	Annual Totals 2007	2008	2009	2010	2011	2012
Real GDP (%)	3.7	1.7	2.6	3.2	3.3	3.5	4.1	4.1	4.0	4.0	4.0	4.0	2.3	-2.8	0.2	2.8	3.8	4.0
Consumer Prices (%) a.	1.5	-0.7	1.5	2.6	2.0	1.0	1.0	1.0	1.2	1.4	1.6	1.8	4.0	1.6	1.5	1.2	1.3	1.5
Unemployment Rate (%) b.	9.7	9.7	9.6	9.6	9.3	9.3	9.2	9.0	8.8	8.6	8.4	8.2	4.6	5.8	9.3	9.7	9.2	8.5
30-Year Fixed Mtg. Rate (%) b.	5.0	4.9	4.4	4.4	5.0	5.2	5.4	5.5	5.7	5.8	5.8	5.9	6.3	6.0	5.0	4.7	5.3	5.8
1-Year Treas. Indexed ARM Rate (%) b.	4.3	4.0	3.5	3.3	3.3	3.3	3.4	3.4	3.5	3.6	4.3	4.5	5.6	5.2	4.7	3.8	3.4	4.0
10-Year Const. Mat. Treas. Rate (%) b.	3.7	3.5	2.8	2.9	3.4	3.5	3.7	3.9	4.0	4.2	4.3	4.4	4.6	3.7	3.3	3.2	3.6	4.2
1-Year Const. Mat. Treas. Rate (%) b.	0.4	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.6	0.7	0.8	4.5	1.8	0.5	0.3	0.4	0.7

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	Annual Totals 2007	2008	2009	2010	2011	2012
Housing Starts c.	0.62	0.60	0.59	0.54	0.60	0.65	0.74	0.85	1.00	1.10	1.10	1.20	1.36	0.91	0.55	0.59	0.71	1.10
Total Home Sales d.	4.86	5.22	3.94	4.52	4.60	4.70	5.30	5.50	5.50	5.50	5.50	5.50	5.72	4.84	4.94	4.63	5.03	5.50
Conventional Mtg. Home Price Index (%) e.	-5.4	-1.5	5.6	-2.5	-1.5	0.5	1.0	0.0	1.0	2.0	3.0	4.0	-0.4	-5.7	-4.0	-1.0	0.0	2.5
S&P/Case-Shiller® Home Price Index (%) f.	-11.0	20.0	-7.9	-5.0	-1.5	0.5	1.0	0.0	1.0	2.0	3.0	4.0	-8.4	-18.3	-2.4	-1.0	0.0	2.5
1-4 Family Mortgage Originations g.																		
Conventional	$243	$280	$330	$327	$175	$195	$205	$160	$182	$202	$226	$190	$2,312	$1,310	$1,549	$1,180	$735	$800
FHA & VA	$92	$87	$101	$94	$70	$80	$90	$75	$80	$90	$95	$85	$120	$290	$451	$374	$315	$350
Total	$335	$367	$431	$421	$245	$275	$295	$235	$262	$292	$321	$275	$2,432	$1,600	$2,000	$1,554	$1,050	$1,150
ARM Share (%) h.	4	6	5	4	5	6	7	8	8	9	10	11	10	7	3	5	7	10
Refinancing Share - Applications (%) i.	70	72	81	82	55	40	35	30	30	30	30	30	42	48	70	76	40	30
Refinancing Share - Originations (%) j.	70	58	75	71	55	40	35	35	35	35	35	35	49	50	68	69	41	35
Residential Mortgage Debt (%) k.	-3.8	-2.4	-2.4	-2.0	0.0	1.0	2.0	3.0	4.0	6.0	7.0	7.0	7.1	-0.4	-1.7	-2.7	1.5	6.0

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 Conventional Mortgage Home Price Index (CMHPI); 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 2/10/2011 (MAS); Send comments and questions to chief_economist@freddiemac.com.

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