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A Slow, Steady Path to Recovery

The U.S. economy continues to build on the momentum from the end of last year. Encouraging news on the job market: January added 243,000 employees to the payrolls and represented the second month with job gains exceeding expectations. In the same month, the unemployment rate fell to 8.3 percent; and weekly unemployment benefits applications decreased for the third consecutive week to 348,000, the fewest since the first week in March 2008. The number of job openings rose to 3.4 million in December 2011, falling short of the pre-recession level of 4.4 million but a 40 percent improvement from June 2009. However, the relatively low level of voluntary separation, or quits, at just under two million in December 2011 compared to a pre-recession average around three million, reflected nervousness about the job market among workers. The 1.2 percent drop in inflation-adjusted hourly wages over the course of 2011--the steepest annual fall since 1989--also signaled weakness in the job market.

Housing Market Remains Soft. Home prices in 19 out of the 20 cities covered by the S&P/Case-Shiller® Home Price Indices fell for a second consecutive month in November 2011. The 10- and 20-City Composite Indices were down by 3.6 percent and 3.7 percent, respectively, compared to November 2010. Some comfort can be derived from the gradual increase in existing home sales, which rose in December by 5 percent, according to the National Association of Realtors® (NAR). Overall, existing home sales in 2011 were up 1.7 percent to 4.3 million, but trailing the five million units sold in 2007. The heightened sales volume helped reduce the housing inventory to a 6.2 month supply in December from a 7.5 month supply in January 2011, the lowest inventory number since April 2006. We expect more warmth in the housing market sometime in 2013, as the economy continues on its slow path to stronger recovery in a low interest-rate environment.

Homes Remain Affordable. Most mortgage rates dropped to yet another all-time record low during the first week of February, according to the Freddie Mac Primary Mortgage Market Survey® (PMMS®), as the Federal Reserve announced it plans to keep near-zero federal funds rates for another three years. At the end of 2011, a family earning the median family income had almost double the income necessary to qualify for a conventional loan covering 80 percent of a median-priced existing single-family home, according to the NAR Housing Affordability Index. Despite some uncertainty about how the congressionally mandated 10-basis-point increase in the GSEs' guarantee fees will be channeled to mortgage rates, we expect homes to remain highly affordable.

Mortgage applications rose by 4.1 percent in January on a seasonally adjusted basis according to the Mortgage Bankers Association. About 80 percent of applications are for refinances, compared to 41 percent in 2007. Homeowners are taking advantage of the low interest rates: 85 percent of homeowners who refinanced through Freddie Mac maintained or reduced their mortgage debt balance in the fourth quarter of 2011, the highest share in the 26 years since this activity has been tracked. Only 15 percent of refinancing homeowners increased their mortgage debt by 5 percent or more, compared to the 1985-2010 average of 45 percent. Further, about 43 percent of borrowers with a 30-year fixed-rate loan refinanced into a shorter-term during the fourth quarter.

Ten percent of all refinancing activities were through the Home Affordable Refinance Program (HARP), the monthly volume of which steadily increased during the second half of 2011. In November alone, 36,304 loans were refinanced through HARP. In total, more than one million loans have been refinanced between HARP's inception in April 2009 and November 2011. Forty-seven percent of these HARP refinances were through Freddie Mac. With low mortgage rates and a streamlined HARP, we expect continued growth in refinancing activities.

Inflation Worries Subside. Inflation appears to remain within the Federal Reserve's comfort range. The Consumer Price Index rose by 3 percent in 2011, the most since 2007, but was largely unchanged for the last three months in 2011. Looking forward, respondents to the Surveys of Consumers conducted by the University of Michigan expected prices to increase over the next 12 months by 3.1 percent, while 35 professional forecasters who took part in the December Livingston Survey predicted inflation to ease to 2.2 percent in 2012. Expectations about long-term inflation are around or below 2 percent. The break-even rate, the difference between rates on 10-year notes and Treasury Inflation Protected Securities, has been hovering around 2 percentage points since the last quarter of 2011. The Cleveland Federal Reserve Bank estimates the 10-year expected inflation to be about 1.4 percent.

Mixed Market Sentiments. Consumers' short-term outlook weakened somewhat in January, after back-to-back gains at the end of 2011, as measured by the Conference Board's Consumer Confidence Index. Builders, on the other hand, expressed more confidence in current and future single-family home sales as well as traffic of prospective buyers, as the Housing Market Index rose to 29 in February 2012, the highest level since May 2007. It was still well below the historic average of 50 since the Index's inception in 1985. But the good news was that all three components of the Index registered a fourth month of gains, suggesting a sustained improvement in builders' sentiment.

Our outlook anticipates gradual, but steady, improvement in the economy and the housing market, supported by low interest rates and brightening job market prospects.

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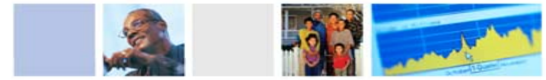
February 2012 Economic and Housing Market Outlook



Office of the Chief Economist

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Major Economic Indicators

Indicator	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2007	2008	2009	2010	2011	2012	2013
Real GDP (%)	0.4	1.3	1.8	2.8	**2.1**	**2.1**	**2.5**	**2.7**	**3.0**	**3.3**	**3.6**	**4.0**	2.2	-3.3	-0.5	3.1	1.6	**2.4**	**3.5**
Consumer Prices (%) a.	4.5	4.4	3.1	1.3	**1.8**	**1.8**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	4.0	1.6	1.5	1.2	3.3	**1.9**	**2.0**
Unemployment Rate (%) b.	9.0	9.0	9.1	8.7	**8.4**	**8.5**	**8.4**	**8.3**	**8.2**	**8.1**	**8.0**	**7.9**	4.6	5.8	9.3	9.6	9.0	**8.4**	**8.1**
30-Year Fixed Mtg. Rate (%) b.	4.9	4.7	4.3	4.0	**4.0**	**4.3**	**4.5**	**4.7**	**4.9**	**5.1**	**5.3**	**5.5**	6.3	6.0	5.0	4.7	4.5	**4.4**	**5.2**
1-Year Treas. Indexed ARM Rate (%) b.	3.3	3.1	2.9	2.9	**2.9**	**2.9**	**3.0**	**3.0**	**3.1**	**3.2**	**3.3**	**3.4**	5.6	5.2	4.7	3.8	3.0	**3.0**	**3.3**
10-Year Const. Mat. Treas. Rate (%) b.	3.5	3.2	2.4	2.1	**2.1**	**2.3**	**2.5**	**2.7**	**2.9**	**3.1**	**3.3**	**3.5**	4.6	3.7	3.3	3.2	2.8	**2.4**	**3.2**
1-Year Const. Mat. Treas. Rate (%) b.	0.3	0.2	0.1	0.1	**0.1**	**0.1**	**0.2**	**0.2**	**0.3**	**0.4**	**0.5**	**0.6**	4.5	1.8	0.5	0.3	0.2	**0.2**	**0.5**

(Columns 2007–2013: Annual Totals)

Housing and Mortgage Markets

Indicator	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2007	2008	2009	2010	2011	2012	2013
Housing Starts c.	0.58	0.57	0.62	0.66	**0.64**	**0.68**	**0.72**	**0.76**	**0.85**	**0.90**	**0.95**	**1.00**	1.36	0.91	0.55	0.59	0.61	**0.70**	**0.93**
Total Home Sales d.	4.16	4.02	4.01	4.25	**4.18**	**4.25**	**4.35**	**4.45**	**4.60**	**4.75**	**4.90**	**5.05**	5.19	4.14	4.24	4.03	4.09	**4.31**	**4.83**
FMHPI House Price Appreciation (%) e.	-2.1	1.9	-0.7	**-2.1**	**-2.0**	**1.0**	**-1.0**	**0.0**	**0.4**	**0.9**	**0.5**	**0.2**	-5.0	-11.7	-2.3	-6.1	**-3.0**	**-2.0**	**2.0**
S&P/Case-Shiller® Home Price Index (%) f.	-4.1	3.8	0.1	**-3.0**	**-3.0**	**2.0**	**-1.0**	**0.0**	**0.5**	**1.0**	**0.4**	**0.1**	-8.4	-18.4	-2.4	-3.7	**-3.3**	**-2.0**	**2.0**
1-4 Family Mortgage Originations g.																			
Conventional	**$264**	**$218**	**$281**	**$307**	**$262**	**$258**	**$188**	**$169**	**$167**	**$228**	**$228**	**$152**	$2,312	$1,310	$1,549	$1,300	**$1,070**	**$876**	**$775**
FHA & VA	$76	$67	$69	$68	**$78**	**$77**	**$63**	**$56**	**$53**	**$72**	**$72**	**$48**	$120	$290	$451	$377	$280	**$274**	**$245**
Total	**$340**	**$285**	**$350**	**$375**	**$340**	**$335**	**$250**	**$225**	**$220**	**$300**	**$300**	**$200**	$2,432	$1,600	$2,000	$1,677	**$1,350**	**$1,150**	**$1,020**
ARM Share (%) h.	8	11	12	14	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	10	7	3	5	11	**14**	**14**
Refinancing Share - Applications (%) i.	69	70	78	81	**80**	**75**	**70**	**60**	**60**	**65**	**67**	**66**	42	48	70	76	75	**71**	**65**
Refinancing Share - Originations (%) j.	**71**	**56**	**68**	**80**	**79**	**73**	**65**	**55**	**50**	**50**	**50**	**50**	49	50	68	67	**69**	**68**	**50**
Residential Mortgage Debt (%) k.	-2.5	-1.9	-2.1	**-2.0**	**-1.5**	**-1.0**	**-1.0**	**-0.5**	**1.0**	**2.0**	**2.0**	**3.0**	7.1	-0.4	-1.6	-3.0	**-2.1**	**-1.0**	**2.0**

(Columns 2007–2013: Annual Totals)

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. Quarterly growth rate of Freddie Mac's House Price Index (FMHPI); not seasonally-adjusted; annual reates for yearly data.
f. National composite index (quarterly growth rate); not seasonally-adjusted; annual rates 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 2/17/2012 (MAS); Send comments and questions to chief_economist@freddiemac.com.