



Toasting the New Year with a Glass Half-Full

With the New Year comes a sense of cautious optimism. There are some positive signs in the job market and consumer confidence; housing is starting to raise hopes for continued gradual economic recovery. But the economy still is giving mixed messages.

In December, 200,000 net new jobs were created—the 15th consecutive month of gains; for 2011 in total, a net 1.6 million employees were added to payrolls. The unemployment rate continued its downward trend in December to 8.5 percent, the lowest level in nearly three years. The weekly total of unemployment-benefits applications also fell at year's end by 11 percent compared to 12 months ago; levels last seen in 2008. Worth noting: the labor-force participation rate remained unchanged from November 2011, implying that job growth, instead of disillusioned workers exiting the labor force, prompted the drop in unemployment. The number of long-term unemployed (those out of work for more than six months) also stayed at the same level.

But the clouds haven't fully cleared. Seasonal hiring accounted for some of the job gains and likely will be reversed in January. The level of underutilized workers (involuntary part-time workers and "discouraged" workers) was only 1.4 percent lower than a year ago. The Congressional Budget Office expects unemployment to hold around 8.5 percent in 2012, with the real gross domestic product growth at 2.7 percent, which is close to the consensus view of private economists surveyed earlier this month.

In line with higher employment and consumer spending during the holiday season, consumer confidence rose for the second month in a row. In December, the Conference Board Consumer Confidence Index increased almost 10 points to 64.5, beating market expectations and reaching the highest reading since April, but still well below the level typically achieved by the third year of an economic recovery. Similarly, the Small Business Optimism Index, compiled by the National Federation of Independent Business, has climbed for four consecutive months, with respondents reporting unchanged or improved optimism in eight out of 10 Index categories. On the other hand, despite gaining 1.8 points in December, it still was lower than in January 2011.

Perspectives on the housing market depend on where you sit. During the closing months of the year, housing prices remained seasonally subdued in many cities. Housing starts improved slightly in 2011, rising to around 600,000 from 587,000 in 2010. The multifamily sector continues to be the bright spot in the market, accounting for roughly a third of housing starts in recent months. Most forecasters expect 2012 to be the best home-construction year since 2008, with housing starts hovering around 700,000—but that's still only about half as many as in 2007. Existing home sales



increased in November, while the inventory of unsold homes decreased to a six-to-seven month supply; for 2012, we expect home sales to grow between 2 and 5 percent year-over-year. It will help that mortgage rates are likely to stay at historical lows, especially the early part of 2012. Nearly 80 percent of American households believe now is a good time to buy a home according to a new report by the Mortgage Bankers Association's (MBA's) Research Institute for Housing America.

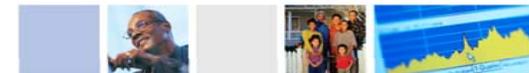
Sellers are not as happy, according to the MBA survey, with only 7.6 percent of respondents stating they believe now is a good time to sell. Compare that to between 40 and 60 percent before 2005. This is a historically large gap between sentiments of buyers and sellers. If the gap doesn't narrow, the housing-market recovery will be delayed. The Housing Market Index, which measures builders' confidence in current and future single-family home sales, as well as traffic of prospective buyers, reflected similar worries at the end of 2011. Despite rising to a level of 21 from 16 in 2010, the Index remains mired well below the historical average of 50 since the Index's inception in 1985.

As we begin 2012, the economy undoubtedly is at a better place now than at this time in 2011. But a speedy, robust recovery still seems unlikely this year.

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January 2012 Economic and Housing Market Outlook



Office of the Chief Economist

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Major Economic Indicators

Indicator	2011				2012				2013				Annual Totals						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	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.	5.2	4.1	3.1	0.9	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	8.7	8.8	8.7	8.6	8.5	8.4	8.3	8.2	4.6	5.8	9.3	9.6	9.0	8.7	8.4
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

Housing and Mortgage Markets

Indicator	2011				2012				2013				Annual Totals						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2007	2008	2009	2010	2011	2012	2013
Housing Starts c.	0.58	0.57	0.62	0.63	0.62	0.66	0.70	0.74	0.85	0.90	0.95	1.00	1.36	0.91	0.55	0.59	0.60	0.68	0.93
Total Home Sales d.	4.16	4.02	4.01	4.18	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	-2.6	-3.0	2.0	-1.0	0.0	0.5	1.0	0.4	0.1	-8.4	-18.4	-2.4	-3.7	-3.0	-2.0	2.0
1-4 Family Mortgage Originations g.																			
Conventional	\$264	\$218	\$235	\$283	\$228	\$247	\$190	\$171	\$167	\$228	\$228	\$152	\$2,312	\$1,310	\$1,549	\$1,300	\$1,000	\$836	\$775
FHA & VA	\$76	\$67	\$69	\$88	\$72	\$78	\$60	\$54	\$53	\$72	\$72	\$48	\$120	\$290	\$451	\$377	\$300	\$264	\$245
Total	\$340	\$285	\$304	\$371	\$300	\$325	\$250	\$225	\$220	\$300	\$300	\$200	\$2,432	\$1,600	\$2,000	\$1,677	\$1,300	\$1,100	\$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	77	77	75	70	60	60	65	67	66	42	48	70	76	74	71	65
Refinancing Share - Originations (%) j.	71	56	68	80	75	70	60	55	50	50	50	50	49	50	68	67	69	65	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

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 rates 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 1/12/2012 (MAS); Send comments and questions to chief_economist@freddiemac.com.

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