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July 2012 Economic Outlook
Office of the Chief Economist

Housing: Getting Back to Work

Record-breaking low mortgage rates, supported by the Federal Reserve's "Operation Twist", have fueled housing demand and led to a pick-up in housing starts, home sales, and even house prices in many markets. Housing starts over the first five months of 2012 have averaged an annual rate of 719,000, a 26 percent jump from the year-ago period. These same low interest rates have boosted home sales, with new home sales up 17 percent and existing home sales up 7 percent, comparing January-to-May 2012 with the same period last year. And these low rates, along with the revised Home Affordable Refinance Program (HARP), have also driven refinance originations to higher levels. In fact, HARP loans accounted for 20 percent of the total refinance volume in May, and during the first five months of this year, more than 78,000 refinances were completed, exceeding the total HARP refinances during all of 2011.

While this is promising news, recovering from the Great Recession will require a sustained level of fortitude across many job sectors as gains will be uneven. The latest labor market reports show that job creation has continued, but at a slower than expected pace during the second quarter. Overall, there was a net gain of 80,000 payroll jobs in June, bringing the total for the second quarter to 225,000, the lowest quarterly gain in employment in nearly two years and a lackluster result when compared to the first quarter's 677,000 job boost. It was professional and business services that added the most workers in June with 47,000, led by temporary-help services. Other industries with an employment pick-up included heath care, up 13,000, and manufacturing with an 11,000 job increase. Other sectors showed essentially little change in employment or small declines. Residential building construction was one such sector, which lost 6,000 jobs.

Employment in construction and mortgage finance continues to lag job gains elsewhere. For example, over the past 12 months overall payroll employment across all industries was up 1.8 million, yet construction employment was up a mere 13,000, well below the sector's share of total employment (about 4.3 percent). However, a positive note is that housing demand has helped to increase hiring in the construction sector on a year-over-year basis, and the unemployment rate for construction workers has fallen 2.8 percentage points since June 2011.

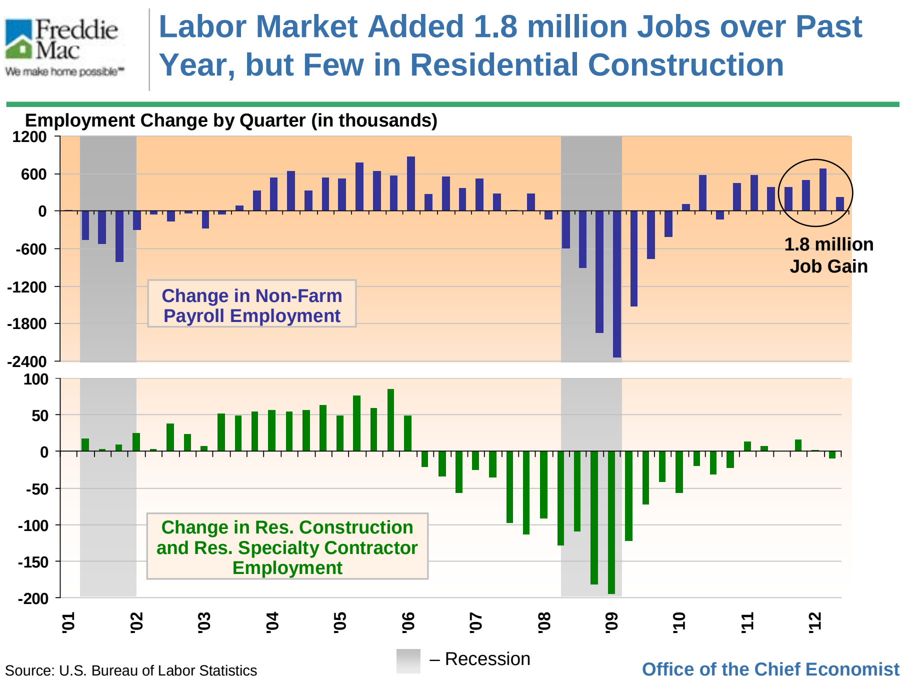
Within the construction sector, residential specialty trade contractors (firms that conduct specialty work, such as electrical and plumbing, but are not responsible for the entire project) contributed the most to the job gains, perhaps reflecting an increase in subcontracting or additions to and remodeling of existing homes. These relatively small job gains came after a five-year period (2006-2010) in which the residential construction sector lost a total of 1.5 million jobs (see exhibit). Furthermore, employment in real estate credit or loan brokerage was essentially flat over the past year.

June's job growth was sufficient to hold the unemployment rate at 8.2 percent for a second straight month. However the duration of unemployment has remained elevated, with just over 40 percent of unemployed workers out of work for more than six months. Unemployment varies by industry and demographic factors as well. The unemployment rate for construction workers was 12.8 percent in June with nearly 48 percent out of work for at least six months, both metrics well above the national figure.

The second quarter labor-market weakness may be a lingering after-effect of the mild winter, which shifted some economic activity from the spring back to the beginning of this year. Taken over the first six months of this year, employment gains have averaged 150,000 per month—a gradual strengthening of economic growth in the second half of this year should rebuild job growth back to this monthly pace for the latter months of 2012.

The pick-up in housing starts, home sales and even home prices is welcome news. And the large majority of borrowers that are refinancing have chosen to either maintain their loan balance at the same level or reduce it. With lower rates, these borrowers also can substantially lower their monthly mortgage interest payments. These lower payments mean that homeowners have more funds left over each month to support either consumer spending or savings. With consumer expenditures representing close to 70 percent of gross domestic product, an improved household balance sheet and increased consumer spending will support economic activity in the second half of 2012 and a pick-up in labor force growth.

While housing may not have played its traditional role coming out of the Great Recession, at the end of the day, it has turned a very large corner and now it's time to get this sector back to work whether through construction jobs, remodeling, or home brokerage.



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July 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	3.0	1.9	**1.8**	**2.5**	**2.5**	**2.8**	**2.8**	**3.2**	**3.2**	2.2	-3.3	-0.5	3.1	1.6	**2.2**	**3.0**
Consumer Prices (%) a.	4.5	4.4	3.1	1.3	2.5	**0.3**	**1.9**	**1.9**	**2.0**	**2.0**	**2.0**	**2.0**	4.0	1.6	1.5	1.2	3.3	**1.7**	**2.0**
Unemployment Rate (%) b.	9.0	9.0	9.1	8.7	8.3	8.2	**8.1**	**8.0**	**8.0**	**7.8**	**7.6**	**7.4**	4.6	5.8	9.3	9.6	9.0	**8.2**	**7.7**
30-Year Fixed Mtg. Rate (%) b.	4.9	4.7	4.3	4.0	3.9	3.8	**3.7**	**3.8**	**4.0**	**4.1**	**4.2**	**4.3**	6.3	6.0	5.0	4.7	4.5	**3.8**	**4.1**
1-Year Treas. Indexed ARM Rate (%) b.	3.3	3.1	2.9	2.9	2.8	2.8	**2.7**	**2.8**	**3.0**	**3.1**	**3.3**	**3.4**	5.6	5.2	4.7	3.8	3.0	**2.8**	**3.2**
10-Year Const. Mat. Treas. Rate (%) b.	3.5	3.2	2.4	2.1	2.0	1.8	**1.7**	**1.8**	**2.0**	**2.1**	**2.2**	**2.3**	4.6	3.7	3.3	3.2	2.8	**1.8**	**2.1**
1-Year Const. Mat. Treas. Rate (%) b.	0.3	0.2	0.1	0.1	0.2	0.2	**0.2**	**0.2**	**0.3**	**0.3**	**0.4**	**0.4**	4.5	1.8	0.5	0.3	0.2	**0.2**	**0.4**

(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	0.61	0.68	0.72	**0.73**	**0.74**	**0.78**	**0.83**	**0.88**	**0.93**	**0.98**	1.36	0.91	0.55	0.59	0.61	**0.74**	**0.91**
Total Home Sales d.	4.63	4.48	4.55	4.69	4.92	**4.94**	**4.90**	**4.90**	**5.10**	**5.25**	**5.40**	**5.55**	5.81	4.59	4.72	4.51	4.57	**4.92**	**5.33**
FMHPI House Price Appreciation (%) e.	-1.7	1.6	-1.9	-2.4	-0.3	**3.0**	**0.0**	**-1.6**	**0.0**	**1.5**	**0.5**	**0.0**	-4.9	-11.7	-2.3	-5.8	-4.2	**1.0**	**2.0**
S&P/Case-Shiller® Home Price Index (%) f.	-4.0	4.1	0.0	-3.9	-2.0	**3.0**	**0.0**	**-0.9**	**0.0**	**1.5**	**0.5**	**0.0**	-8.4	-18.4	-2.5	-3.7	-3.9	**0.0**	**2.0**
1-4 Family Mortgage Originations g.																			
Conventional	**$263**	**$220**	**$277**	**$348**	**$337**	**$323**	**$338**	**$277**	**$177**	**$246**	**$239**	**$162**	$2,312	$1,310	$1,549	$1,300	**$1,108**	**$1,275**	**$824**
FHA & VA	$77	$70	$73	$72	$83	**$97**	**$113**	**$83**	**$53**	**$74**	**$71**	**$48**	$120	$290	$451	$377	$292	**$375**	**$246**
Total	**$340**	**$290**	**$350**	**$420**	**$420**	**$420**	**$450**	**$360**	**$230**	**$320**	**$310**	**$210**	$2,432	$1,600	$2,000	$1,677	**$1,400**	**$1,650**	**$1,070**
ARM Share (%) h.	8	11	12	14	12	**14**	**15**	**15**	**15**	**15**	**15**	**15**	10	7	3	5	11	**14**	**15**
Refinancing Share - Applications (%) i.	69	70	78	81	81	**76**	**75**	**70**	**57**	**55**	**55**	**53**	42	48	70	76	75	**76**	**55**
Refinancing Share - Originations (%) j.	**71**	**56**	**65**	**75**	**76**	**74**	**74**	**70**	**57**	**55**	**55**	**53**	49	50	68	67	**67**	**74**	**55**
Residential Mortgage Debt (%) k.	-2.7	-2.4	-2.0	-1.8	-3.2	**-1.0**	**-1.0**	**-0.5**	**1.0**	**2.0**	**2.0**	**3.0**	7.1	-0.4	-1.6	-3.0	-2.2	**-1.4**	**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 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 7/17/2012 (MAS); Send comments and questions to chief_economist@freddiemac.com.