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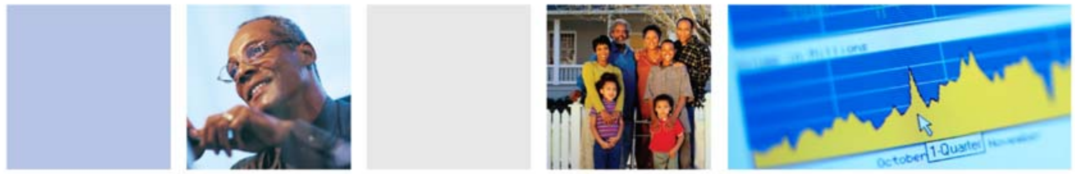


March 2011 Economic Outlook
Office of the Chief Economist

Job Market News is One Step Forward in a Long Journey

The February employment report showed strength, with private payrolls rising 222,000 and a significant upward revision to job growth in January and December. A reversal of the impact of January's winter storms played some role, as construction jobs rebounded 33,000. But other sectors also showed solid growth, especially manufacturing, professional and business services, and health care. These data, combined with the steady declines in weekly jobless claims since October, indicate the economic recovery is strengthening.

The drop in the unemployment rate was also welcome news. Unemployment among African Americans and Hispanics posted significant declines; minorities were harder-hit in the recession than the overall workforce. Despite having moved down from its October 2009 peak of 10.1 percent, though, the current overall rate of 8.9 percent reflects much weakness in the labor market. Future job growth will have to be strong enough to absorb not only the unemployed but also the discouraged workers who dropped out of the labor force during the recession.

Details of the report showed other signs of progress. A broader measure of unemployment that includes discouraged workers fell 0.2 percentage points; long-term unemployment dropped for the second straight month, as did workers with part-time jobs that wanted full-time work. Still, weak labor markets remain a major issue for housing.

A few calculations illustrate just how strong job growth will need to be to reduce unemployment, and how long until conditions are more "normal". Population growth alone requires an average of about 130,000 new jobs a month just to keep unemployment steady. In addition, supposing the labor force participation rate (one measure of the potential extent of discouraged workers) returns to its pre-recession rate over the next three years, the economy will need to generate an additional 120,000 new jobs per month just to absorb these additional workers.

Thus, monthly job growth may need to accelerate above 250,000 to make significant improvements in the unemployment rate. Payrolls did grow as fast as 300,000 a month on a sustained basis during the 1990s. Such a pace of job growth would bring the unemployment rate back below 6 percent by early 2015.

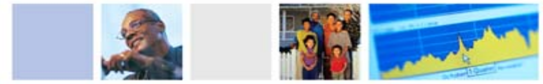
We expect the unemployment rate to decline only very slowly because of the potentially large number of discouraged workers, even if job growth is sustained for several years; this is the ”glass half empty” part of the job market story. The important point for the housing market recovery is not the unemployment rate itself, though, but whether jobs and incomes are rising rapidly enough to support housing demand and keep borrowers current on their existing loans. The outlook is somewhat more encouraging on this front… the “glass is half full”: A steadily expanding economy is expected to generate new jobs and rising incomes, contributing to a gradual recovery in home sales, stabilization in house prices and declines in delinquency rates.

Two other recent developments bear watching as they may affect the housing recovery. The spike in oil prices to around $100 per barrel for the first time since mid-2008 raises concerns about the overall economic recovery and housing markets. We have shaved our projection for GDP growth in the first half of the year, as higher prices at the pump reduce consumers' cash for other spending. While we do not expect the impact to be large or long-lasting, this remains a risk to our forecast, especially if prices would move sharply higher. On the other hand, mortgage rates have moderated in recent weeks, dipping back below 5 percent in Freddie Mac's PMMS®. We do expect fixed-rate rates to be a bit higher in the second half of 2011, but this is largely as stronger GDP growth and further labor market improvements generate higher demand for credit and consumer spending. These factors are likely to ameliorate the impact of modestly higher mortgage rates on home sales and house prices, although higher fixed rates will siphon off the financial incentives to refinance in the months ahead.

Frank E. Nothaft	Calvin Schnure
Chief Economist	Economic Analysis Director

March 14, 2011

March 2011 Economic and Housing Market Outlook



Office of the Chief Economist

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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	2007	2008	2009	2010	2011	2012
Real GDP (%)	3.7	1.7	2.6	2.8	3.2	3.4	4.1	4.1	4.0	4.0	4.0	4.0	2.3	-2.8	0.2	2.7	3.7	4.0
Consumer Prices (%) a.	1.3	-0.5	1.4	2.6	3.0	1.0	1.0	1.0	1.2	1.4	1.6	1.8	4.0	1.6	1.5	1.2	1.5	1.5
Unemployment Rate (%) b.	9.7	9.7	9.6	9.6	9.0	8.9	8.7	8.5	8.4	8.3	8.2	8.1	4.6	5.8	9.3	9.7	8.8	8.3
30-Year Fixed Mtg. Rate (%) b.	5.0	4.9	4.4	4.4	4.9	5.1	5.3	5.5	5.7	5.8	6.0	6.2	6.3	6.0	5.0	4.7	5.2	5.9
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	3.8	3.9	5.6	5.2	4.7	3.8	3.4	3.7
10-Year Const. Mat. Treas. Rate (%) b.	3.7	3.5	2.8	2.9	3.5	3.6	3.8	4.0	4.2	4.3	4.5	4.7	4.6	3.7	3.3	3.2	3.7	4.4
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	0.8	0.9	4.5	1.8	0.5	0.3	0.4	0.7

(Annual Totals: 2007–2012)

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	2007	2008	2009	2010	2011	2012
Housing Starts c.	0.62	0.60	0.59	0.53	0.60	0.65	0.70	0.75	0.85	0.95	1.05	1.15	1.36	0.91	0.55	0.59	0.68	1.00
Total Home Sales d.	4.89	5.22	3.95	4.47	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.	-5.1	-1.3	5.7	-3.3	-3.0	-2.0	-2.0	-1.0	1.0	2.0	3.0	4.0	-0.4	-6.0	-4.0	-1.1	-2.0	2.5
S&P/Case-Shiller® Home Price Index (%) f.	-11.0	19.9	-7.3	-14.6	-1.5	0.5	0.0	-2.0	1.0	2.0	3.0	4.0	-8.4	-18.4	-2.4	-4.1	-0.8	2.5
1-4 Family Mortgage Originations g.																		
Conventional	$243	$226	$309	$396	$270	$196	$170	$129	$150	$200	$210	$175	$2,312	$1,310	$1,549	$1,173	$765	$735
FHA & VA	$92	$90	$95	$100	$85	$100	$80	$70	$64	$86	$90	$75	$120	$290	$451	$377	$335	$315
Total	$335	$316	$404	$496	$355	$296	$250	$199	$214	$286	$300	$250	$2,432	$1,600	$2,000	$1,550	$1,100	$1,050
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	67	60	50	35	35	35	35	35	42	48	70	76	53	35
Refinancing Share - Originations (%) j.	70	58	75	71	67	60	50	35	35	35	35	35	49	50	68	69	53	35
Residential Mortgage Debt (%) k.	-3.8	-2.3	-2.6	-2.2	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

(Annual Totals: 2007–2012)

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 3/14/2011 (MAS); Send comments and questions to chief_economist@freddiemac.com.