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Better, But Still Not Good Enough

The relatively modest job growth during the economic recovery has been a concern. The labor market report for April from the Bureau of Labor Statistics carried some better news: Employers added 244,000 jobs in April, the most in almost a year. Further, the private sector added 268,000, the most in five years. By industry, the best service sector performer was retail, which added the most jobs since 2000. The main negative was in state and local government employment, which continued to trend down as cuts in spending persisted.

The recovery is not, however, growing fast enough to quickly reabsorb all the jobs lost since the recession. Employment has to rise by roughly 130,000 a month to just keep even with labor force growth, and if the participation rate rises over the next three years to its pre-recession levels, the economy will need another 130,000 a month just for that. Thus we will need more than a quarter-million new jobs a month – something we have not yet seen on a sustained basis.

The April unemployment rate edged up to 9.0 percent, partly reflecting discouraged workers who have re-entered the labor market. April's data reflected the 27th consecutive month that the rate was 8 percent or higher and matched the post-WWII record set during the early 1980s (November 1981 to January 1984). And it is clear a new longevity mark will be set: Even the members of the Federal Open Market Committee (FOMC), according to the projections they made in April, believe the U.S. unemployment rate will remain at or above 8 percent for the balance of this year (the FOMC members expect an average between 8.1 and 8.9 percent during the fourth quarter).

In addition to an elevated unemployment rate, the labor market has had a large run-up in the average duration of unemployment for those out of work. Average unemployment duration was 38.3 weeks in April, down slightly from the record of 39 weeks in March. Prolonged bouts of unemployment have obvious consequences for the financial health of households. Unemployment/income curtailment has been the single most important hardship reason that triggered delinquency on conventional loans made to prime-credit borrowers during the economic downturn. Indeed, the U.S. Treasury has reported this to be the most important trigger event leading to default for borrowers that subsequently received permanent loan modifications through its Making Home Affordable program. Future declines in the unemployment rate will certainly be good news and will help to push serious delinquency rates lower. Nonetheless, the extended period of relatively high unemployment rates will likely translate into a similar projected path for serious delinquency rates on mortgages: These rates will likely trend lower in the mortgage industry during 2011, but continue to remain at extraordinarily high levels for an extended period. The seriously delinquent rate for the industry was 8.6 percent at year-end, according to the Mortgage Bankers Association. The comparable rate for Freddie Mac at that time was 3.8 percent, less than half of the industry average, and had moved down to 3.6 percent by the end of March.

This outlook for mortgage loan performance implies that U.S. house-price indexes have not bottomed out just yet – although these metrics are close to their nadir. A relatively large supply of distressed properties entered the market during last winter, a period when homebuyer demand is seasonally weak, and has caused further erosion in national indexes. The National Association of Realtors® reported that 40 percent of home sales in March were distressed sales, the largest monthly share since April 2009. Freddie Mac's House Price Index℠ for the U.S. declined 2.8 percent between December 2010 and March 2011, in part reflecting the large volume of distressed transactions in the housing market. We expect some firming in U.S. price indexes during the spring, perhaps even a pickup, with some weakness toward year-end and a bottoming next winter.

Still, there are a number of positive signs in the housing market. Homebuyer affordability remains extraordinarily high because of low mortgage rates and house prices that are well off their cyclic peak: The average rate on 30-year fixed-rate conforming mortgages has hovered between 4.75 and 5.00 percent for most of this year, according to Freddie Mac's Primary Mortgage Market Survey®. And contract signings for existing home sales are up, presaging a pickup in activity as the housing market enters the spring selling season. We expect home sales to be up about 5 percent in 2011 compared with 2010.

We also expect a pick-up in economic growth in the second half of 2011, which should help to propel additional job gains later this year. Still, while the labor market is moving in the right direction, it still has a long way to go before the unemployment rate moves sharply lower. And ditto for serious delinquency rates on mortgages.

Frank E. Nothaft
Chief Economist

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May 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	Annual Totals 2007	2008	2009	2010	2011	2012
Real GDP (%)	3.7	1.7	2.6	3.1	1.8	**3.4**	**4.1**	**4.1**	**4.0**	**4.0**	**4.0**	**4.0**	2.3	-2.8	0.2	2.8	**3.4**	**4.0**
Consumer Prices (%) a.	1.3	-0.5	1.4	2.6	5.2	**3.0**	**1.3**	**1.3**	**1.3**	**1.4**	**1.6**	**1.7**	4.0	1.6	1.5	1.2	**2.7**	**1.5**
Unemployment Rate (%) b.	9.7	9.7	9.6	9.6	8.9	**8.9**	**8.7**	**8.5**	**8.3**	**8.1**	**7.9**	**7.7**	4.6	5.8	9.3	9.7	**8.8**	**8.0**
30-Year Fixed Mtg. Rate (%) b.	5.0	4.9	4.4	4.4	4.9	**4.8**	**4.9**	**5.1**	**5.4**	**5.6**	**5.8**	**6.0**	6.3	6.0	5.0	4.7	**4.9**	**5.7**
1-Year Treas. Indexed ARM Rate (%) b.	4.3	4.0	3.5	3.3	3.3	**3.2**	**3.2**	**3.3**	**3.4**	**3.5**	**3.6**	**3.7**	5.6	5.2	4.7	3.8	**3.2**	**3.6**
10-Year Const. Mat. Treas. Rate (%) b.	3.7	3.5	2.8	2.9	3.5	**3.4**	**3.5**	**3.7**	**3.9**	**4.1**	**4.3**	**4.5**	4.6	3.7	3.3	3.2	**3.5**	**4.2**
1-Year Const. Mat. Treas. Rate (%) b.	0.4	0.4	0.3	0.3	0.3	**0.2**	**0.2**	**0.3**	**0.4**	**0.5**	**0.6**	**0.7**	4.5	1.8	0.5	0.3	**0.3**	**0.5**

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	0.53	0.56	**0.60**	**0.65**	**0.70**	**0.75**	**0.85**	**0.95**	**1.05**	1.36	0.91	0.55	0.59	**0.63**	**0.90**
Total Home Sales d.	4.89	5.22	3.95	4.47	4.77	**4.90**	**5.00**	**5.15**	**5.50**	**5.50**	**5.50**	**5.50**	5.72	4.84	4.94	4.63	**4.96**	**5.50**
FMHPI House Price Appreciation (%) e.	-1.4	4.0	-12.8	-13.4	-10.8	**2.0**	**1.0**	**-1.0**	**0.0**	**1.0**	**1.5**	**2.0**	-5.0	-11.7	-2.3	-6.2	**-2.2**	**1.1**
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**	**$244**	**$225**	**$180**	**$130**	**$150**	**$200**	**$210**	**$175**	$2,312	$1,310	$1,549	**$1,173**	**$779**	**$735**
FHA & VA	$92	$90	$95	$100	$76	**$95**	**$80**	**$70**	**$64**	**$86**	**$90**	**$75**	$120	$290	$451	$377	**$321**	**$315**
Total	**$335**	**$316**	**$404**	**$496**	**$320**	**$320**	**$260**	**$200**	**$214**	**$286**	**$300**	**$250**	$2,432	$1,600	$2,000	**$1,550**	**$1,100**	**$1,050**
ARM Share (%) h.	4	6	5	4	8	**6**	**7**	**8**	**8**	**9**	**10**	**11**	10	7	3	5	**7**	**10**
Refinancing Share - Applications (%) i.	70	72	81	82	69	**60**	**50**	**35**	**35**	**35**	**35**	**35**	42	48	70	76	**54**	**35**
Refinancing Share - Originations (%) j.	**70**	**58**	**75**	**79**	**69**	**60**	**50**	**35**	**35**	**35**	**35**	**35**	49	50	68	**71**	**54**	**35**
Residential Mortgage Debt (%) k.	-3.8	-2.3	-2.6	-2.2	**-4.0**	**0.0**	**0.0**	**0.0**	**2.0**	**4.0**	**4.0**	**6.0**	7.1	-0.4	-1.7	-2.7	**-1.0**	**4.0**

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 Hpouse Price Index (FMHPI); 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 5/11/2011 (MAS); Send comments and questions to chief_economist@freddiemac.com.

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