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May 2012 Economic Outlook | Office of the Chief Economist

Some Encouraging First-Quarter Signals

First-quarter economic data – some preliminary, some final – have started to come out and create an impression of what the rest of 2012 may hold. One important metric was the first-quarter growth rate for the economy. The Bureau of Economic Analysis reported its initial estimate for first-quarter growth was 2.2 percent, slower than the previous quarter, but better than three of the past four quarters. The slower growth primarily reflected less inventory accumulation and a dip in nonresidential construction. On the plus side, personal consumption expenditures grew at a 15.3 percent annual rate reflecting continuing strength in consumer durables (such as cars and kitchen appliances). Also, residential fixed investment (RFI) added 0.4 percentage points to the quarter's economic growth.

RFI, which primarily reflects new housing construction and remodeling expenses, has been a net positive contributor to growth for four straight quarters, with the latest quarter providing the biggest boost in nearly two years. Multifamily rental-apartment starts and existing-home remodeling have triggered the RFI growth. Housing starts were up in April, and have brought the monthly average over the first four months of 2012 to 713,500, up 24 percent from the same period a year ago. Nonetheless, RFI remains weak for this stage of the economic recovery compared with previous business cycles, as shown in the accompanying exhibit.

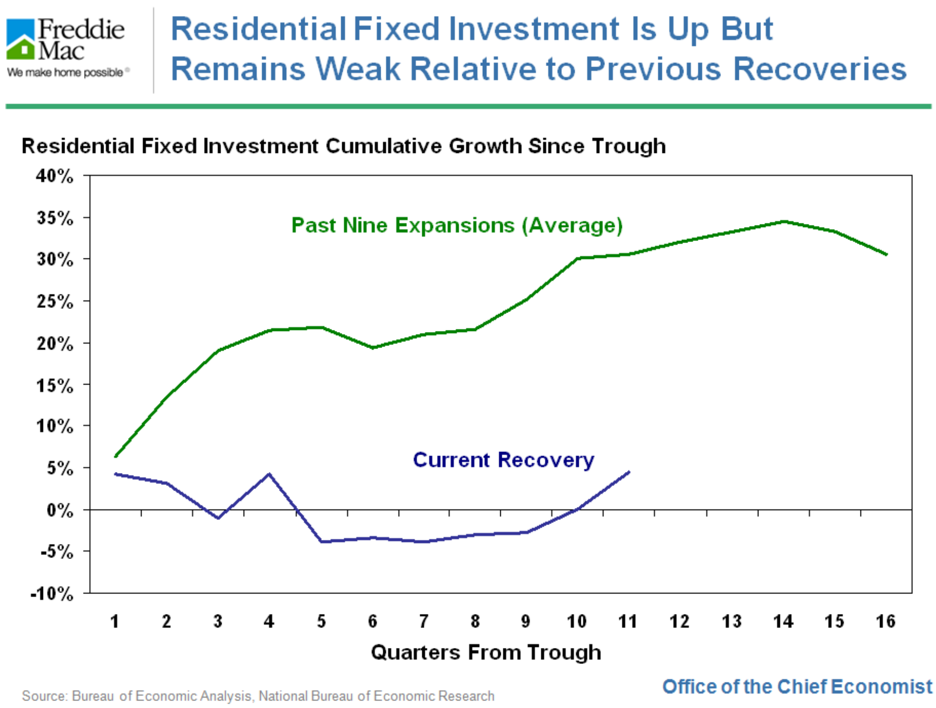
The Freddie Mac House Price Index (FMHPI) for the first three months of this year suggested that home values may be at or near their bottom in many markets. Comparing March 2012 with December 2011 results at the state level, the index was up at least 0.5 percent in 13 states, and about flat (plus or minus 0.5 percent) in nine states, but down at least 0.5 percent in 28 states. With the lowest fixed-rate mortgage rates in more than 60 years, the extraordinary home-buyer affordability in many areas should translate into a sales pickup in 2012 relative to last year.

The FMHPI at or near a trough in many markets bodes well for further declines in delinquency rates. The Mortgage Bankers Association (MBA) reported that the 60-day delinquency rate across all markets fell to 1.2 percent by the end of March, well below the peak of 1.8 percent three years ago and the lowest since year-end 2007. Further, MBA reported the share of loans 90-or-more-days delinquent or in foreclosure proceedings has declined in eight of the past nine quarters to 7.4 percent—albeit still a historically high seriously delinquent rate. The MBA's serious delinquency metric for all single-family loans should decline further this year as the economy strengthens, the unemployment rate gradually moves lower, and subprime loans decline as a share of all loans serviced.

Despite some signs that the housing market may have bottomed, homeownership rates have continued to move lower through the first quarter. The U.S. Census Bureau reported that the national ownership rate dropped 0.5 percentage points to 65.5 percent (seasonally adjusted) during the quarter, down from a peak of 69.4 percent in the second quarter of 2004 and back to a level last seen in 1997. Some additional slippage in the homeowner rate is likely as more than two million homes remain in foreclosure proceedings nationwide. In the same release, Census also reported that vacancy rates for both for-rent and for-sale homes declined further in the first quarter—signs that the rental market continues to tighten and that excess vacant homes are being absorbed by household formations. Homeowner vacancy rates in one-family houses dipped to their lowest rate in six years, and rental vacancy rates for one-family houses fell to their lowest in almost nine years.

Another important first-quarter metric concerned the refinance boom. Freddie Mac's first-quarter refinance activity reports found that about four- of -five borrowers who refinanced their mortgages either paid down their balance or kept it about the same. Further, more than 95 percent of refinancers in the conforming market chose fixed-rate loans, and about one- in -three shortened their term (from 30 years to 20 or 15 years on their new loan). The median interest-rate reduction was 1.5 percentage points. And loan deliveries under the enhanced Home Affordable Refinance Program (HARP) picked up during the quarter; for example, at Freddie Mac, the number of loans refinanced through HARP represented 20 percent of all refinance fundings during the first quarter, the highest share since HARP's inception.

Taken together, the first-quarter data releases provide an encouraging sign for both the macroeconomy and the housing recovery. While not uniformly positive, for the most part the data trend in the right direction.



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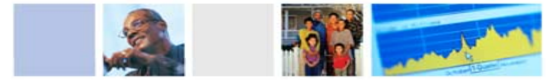
May 2012 Economic and Housing Market Outlook



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	Annual Totals 2007	2008	2009	2010	2011	2012	2013
Real GDP (%)	0.4	1.3	1.8	3.0	2.2	**2.5**	**2.7**	**2.9**	**3.0**	**3.2**	**3.4**	**3.6**	2.2	-3.3	-0.5	3.1	1.6	**2.6**	**3.3**
Consumer Prices (%) a.	4.5	4.4	3.1	1.3	2.5	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	4.0	1.6	1.5	1.2	3.3	**2.1**	**2.0**
Unemployment Rate (%) b.	9.0	9.0	9.1	8.7	8.3	**8.1**	**8.1**	**8.0**	**7.9**	**7.7**	**7.5**	**7.3**	4.6	5.8	9.3	9.6	9.0	**8.1**	**7.6**
30-Year Fixed Mtg. Rate (%) b.	4.9	4.7	4.3	4.0	3.9	**3.9**	**4.0**	**4.2**	**4.3**	**4.5**	**4.6**	**4.8**	6.3	6.0	5.0	4.7	4.5	**4.0**	**4.6**
1-Year Treas. Indexed ARM Rate (%) b.	3.3	3.1	2.9	2.9	2.8	**2.8**	**2.9**	**3.0**	**3.0**	**3.1**	**3.2**	**3.3**	5.6	5.2	4.7	3.8	3.0	**2.9**	**3.2**
10-Year Const. Mat. Treas. Rate (%) b.	3.5	3.2	2.4	2.1	2.0	**2.0**	**2.0**	**2.1**	**2.2**	**2.2**	**2.3**	**2.4**	4.6	3.7	3.3	3.2	2.8	**2.0**	**2.3**
1-Year Const. Mat. Treas. Rate (%) b.	0.3	0.2	0.1	0.1	0.2	**0.2**	**0.2**	**0.3**	**0.4**	**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 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	Annual Totals 2007	2008	2009	2010	2011	2012	2013
Housing Starts c.	0.58	0.57	0.62	0.67	0.69	**0.70**	**0.74**	**0.78**	**0.83**	**0.88**	**0.93**	**0.98**	1.36	0.91	0.55	0.59	0.61	**0.73**	**0.91**
Total Home Sales d.	4.11	4.01	4.07	4.22	4.38	**4.40**	**4.40**	**4.40**	**4.60**	**4.75**	**4.90**	**5.05**	5.19	4.14	4.24	4.03	4.09	**4.40**	**4.83**
FMHPI House Price Appreciation (%) e.	-1.7	1.6	-1.9	-2.4	-0.3	**1.0**	**-1.0**	**0.0**	**0.0**	**1.0**	**0.5**	**0.0**	-4.9	-11.7	-2.3	-5.8	-4.2	**-0.3**	**1.5**
S&P/Case-Shiller® Home Price Index (%) f.	-4.0	4.0	-0.1	-3.8	**-2.0**	**2.0**	**-1.0**	**0.0**	**0.0**	**1.0**	**0.5**	**0.0**	-8.4	-18.4	-2.5	-3.7	-4.0	**-1.0**	**1.5**
1-4 Family Mortgage Originations g.																			
Conventional	**$263**	**$220**	**$277**	**$348**	**$298**	**$285**	**$234**	**$199**	**$177**	**$246**	**$239**	**$162**	$2,312	$1,310	$1,549	$1,300	**$1,108**	**$1,016**	**$824**
FHA & VA	$77	$70	$73	$72	$82	**$80**	**$66**	**$56**	**$53**	**$74**	**$71**	**$48**	$120	$290	$451	$377	$292	**$284**	**$246**
Total	**$340**	**$290**	**$350**	**$420**	**$380**	**$365**	**$300**	**$255**	**$230**	**$320**	**$310**	**$210**	$2,432	$1,600	$2,000	$1,677	**$1,400**	**$1,300**	**$1,070**
ARM Share (%) h.	8	11	12	14	12	**15**	**15**	**15**	**15**	**15**	**15**	**15**	10	7	3	5	11	**14**	**15**
Refinancing Share - Applications (%) i.	69	70	78	81	81	**75**	**70**	**60**	**57**	**55**	**55**	**53**	42	48	70	76	75	**72**	**55**
Refinancing Share - Originations (%) j.	**71**	**56**	**68**	**80**	**75**	**70**	**60**	**60**	**57**	**55**	**55**	**53**	49	50	68	67	**69**	**66**	**55**
Residential Mortgage Debt (%) k.	-2.6	-1.9	-2.1	-1.6	**-1.5**	**-1.0**	**-1.0**	**-0.5**	**1.0**	**2.0**	**2.0**	**3.0**	7.1	-0.4	-1.6	-3.0	-2.0	**-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 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 5/22/2012 (MAS); Send comments and questions to chief_economist@freddiemac.com.