Freddie Mac
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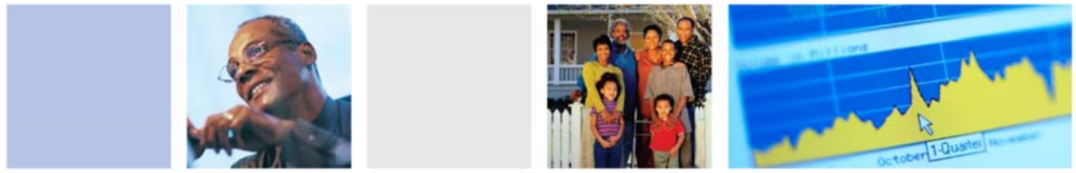


November 2011 Economic Outlook | Office of the Chief Economist

Better Economic News & An Origination Boost

Thankfully, the U.S. had some better economic news over the past month. The Bureau of Economic Analysis reported that its advance estimate placed economic growth at a 2.5 percent annual rate during the third quarter, more than three times the pace of the first half of the year. The most important contribution to Gross Domestic Product was domestic aggregate demand (consumers and businesses), which rose 3.6 percent annualized, the second biggest quarterly gain in five years. Non-residential fixed investment (buildings, equipment and software) expanded at a striking 14 percent pace during the quarter; residential investment also rose a little bit for the second straight quarter. Declining inventories dragged growth down a full percentage point from where it otherwise would have been--and with inventory-to-sales ratios relatively low this suggests an increase in production is likely in coming months. The early-2011 dual toll of production disruptions related to the earthquake in Japan and high energy costs appear to have faded.

Still, the economic growth rate for the third quarter is barely sufficient to keep up with labor force growth, and insufficient to make a sizable dent in unemployment. This was confirmed when the Bureau of Labor Statistics released its October labor market report. Net job creation was 80,000 for October, although the two prior months were revised upward by a cumulative total of 102,000 – bringing the third quarter net payroll growth to just shy of 400,000. This job growth was enough to keep the unemployment rate steady during the third quarter and allowed it to edge down to 9.0 percent for October. Private sector job growth has been about 27,000 stronger per month on average this year, as state and local cutbacks have slowly, but steadily, shrunk government employment.

Some positive news also came from the latest retail sales report, which showed the fifth straight monthly pickup in sales. Along with that, consumer sentiment, which had sagged from spring though the summer, may have turned around: The University of Michigan’s consumer sentiment index rose for the third consecutive month in early November, led in part by improved views of the economic outlook. Still, this confidence metric is at a relatively low level for this far into a recovery.

Consumer worries about their financial well being are a major reason why home sales remain relatively lackluster, despite the most affordable home-buyer market in decades. The Federal Reserve’s accommodative monetary policy, supported by additional initiatives such as the Maturity Extension Program (popularly known as “Operation Twist”), have nudged long-term interest rates down to levels last seen more than 60 years ago. Ten-year Treasury yields continue to hover in a narrow band around 2.0 percent, while 30-year conforming fixed-rate mortgages have averaged about 4.0 percent in recent weeks. House prices are also sharply down from pre-recession peaks in most neighborhoods. The Freddie Mac House Price Index for the U.S. has recorded a 25 percent cumulative decline since the peak in mid-2006 through September 2011. Further, while values have been weak in many areas, this U.S. index has declined less than a percentage point over the first nine months of 2011, on a non-seasonally adjusted basis. While this U.S. index may be nearing a bottom, it’s probably not there yet. A large inventory of homes with seriously delinquent mortgages, many of which will transition into real-estate owned and then future sales, will likely add downward pressure on value indexes, especially during the normally weak demand over the winter months. National indexes, like the Freddie Mac index for the U.S., will likely decline over the near term before a long-term recovery in housing begins.

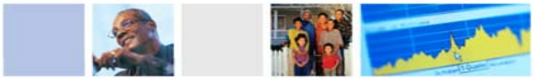
One important announcement over the past month, and one that will especially benefit from the extremely low fixed-rate mortgage rates that currently prevail in the market, is the extension and enhancement of the Home Affordable Refinance Program (HARP). HARP is available for certain borrowers with current loan-to-value ratios above 80 percent and whose loan is owned by Freddie Mac or Fannie Mae. From inception (April 2009) through September 2011, more than 900,000 borrowers have obtained a refinance loan through HARP. In addition to an extension of HARP through the end of 2013, the recent announcement included the following enhancements: waiving certain loan seller/servicer reps and warranties for eligible borrowers, reduction or elimination of some fees that had been previously assessed, removal of the maximum current loan-to-value limit, and eliminating the need for a new property appraisal in some cases. Estimates of the number of additional HARP refinances vary, with the Federal Housing Finance Agency stating that “HARP refinances may roughly double or more from their current amount”, Keefe Bruyette & Woods’ analysts estimating about “1 million incremental loans”, and Moody’s Analytics projecting as much as 1.6 million additional loans above what would have occurred under the original HARP terms, bringing the total number of HARP refinances to as much as 2.85 million loans by the end of 2013.

Allowing eligible borrowers to refinance (who otherwise may face a limited opportunity to refinance without paying down a significant chunk of their loan principal) and obtain substantially lower interest rates and monthly payments, will likely reduce defaults, ease distressed sales in markets, and provide needed cash flow to borrowers. This latter effect can, in turn, support additional consumption spending and be beneficial for economic growth in the long run. As an example of the potential amount of payment reduction, borrowers who refinanced during the third quarter (both HARP and outside of HARP) and were funded by Freddie Mac will save about $2,500 in interest payments in the first 12 months after their refinance.

The effect of the extended and enhanced HARP on single-family originations, assuming about $200,000 loan amount on average, is likely to be around $200 billion to $300 billion over 2012 and 2013, with most of the additional volume falling in the first year. Thus, our origination projection for both years has been boosted to reflect this additional volume.

Frank E. Nothaft
Chief Economist
November 21, 2011

November 2011 Economic and Housing Market Outlook



Office of the Chief Economist

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Major Economic Indicators

Indicator	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2007	2008	2009	2010	2011	2012	2013
Real GDP (%)	2.5	2.3	0.4	1.3	2.5	**2.5**	**2.3**	**2.3**	**2.7**	**2.7**	**3.0**	**3.3**	2.2	-3.3	-0.5	3.1	**1.7**	**2.5**	**3.5**
Consumer Prices (%) a.	1.4	2.5	5.2	4.1	3.1	**1.5**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	4.0	1.6	1.5	1.2	**3.5**	**2.0**	**2.0**
Unemployment Rate (%) b.	9.6	9.6	8.9	9.1	9.1	**9.1**	**9.1**	**9.0**	**8.9**	**8.8**	**8.5**	**8.3**	4.6	5.8	9.3	9.7	**9.1**	**9.0**	**8.2**
30-Year Fixed Mtg. Rate (%) b.	4.4	4.4	4.9	4.7	4.3	**4.0**	**4.2**	**4.4**	**4.6**	**4.8**	**5.0**	**5.2**	6.3	6.0	5.0	4.7	**4.5**	**4.5**	**5.3**
1-Year Treas. Indexed ARM Rate (%) b.	3.3	3.3	3.3	3.1	2.9	**2.9**	**3.0**	**3.0**	**3.0**	**3.0**	**3.1**	**3.2**	5.6	5.2	4.7	3.8	**3.0**	**3.0**	**3.3**
10-Year Const. Mat. Treas. Rate (%) b.	2.8	2.9	3.5	3.2	2.4	**2.1**	**2.3**	**2.5**	**2.7**	**2.9**	**3.2**	**3.4**	4.6	3.7	3.3	3.2	**2.8**	**2.6**	**3.5**
1-Year Const. Mat. Treas. Rate (%) b.	0.3	0.3	0.3	0.2	0.1	**0.1**	**0.1**	**0.1**	**0.2**	**0.2**	**0.3**	**0.4**	4.5	1.8	0.5	0.3	**0.2**	**0.2**	**0.5**

Housing and Mortgage Markets

Indicator	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2007	2008	2009	2010	2011	2012	2013
Housing Starts c.	0.58	0.54	0.58	0.57	0.61	**0.60**	**0.60**	**0.65**	**0.70**	**0.75**	**0.80**	**0.85**	1.36	0.91	0.55	0.59	**0.59**	**0.68**	**0.93**
Total Home Sales d.	3.95	4.47	4.77	4.61	4.62	**4.58**	**4.65**	**4.70**	**4.80**	**5.05**	**5.30**	**5.40**	5.72	4.84	4.94	4.63	**4.65**	**4.80**	**5.40**
FMHPI House Price Appreciation (%) e.	-3.3	-3.5	-2.1	1.9	-0.7	**-1.8**	**-1.5**	**1.5**	**0.0**	**0.0**	**0.4**	**0.9**	-5.0	-11.7	-2.3	-6.1	**-2.7**	**0.0**	**2.0**
S&P/Case-Shiller® Home Price Index (%) f.	-1.9	-3.5	-4.1	3.6	**2.0**	**-2.5**	**-2.0**	**2.0**	**0.0**	**0.0**	**0.5**	**1.0**	-8.4	-18.4	-2.4	-3.7	**-1.2**	**0.0**	**2.0**
1-4 Family Mortgage Originations g.																			
Conventional	$366	$442	**$264**	**$218**	**$235**	**$283**	**$205**	**$234**	**$228**	**$188**	**$318**	**$383**	$2,312	$1,310	$1,549	$1,300	**$1,000**	**$855**	**$805**
FHA & VA	$95	$100	$76	$67	$69	**$88**	**$65**	**$75**	**$70**	**$70**	**$70**	**$84**	$120	$290	$451	$377	**$300**	**$280**	**$260**
Total	$461	$542	**$340**	**$285**	**$304**	**$371**	**$270**	**$309**	**$298**	**$258**	**$388**	**$467**	$2,432	$1,600	$2,000	$1,677	**$1,300**	**$1,135**	**$1,065**
ARM Share (%) h.	5	4	8	11	12	**12**	**12**	**12**	**12**	**13**	**13**	**13**	10	7	3	5	**11**	**12**	**14**
Refinancing Share - Applications (%) i.	81	82	69	70	78	**77**	**77**	**75**	**70**	**60**	**60**	**65**	42	48	70	76	**74**	**71**	**65**
Refinancing Share - Originations (%) j.	71	77	**71**	**56**	**68**	**80**	**77**	**72**	**65**	**55**	**60**	**60**	49	50	68	67	**69**	**67**	**60**
Residential Mortgage Debt (%) k.	-2.7	-2.1	-2.6	-1.9	**-1.5**	**-2.0**	**-1.0**	**2.0**	**1.5**	**1.5**	**3.0**	**3.5**	7.1	-0.4	-1.6	-3.0	**-2.0**	**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. 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 11/18/2011 (MAS); Send comments and questions to chief_economist@freddiemac.com.