Monetary and Fiscal Stimuli

Monetary policy actions have already had a significant effect on interest rates in an effort to support economic growth. The Federal Reserve's accommodative policy has resulted in the lowest interest rates since the early 1950s, and it has provided some assurance that it will likely keep the federal funds rate at its current near-zero level through at least mid-2013. Two episodes of 'quantitative easing' have pumped additional liquidity into the capital markets, and the statement released after the Federal Open Market Committee's (FOMC) September meeting announced its Maturity Extension Program: By the end of next June, the Federal Reserve plans to purchase $400 billion of long-term Treasury securities (remaining maturities of 6 to 30 years) and to sell an equal amount of short-term Treasuries (remaining maturities of 3 years or less), thus keeping the Federal Reserve's portfolio of Treasuries the same size. The FOMC expects that this program will exert further downward pressure on long-term yields and promote additional loan demand, helping to stimulate the economy over time.

Fed watchers had anticipated some form of the Maturity Extension Program, but the size and timing had been unknown. Long-term Treasury yields had already moved lower since the beginning of September, perhaps partly in expectation of such a program. Ten-year constant-maturity Treasury yields had averaged 2.0% through September before the FOMC's statement, already on track for the lowest monthly average in the 60-year history of the series. Long-term fixed-rate mortgages have also moved to extraordinary lows during the past month. Thirty-year and 15-year single-family fixed rates attained new lows in Freddie Mac's Primary Mortgage Market Survey in September. As of this past June, apartment and non-residential mortgage commitment rates at life insurers had already reached the lowest rates since data collection began in 1965, according to the American Council of Life Insurers; anecdotal information suggests these rates have moved lower during the third quarter.

The FOMC noted "significant downside risks to the economic outlook, including strains in global financial markets" in taking its new action. By itself, monetary policy may gradually promote economic growth in the coming year. Coupling monetary with fiscal stimulus could accelerate growth in 2012 if the fiscal initiative operates in tandem. The basic building blocks of fiscal policy are changes in the level of tax rates and government spending. The Administration's proposed 'American Jobs Act' is an example of one possible fiscal policy response. It combines temporary tax cuts (or extends previous cuts) to the tune of $245 billion, and includes about $202 billion in spending on a variety of programs that are expected to give a near-term boost to consumer spending and business investment. The Administration also expects budgetary offsets in later years, yet to be specified, so that the proposal would not be expected to add to the federal debt over time.

Macroeconomic Advisers (MA) has estimated that, assuming the American Jobs Act is enacted in full and with no offset to the monetary policy stimulus, economic growth in 2012 would be more than a percentage point faster with about 1.3 million additional workers employed by the end of 2012. According to MA, that job growth would push the unemployment rate down about three- to four-tenths of a percentage-point from where it would otherwise be without any fiscal stimulus by the end of 2012, but still leave the national rate above 8 percent by yearend 2012. Further, the effects dissipate after 2012: MA projects economic growth to be about a percentage point lower in 2013, and overall gross domestic product only slightly higher at the end of 2013, than without the Act. Likewise, Moody's Analytics and the Conference Board have estimated between a one and two percentage-point increase in economic growth in 2012 than otherwise would occur, with the effects also dissipating after 2012.

A better economy and more substantial job creation would also lift consumer and business-owner outlooks. The Conference Board's consumer confidence index has slipped over the past few months as households worry about their own economic security. Likewise, the National Federation of Independent Business reported its Small Business Optimism Index also has eroded over the same period; business owners are less likely to expand hiring if they are more concerned regarding future demand for their products.

Financial worries among consumers are likely holding back home sales, which remain lackluster despite the most affordable home-buying market in decades. Boosting job and income growth among households will support consumer confidence and also stimulate household formation. With monetary policy expected to keep interest rates low for a while, affordability will remain high for potential homebuyers. In the meantime, many will choose to rent: The rental apartment market has picked up over the past year and is expected to see relatively strong demand for dwellings over the next year.

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September 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	Annual Totals 2007	2008	2009	2010	2011	2012	2013
Real GDP (%)	2.5	2.3	0.4	1.0	**1.5**	**2.0**	**2.7**	**3.0**	**3.0**	**3.3**	**4.0**	**4.0**	2.2	-3.3	-0.5	3.1	**1.2**	**3.0**	**4.0**
Consumer Prices (%) a.	1.4	2.5	5.2	4.1	**2.0**	**1.5**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	4.0	1.6	1.5	1.2	**3.2**	**2.0**	**2.0**
Unemployment Rate (%) b.	9.6	9.6	8.9	9.1	**9.1**	**9.1**	**9.0**	**8.9**	**8.8**	**8.7**	**8.5**	**8.3**	4.6	5.8	9.3	9.7	**9.1**	**8.9**	**8.2**
30-Year Fixed Mtg. Rate (%) b.	4.4	4.4	4.9	4.7	**4.3**	**4.1**	**4.3**	**4.5**	**4.7**	**4.9**	**5.1**	**5.3**	6.3	6.0	5.0	4.7	**4.5**	**4.6**	**5.4**
1-Year Treas. Indexed ARM Rate (%) b.	3.3	3.3	3.3	3.1	**2.9**	**2.9**	**3.0**	**3.1**	**3.2**	**3.3**	**3.4**	**3.5**	5.6	5.2	4.7	3.8	**3.0**	**3.2**	**3.7**
10-Year Const. Mat. Treas. Rate (%) b.	2.8	2.9	3.5	3.2	**2.5**	**2.1**	**2.3**	**2.6**	**2.8**	**3.0**	**3.3**	**3.5**	4.6	3.7	3.3	3.2	**2.8**	**2.7**	**3.6**
1-Year Const. Mat. Treas. Rate (%) b.	0.3	0.3	0.3	0.2	**0.1**	**0.1**	**0.1**	**0.2**	**0.3**	**0.4**	**0.5**	**0.6**	4.5	1.8	0.5	0.3	**0.2**	**0.2**	**0.7**

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	Annual Totals 2007	2008	2009	2010	2011	2012	2013
Housing Starts c.	0.58	0.54	0.58	0.57	**0.60**	**0.60**	**0.60**	**0.68**	**0.75**	**0.83**	**0.90**	**0.98**	1.36	0.91	0.55	0.59	**0.59**	**0.72**	**1.00**
Total Home Sales d.	3.95	4.47	4.77	4.61	**4.55**	**4.60**	**4.65**	**4.80**	**5.00**	**5.15**	**5.30**	**5.40**	5.72	4.84	4.94	4.63	**4.63**	**4.90**	**5.40**
FMHPI House Price Appreciation (%) e.	-3.4	-3.6	-2.2	2.1	**0.0**	**-1.8**	**-1.5**	**1.5**	**0.0**	**0.0**	**0.4**	**0.9**	-5.0	-11.7	-2.3	-6.2	**-1.9**	**0.0**	**2.0**
S&P/Case-Shiller® Home Price Index (%) f.	-1.9	-3.5	-4.1	3.6	**-0.9**	**-2.5**	**-2.0**	**2.0**	**0.0**	**0.0**	**0.5**	**1.0**	-8.4	-18.4	-2.4	-3.7	**-4.0**	**0.0**	**2.0**
1-4 Family Mortgage Originations g.																			
Conventional	**$309**	**$396**	**$264**	**$268**	**$214**	**$154**	**$150**	**$182**	**$178**	**$140**	**$160**	**$195**	$2,312	$1,310	$1,549	**$1,173**	**$900**	**$650**	**$650**
FHA & VA	$95	$100	$76	$72	**$85**	**$67**	**$60**	**$70**	**$70**	**$50**	**$65**	**$80**	$120	$290	$451	$377	**$300**	**$250**	**$250**
Total	**$404**	**$496**	**$340**	**$340**	**$299**	**$221**	**$210**	**$252**	**$248**	**$190**	**$225**	**$275**	$2,432	$1,600	$2,000	**$1,550**	**$1,200**	**$900**	**$900**
ARM Share (%) h.	5	4	8	11	**11**	**10**	**12**	**12**	**12**	**13**	**13**	**13**	10	7	3	5	**10**	**12**	**14**
Refinancing Share - Applications (%) i.	81	82	69	70	**73**	**60**	**60**	**50**	**45**	**45**	**35**	**35**	42	48	70	76	**68**	**50**	**35**
Refinancing Share - Originations (%) j.	**75**	**79**	**70**	**68**	**73**	**65**	**60**	**55**	**45**	**40**	**35**	**35**	49	50	68	**71**	**69**	**50**	**35**
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 9/23/2011 (MAS); Send comments and questions to chief_economist@freddiemac.com.