Freddie Mac
We make home possible®

Office of the Chief Economist

April 2015 U.S. Economic & Housing Market Outlook

Great Expectations

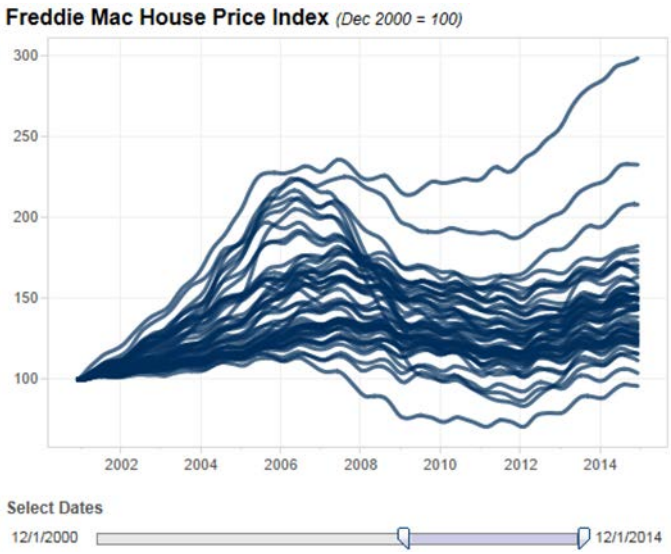
Summary (page 2)

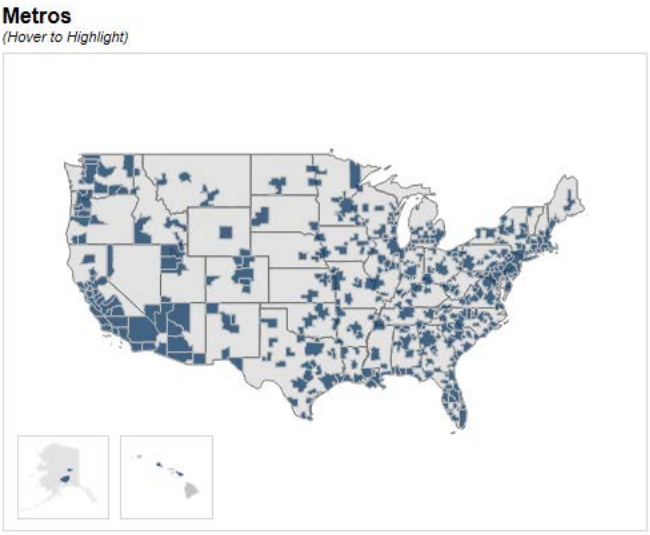
We find ourselves in familiar territory for the third year in a row as we enter the spring homebuying season. As in recent years past we entered the year with great expectations and optimism for the year ahead. The first quarter, once again, defied those expectations, bringing brutal winter and a slowdown in economic activity. Looking ahead to the rest of the year, we maintain our positive outlook. Even with a slow first quarter, economic growth should be solid enough for robust job gains and improving housing markets. Expect housing markets to weather rising mortgage rates in the short term, however, the longer-term issue of low levels of inventory will be with us for several years to come.

Forecast Update (page 5)

Forecast Summary	2015	2016
Real GDP Growth (%)	2.6	2.7
30-Year Fixed Mtg. Rate (%)	4.0	4.9
FMHPI House Price Appreciation (%)	4.0	3.5
1-4 Family Mortgage Originations ($ Billions)	1,300	1,275

Interactive Feature (page 6)





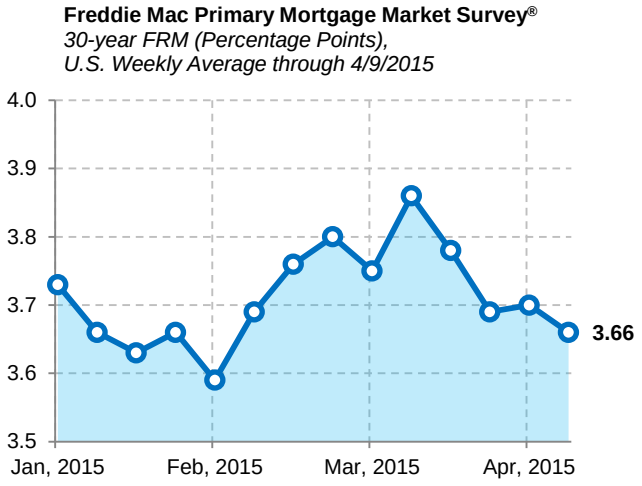
Great Expectations

We find ourselves in familiar territory for the third year in a row as we enter the spring homebuying season. As in recent years past, we entered the year with great expectations and optimism for the year ahead. The first quarter, once again, defied those expectations, bringing brutal winter and a slowdown in economic activity. Looking ahead to the rest of the year, we maintain our positive outlook. Even with a slow first quarter, economic growth should be solid enough for robust job gains and improving housing markets.

For the remainder of the year we should see a resumption of solid economic growth and acceleration in housing activity. Notwithstanding a disappointing March jobs report the acceleration is already underway. For example, mortgage applications for home purchases are up over 3 percentage points in March from last year based on data from the MBA. The positive momentum should continue throughout the summer and into early fall, when the specter of rising interest rates will dominate the discussion. Just as in 2013, rising interest rates will likely slow housing markets, but after most of the year's home sales have been contracted and after the labor market has produced more jobs and increased wages to offset the reduction in affordability.

With spring upon us, housing markets are poised to accelerate and we expect the best year for home sales since 2007. Despite harsh winter weather to start the year, home sales through February are only off from the 2013 pace by 7,000 sales (not seasonally-adjusted). Pending home sales were up 3.1 percent in February to the highest level since June 2013. This marked the fourth consecutive month for rising pending home sales showing positive momentum in general for the housing market. Applications for home purchases have been trending up and with low mortgage rates we expect that to continue over the next few months. By the end of the spring homebuying season in June, we should be well above the pace of home sales for any year since 2007.

Mortgage interest rates remain very low and support homebuyer affordability across the country. After increasing in February, mortgage rates dropped again in March remaining near where they started the year. Mortgage rates will likely stay low over the next few months as market participants await the Federal Reserve's decisions on whether and when to raise its short-term policy rate. The weak employment report for March makes it more likely that the Federal Reserve will raise rates in September rather than June if they do raise rates this year.



With the dollar strengthening relative to other currencies and inflation remaining subdued, even if the Federal Reserve were to raise rates this year, it is unlikely that long-term interest rates will settle at a significantly higher level. (We do expect to see considerable volatility in rates around the time of any change in Federal Reserve policy). Our forecast calls for mortgage rates to drift slightly higher over the next six months, increasing more around September when we anticipate the Fed will begin raising rates. However, by the end of the year long-term interest rates should only increase modestly, ending the year at about 4.3 percent for the 30-year fixed rate mortgage. For a $250,000 loan, that translates into only an $86 increase in monthly Principal and Interest payments. (To see how mortgage payments will vary by metro area given interest rate increases see our interactive affordability map.)

With low mortgage rates, improving labor markets, and rising demand, one key issue for housing over the next two years will be the lack of supply of for-sale and for-rent homes.

Rental Inventory: Rental markets have been strong for several years. Even though new construction of multifamily apartments has been running at a robust pace of over 300,000 total multifamily starts per year over the past two years, it has not kept pace with accelerating demand. At the same time we have seen declines in the homeownership rate across the board. In addition to new multifamily structures we have seen the conversion of millions of 1-unit properties into rental units. For example, from 2001 to 2013 (the latest data available from the American Housing Survey) the share of the 1-unit housing stock that was renter occupied increased from 15.4 percent to 17.5 percent, meaning there are 1.7 million fewer owner-occupied 1-unit properties than we would have if the 2001 level of homeownership prevailed. Yet even with the conversion of millions of single-family units to rental and the addition of new units, the supply has not kept pace with demand. Rental vacancy rates are at the lowest levels since 1994. With robust job growth new household formations are accelerating, and all the gains have been in renter households.

For-Sale Inventory: On the for-sale side of the market, the story has changed from one of relative over-supply of for-sale units to near under-supply in quite a hurry. If we look nationally and use the 1993-2003 vacancy rates for for-sale units as a benchmark we still see modest-oversupply of vacant for-sale properties. However, the story varies considerably by location. Many metro areas that have seen robust job growth and population increases are facing shortages of available for-sale inventory.

There are several drivers for the lack of for-sale inventory in the market.

For-Sale Inventory Drivers

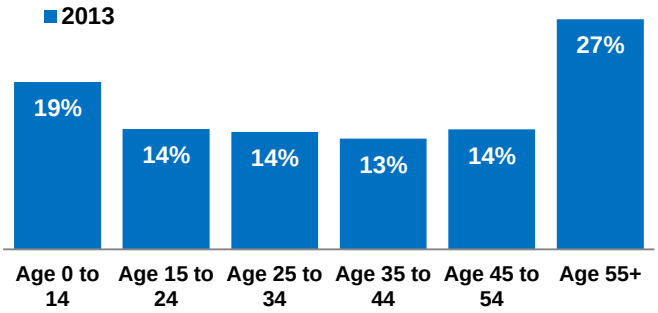
Negative Equity: Despite strong house price growth over the past two years, many homeowners still owe more on their house than what it is currently worth. According to estimates from CoreLogic, about 5.4 million properties (or about 11% properties with a mortgage) remain underwater today. While that is down considerably from its peak (12.1 million or 25.2 percent) those 5.4 million properties represent a significant proportion of the housing stock. Research has shown that homeowners are typically unwilling or unable to sell their home when they owe more than the mortgage.

Few new homes built: Housing construction has rebounded off of the historic lows we saw several years ago (520,000 units in January 2011 for total units, 368,000 units in March 2011 for single-family units), but is still well below what analysts would consider a sustainable pace. From 2010 through 2014 the U.S. housing sector completed 3.5 million new housing units. Over that same period the population expanded by 9.5 million and added 4.5 million more households. The cumulative impact of years of low levels of home building has contributed significantly to low levels of for-sale inventory.

Homes for Sale as a Percent of Households
Includes Exising SF/Condos and New SF (SA)
Source: NAR, Census, CPS/HVS

Demographic Mismatch: The U.S. population distribution looks something like a lop-sided barbell. The baby boomers (born 1946 to 1964) and millennials (born 1981 to 1997) are large cohorts, with the relatively small Gen X (born 1965 to 1980) sandwiched in between. The typical life-cycle pattern is for households to start off as renters, become a first-time homebuyer in their mid- to late-20s, and over the course of their lifetime trade up and down (in terms of square footage) to match their housing needs (often driven by the arrival and departure of children). As many of the boomers reach retirement age and have (finally) seen their adult children leave to form new households of their own, they would typically look to downsize their property to middle-aged Gen Xers who have outgrown their starter home.

Population in the U.S. by Age Cohort (% of Total)
Source: U.S. Census Bureau (BOC): Population Estimates



There are two factors constraining this dynamic. First, there are not enough Gen Xers to take all of the homes from the boomers (and millennials neither want nor are able to take those homes at this point). Second, many boomers are looking to age-in-place, meaning that they would like to remain in their home.

With the Millennials set back by coming of age during the worst economy and labor market in decades, their rate of homeownership remains well below that of prior generations. Analysis of sentiment and the professed desires of Millennials indicate many may ultimately become homeowners, but that decision may have been set back by many years.[1] In some sense, this delay is fortunate for housing markets because if the Millennials showed up in force to the for-sale market tight inventories would be exacerbated.

Markets will stabilize and inventory issues will be resolved over time. House prices continue to rise (our forecast is for 4.0 and 3.5 percent in 2015 and 2016 respectively) and that will drive the number of negative equity properties down significantly. While new home construction has been slow to rebound, we expect to see annual housing starts increase by about 15 percent and 22 percent in 2015 and 2016 respectively. The generational mismatch will take much longer to sort out, but as the Millennials see improved labor markets they will become an increasingly important part of the for-sale market.

We are as optimistic about trends in housing markets moving forward as we have ever been since the depths of the Great Recession. However, our expectations are grounded and measured based on the simple facts of supply and demand. The demand isn't fully there yet from Millennials. Our current rate of economic growth (about 2 percent for Real GDP) only supports a gradual recovery. We expect acceleration in growth and housing demand, but even under our upbeat forecast, we expect the housing markets return to a stable range of activity remains a couple years away.

[1] See for example the Demand Institute: http://www.demandinstitute.org/sites/default/files/blog-uploads/millennials-and-their-homes-final.pdf

Forecast Update

Major Economic Indicators

We have revised down our forecast for economic growth. Disappointing incoming data for the first quarter of 2015 along with harsh weather indicate the overall growth rate has slowed in first quarter of 2015. We also lowered our first quarter consumer price index forecast to a 3.0 percent decline (from a 2.0 percent decline last month), reflecting lower oil prices and overall low inflation for the quarter so far. We lowered the CPI forecast for 2015 by 0.2 percent to a 0.8 percent increase.

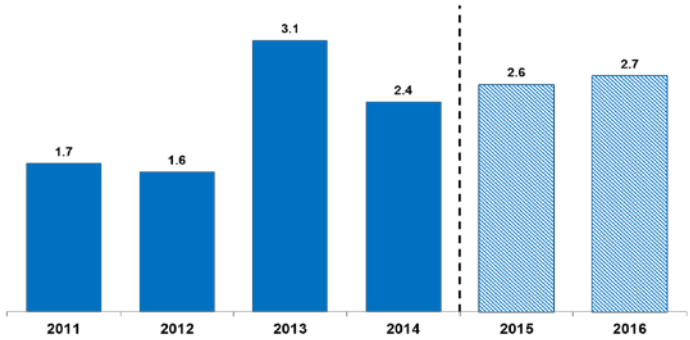
We lowered our unemployment rate projections for 2015 and 2016 to 5.4 percent and 5.1 percent respectively (from 5.5 percent and 5.2 percent respectively last month). Also, we lowered our 2015 second quarter interest rate projections for the 30-year fixed-rate mortgage rate, the 10-year constant maturity treasury rate and the 1-year constant maturity treasury rate to 3.8 percent, 2.0 percent and 0.3 percent respectively (from 3.9 percent, 2.1 percent and 0.4 percent respectively last month).

Housing and Mortgage Markets

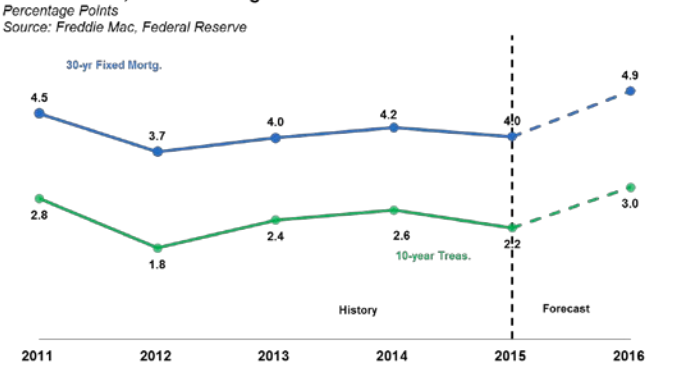
After a cold winter, our forecast for housing starts (1.15 million in 2015) is slightly lower than last month. With lower home sales in the first quarter, we expect pent up demand to bolster sales in the succeeding quarters. Thus, our forecast for home sales (5.6 million in 2015) is unchanged. Due to strong growth, we are expecting house prices to increase 4.0 percent in 2015.

With solid house price growth, we anticipate an increase of 4 percent in mortgage originations ($1.3 trillion in 2015) from last year (a revised estimate of $1.25 trillion in 2014). Lower mortgage rates will boost refinance volume as we revised up our forecast of the refinance share of originations in 2015 to 41 percent.

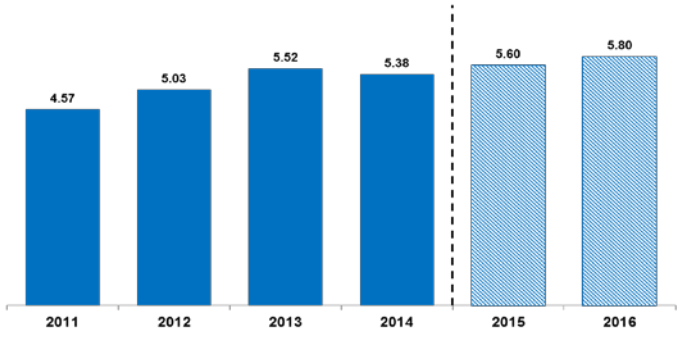
Real GDP Growth
Percentage Points
Source: Freddie Mac, Bureau of Economic Analysis



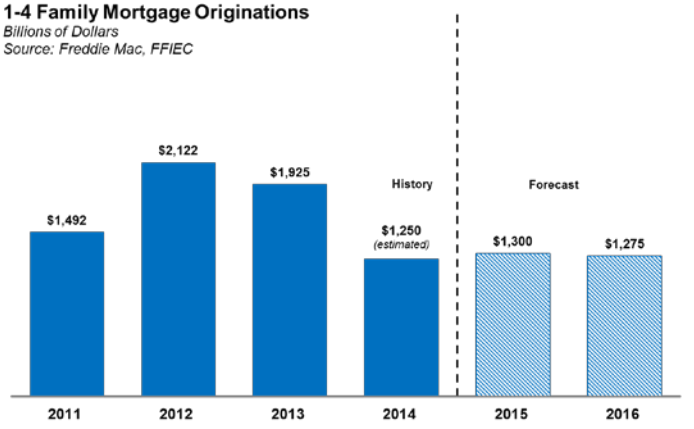
Interest Rates, Annual Averages
Percentage Points
Source: Freddie Mac, Federal Reserve



Total Home Sales
Millions of Units
Source: Freddie Mac, Census/HUD



1-4 Family Mortgage Originations
Billions of Dollars
Source: Freddie Mac, FFIEC



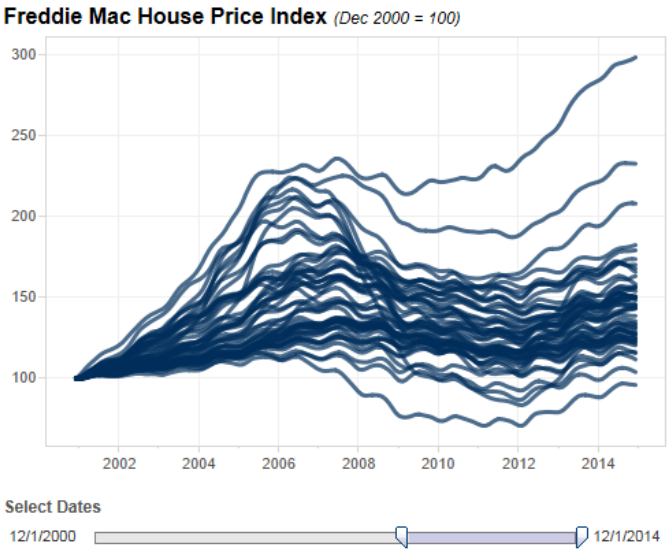
Interactive Feature

Freddie Mac House Price Viz

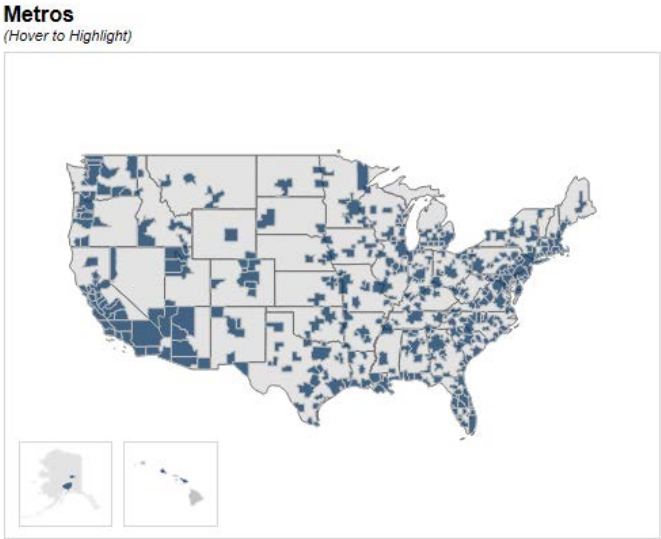
We regularly provide innovative interactive charts on Freddiemac.com to support our analysis of housing and mortgage markets. Here are some of the highlights from this month.

Freddie Mac House Price Index (States)

The Freddie Mac House Price Index (FMHPI) provides a measure of typical price inflation for houses within the U.S. Values are calculated monthly but are released at the end of the following quarter. Series are available at three levels of geographical aggregation: Metropolitan Statistical Area (MSA), state, and national. All series begin in January, 1975.



To help us see changes in house prices, we have an interactive chart that allows you to select the desired time period for each state. In 2014, house prices saw solid growth with 49 states and the District of Columbia seeing positive annual growth. In fact, last year 16 states saw their strongest annual house price growth in the past 5 years.



Freddie Mac House Price Index (Metros)

There is also an interactive map that allows you to take a closer look at each metropolitan area that we track. It shows the strong annual house price growth we experienced last year with nearly 90 percent of metropolitan areas seeing positive annual growth.

U.S. Economic & Housing Market Outlook Team

Leonard Kiefer, Deputy Chief Economist
Penka Trentcheva, Statistician
Travell Williams, Statistician
Melody Fu, Financial Analyst

April 9, 2015

www.freddiemac.com/news/finance chief_economist@freddiemac.com

Opinions, estimates, forecasts and other views contained in this document are those of Freddie Mac's Office of the Chief Economist, do not necessarily represent the views of Freddie Mac or its management, should not be construed as indicating Freddie Mac's business prospects or expected results, and are subject to change without notice. Although the Office of the Chief Economist attempts to provide reliable, useful information, it does not guarantee that the information is accurate, current or suitable for any particular purpose. The information is therefore provided on an "as is" basis, with no warranties of any kind whatsoever. Information from this document may be used with proper attribution. Alteration of this document is strictly prohibited.

© 2015 by Freddie Mac

April 2015 Economic and Housing Market Outlook

Revised 4/8/2015

Indicator	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	Annual Totals 2011	2012	2013	2014	2015	2016
Real GDP (%)	-2.1	4.6	5.0	2.2	**1.5**	**3.0**	**3.0**	**3.0**	**2.7**	**2.7**	**2.7**	**2.7**	1.7	1.6	3.1	2.4	**2.6**	**2.7**
Consumer Prices (%) a.	2.1	2.4	1.2	-0.9	**-3.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	3.3	1.9	1.2	1.2	**0.8**	**2.0**
Unemployment Rate (%) b.	6.6	6.2	6.1	5.7	5.6	**5.4**	**5.3**	**5.2**	**5.2**	**5.1**	**5.1**	**5.0**	8.9	8.1	7.4	6.2	**5.4**	**5.1**
30-Year Fixed Mtg. Rate (%) b.	4.4	4.2	4.1	4.0	3.7	**3.8**	**4.1**	**4.3**	**4.5**	**4.7**	**5.0**	**5.2**	4.5	3.7	4.0	4.2	**4.0**	**4.9**
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	3.1	3.0	3.0	3.0	2.9	**2.9**	**3.2**	**3.4**	**3.7**	**4.0**	**4.3**	**4.6**	3.3	2.8	2.9	3.0	**3.1**	**4.2**
1-Year Treas. Indexed ARM Rate (%) b.	2.5	2.4	2.4	2.4	2.4	**2.4**	**2.5**	**2.6**	**2.7**	**2.8**	**3.0**	**3.2**	3.0	2.7	2.6	2.4	**2.5**	**2.9**
10-Year Const. Mat. Treas. Rate (%) b.	2.8	2.6	2.5	2.3	2.0	**2.0**	**2.2**	**2.4**	**2.6**	**2.9**	**3.1**	**3.3**	2.8	1.8	2.4	2.6	**2.2**	**3.0**
1-Year Const. Mat. Treas. Rate (%) b.	0.1	0.1	0.1	0.2	0.2	**0.3**	**0.6**	**0.9**	**1.1**	**1.6**	**2.1**	**2.6**	0.2	0.2	0.1	0.1	**0.5**	**1.9**

Indicator	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	Annual Totals 2011	2012	2013	2014	2015	2016
Housing Starts c.	0.93	0.99	1.03	1.06	**1.00**	**1.15**	**1.20**	**1.25**	**1.30**	**1.35**	**1.45**	**1.50**	0.61	0.78	0.92	1.00	**1.15**	**1.40**
Total Home Sales d.	5.11	5.31	5.49	5.53	**5.45**	**5.65**	**5.65**	**5.65**	**5.70**	**5.80**	**5.80**	**5.90**	4.57	5.03	5.52	5.38	**5.60**	**5.80**
FMHPI House Price Appreciation (%) e.	1.7	0.8	1.0	1.6	**1.1**	**1.0**	**1.0**	**0.9**	**0.9**	**0.9**	**0.8**	**0.8**	-3.2	6.0	9.3	5.2	**4.0**	**3.5**
S&P/Case-Shiller® Home Price Index (%) f.	1.4	-0.2	1.2	2.2	**1.1**	**1.0**	**1.0**	**0.9**	**0.9**	**0.9**	**0.8**	**0.8**	-3.7	6.6	10.8	4.6	**4.0**	**3.5**
1-4 Family Mortgage Originations g.																		
Conventional	**$198**	**$257**	**$278**	**$258**	**$264**	**$312**	**$260**	**$204**	**$200**	**$312**	**$308**	**$200**	$1,206	$1,750	$1,570	**$991**	**$1,040**	**$1,020**
FHA & VA	$52	$63	$72	$72	**$66**	**$78**	**$65**	**$51**	**$50**	**$78**	**$77**	**$50**	$286	$372	$355	$259	**$260**	**$255**
Total	**$250**	**$320**	**$350**	**$330**	**$330**	**$390**	**$325**	**$255**	**$250**	**$390**	**$385**	**$250**	$1,492	$2,122	$1,925	**$1,250**	**$1,300**	**$1,275**
ARM Share (%) h.	11	11	10	11	**6**	**8**	**9**	**9**	**13**	**14**	**15**	**16**	11	10	9	11	**8**	**15**
Refinancing Share - Applications (%) i.	52	45	50	60	63	**50**	**40**	**40**	**39**	**38**	**36**	**33**	71	77	63	52	**49**	**37**
Refinancing Share - Originations (%) j.	**44**	**38**	**42**	**50**	**54**	**43**	**32**	**32**	**32**	**32**	**29**	**25**	64	70	59	**43**	**41**	**30**
Residential Mortgage Debt (%) k.	-0.8	0.1	1.1	1.1	**1.5**	**2.0**	**2.0**	**2.5**	**2.5**	**3.0**	**3.0**	**3.5**	-2.1	-1.7	-0.5	0.4	**2.0**	**3.0**

Note: Quarterly and annual forecasts 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.
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 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; seasonally-adjusted; annual rates for yearly data.
f. National composite index (quarterly growth rate), seasonally-adjusted; annual rates for yearly data.
g. Billions of dollars (not seasonally-adjusted); conventional for 2014 are Freddie Mac estimates.
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. MBA Applications Survey: activity by dollars, total market refi share percent for United States (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 (2014 estimated).
k. Federal Reserve Board; growth rate of residential mortgage debt, the sum of single-family and multifamily mortgages

Prepared by Office of the Chief Economist and reflects views as of 4/8/2015 (PMF); Send comments and questions to chief_economist@freddiemac.com.

Opinions, estimates, forecasts and other views contained in this document are those of Freddie Mac's Office of the Chief Economist, do not necessarily represent the views of Freddie Mac or its management, should not be construed as indicating Freddie Mac's business prospects or expected results, and are subject to change without notice. Although the Office of the Chief Economist attempts to provide reliable, useful information, it does not guarantee that the information is accurate, current or suitable for any particular purpose. The information is therefore provided on an "as is" basis, with no warranties of any kind whatsoever.

Information from this document may be used with proper attribution. Alteration of this document is strictly prohibited. © 2015 by Freddie Mac.