



June 2015 U.S. Economic & Housing Market Outlook

Pivoting Toward Normalcy

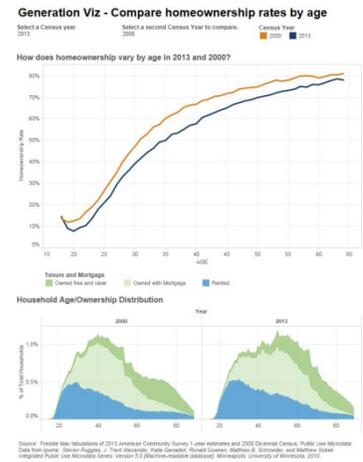
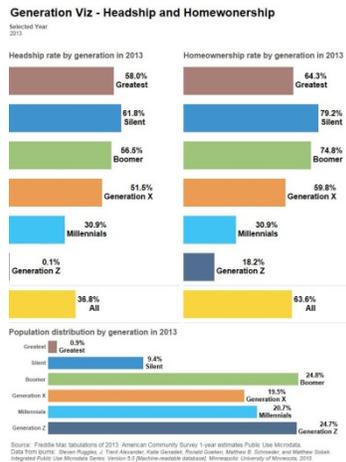
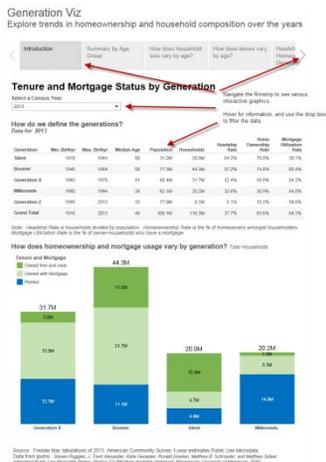
Summary (page 2)

Not only are more Americans taking out a mortgage to purchase a home, but after seven years of decline, debt outstanding on single-family properties is increasing on a year-over-year basis. This is yet another sign the economy and housing markets are pivoting toward normalcy. We're likely to see many millions more households and millions more homeowners over the next five years, driving mortgage debt outstanding higher. That fact will challenge capital markets: who will hold the new debt, at what price and in what form?

Forecast Update (page 4)

Forecast Summary	2015	2016
Real GDP Growth (%)	2.0	2.7
30-Year Fixed Mtg. Rate (%)	4.0	4.9
FMHPI House Price Appreciation (%)	4.5	3.5
1-4 Family Mortgage Originations (\$ Billions)	1,350	1,275

Interactive Features (page 5)



Source: Freddie Mac tabulations of 2013 American Community Survey 1-year estimates. Public Use Microdata. Data from 2009: Steven Ruggles, J. Trent Alexander, Kacie Genovese, Ronald Goeken, Matthew J. Schroeder, and Matthew Sobel. Integrated Public Use Microdata Series, Version 3.0 (IPUMS-USA). University of Minnesota, 2013.

The Housing Market Pivots

More Americans are taking out mortgages to purchase a home. After seven years of decline, debt outstanding on single-family properties is increasing. This is yet another sign the economy and housing markets are pivoting toward normalcy.

Annual Growth in Single-Family Mortgage Debt Outstanding

4-quarter percent change
Source: Federal Reserve

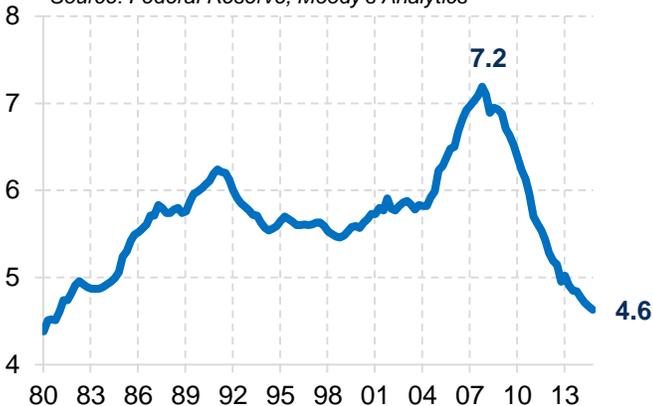


The cost of servicing current levels of mortgage debt is low. Declining Mortgage Debt Outstanding (MDO) and low mortgage interest rates have helped to reduce debt service ratios for mortgages to the lowest levels since the early 1980s. According to data from the Federal Reserve, the ratio of mortgage debt servicing costs to disposable income was just 4.6 percent in the fourth quarter of 2014, down from a high of 7.2 percent in early 2007.

Debt Service Ratio for Mortgages

Percent of Disposable Income; SA

Source: Federal Reserve, Moody's Analytics



Additionally, based on our analysis of loans funded by Freddie Mac, in normal times the resale of an existing home results in an increase in aggregate mortgage debt of about 30 percent with each new home purchase loan. For the past several years the rate of increase in mortgage debt per purchase loan has been much lower as a result of weak to negative house price appreciation. But recently, for each existing home sale financed with a conventional mortgage, overall mortgage debt (on first liens) has increased to about 30 percent. For example, in the first quarter of 2015, the average payoff amount of a closed loan was about \$170,000, while the average Unpaid Principal Balance (UPB) of a new purchase loan was about \$225,000, or a net increase of \$55,000.

After a Home Resale, How Much Does Debt Increase Conventional Purchase Loans?

Median Percent Change in UPB at resale (1st Liens Only):

UPB on new loan / UPB on Old Loan - 1 Source: Freddie Mac

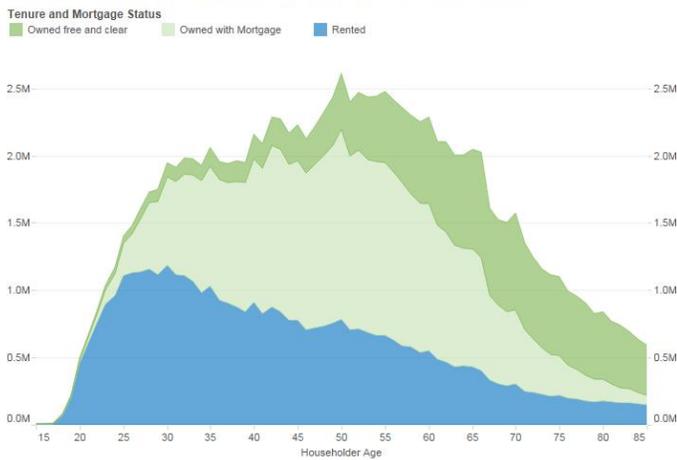


At a resale of an existing home, due to house price appreciation and amortization the new homeowner adds more debt than that which is retired by the current homeowner. These statistics are based on matched pairs of loans for the same property where Freddie Mac owns both the extinguished and new mortgage.

With low debt servicing costs and improving household balance sheets, households might be ready to start taking on more mortgage debt. Increasing house prices and home sales should drive MDO higher. Declining homeownership rates explain much of the decline in MDO. Will homeownership rates stabilize or continue falling? What's the outlook for homeownership?

It's tempting to think that improving labor markets and a stronger economy mean that the homeownership rates will increase. Homeownership is a much discussed topic as June is National Homeownership Month. Housing demand is unlikely to trump demographics for several years. All the recent growth in household is due to renters. That trend likely continues.

Households by Tenure and Mortgage Status and Age in 2013



Source: Freddie Mac tabulations of 2013 American Community Survey 1-year estimates Public Use Microdata. Data from ipums: Steven Ruggles, J. Trent Alexander, Katie Genadek, Ronald Goeken, Matthew B. Schroeder, and Matthew Sobek. Integrated Public Use Microdata Series: Version 5.0 [Machine-readable database]. Minneapolis: University of Minnesota, 2010.

The graphic above shows how tenure (own vs rent) and mortgage utilization vary by householder age in the latest American Community Survey data for 2013. Households typically start off as renters, gradually transitioning into homeownership in their late 20s and early 30s. Homeownership rates tend to increase throughout life, but as households enter their 50s and 60s, they begin to pay off their mortgages and own their homes free and clear.

The largest age cohort—the Millennials—are beginning to form households, primarily as renters. Many Boomers have paid down a significant portion of their mortgage principal and many others own their homes free and clear. Gen Xers are now entering the age when homeownership rates rise and mortgage utilization peaks, but they are a small group and unlikely to drive national homeownership rates higher.

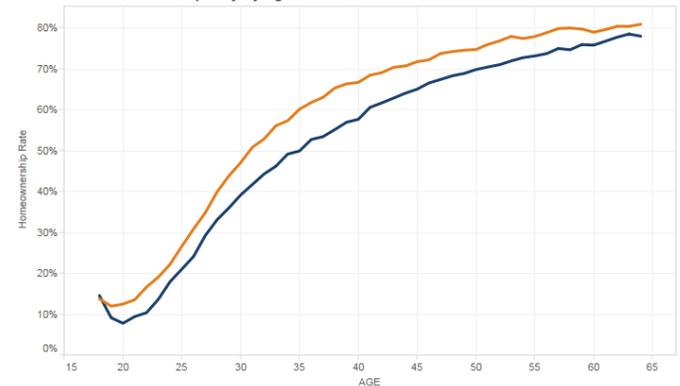
Relative to 2000, homeownership rates have dropped for nearly all age groups. What hasn't changed much is how those who buy homes

finance their purchase with a mortgage. Millennials still tend to become homeowners at increasing rates as they age. Even if the gap between homeownership rates by age persists, we're still likely to see many millions more households and millions more homeowners over the next five years. That fact will challenge capital markets: who will hold the new debt, at what price and in what form?

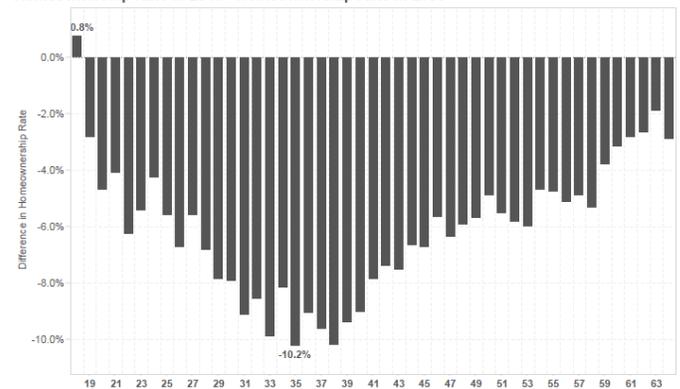
Generation Viz - Compare homeownership rates by age

Select a Census year: 2013. Select a second Census Year to compare: 2000. Legend: 2000 (orange), 2013 (blue).

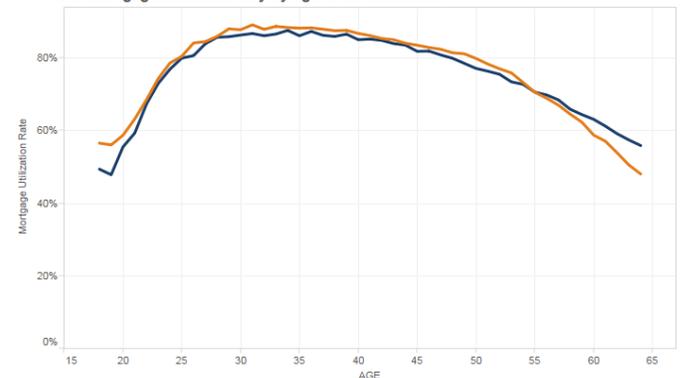
How does homeownership vary by age in 2013 and 2000?



Homeownership Rate in 2013 - Homeownership Rate in 2000



How does mortgage utilization vary by age in 2013 and 2000?



Source: Freddie Mac tabulations of 2013 American Community Survey 1-year estimates and 2000 Decennial Census. Public Use Microdata. Data from ipums: Steven Ruggles, J. Trent Alexander, Katie Genadek, Ronald Goeken, Matthew B. Schroeder, and Matthew Sobek. Integrated Public Use Microdata Series: Version 5.0 [Machine-readable database]. Minneapolis: University of Minnesota, 2010.

Who will hold the new debt?

Because single-family mortgage debt outstanding has been declining, the market has not had to figure out who will hold incremental debt and at what price. Due to low levels of home sales and [cash-out refinances](#), the refinance-dominated single-family mortgage market of the past seven years has not added single-family mortgage debt in aggregate. With MDO set to increase, the market is going to have to find a home for the incremental debt. Moreover, the Federal Reserve [currently holds](#) \$1.7 Trillion in agency mortgage backed securities (MBS). The Federal Reserve is currently reinvesting principal paid off on MBS. Eventually they will likely allow the principal to run-off.

Fortunately, we're seeing investors' appetite to purchase mortgage bonds coming back. One key trend is the development of innovative credit-risk transfer transactions. These transactions will become increasingly important over the next few years, helping find a home for new mortgage debt.

While a nascent market, Freddie Mac has led the market in introducing new and innovative risk-sharing initiatives with 13 Structured Agency Credit Risk (STACR) offerings, and seven Agency Credit Insurance Structure (ACIS) transactions since 2013. The first STACR transaction in 2013 sparked demand that has been growing steadily with an investor base of more than 160 unique investors, including many of the largest U.S. money managers.

Through STACR and ACIS, Freddie Mac has laid off a portion of credit risk on more than \$281 billion of UPB in single-family mortgages, representing more than one million loans.

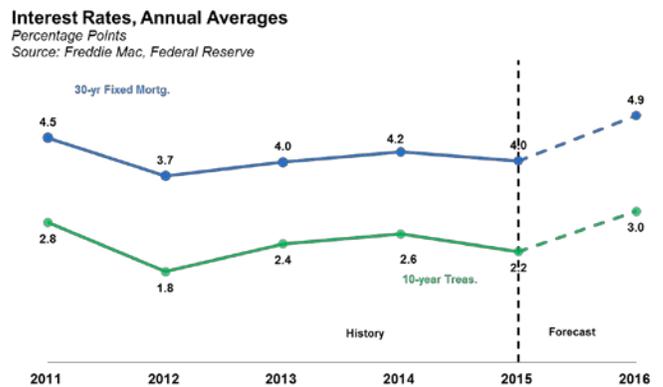
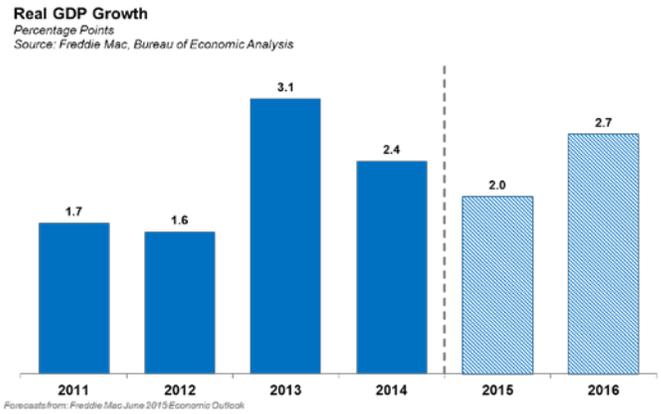
As housing improves we continue to see a pivot towards normalcy. With millions of future homeowners on the horizon and outstanding mortgage debt set to rise, capital markets will need to determine who will hold that additional debt.

Forecast Update

Major Economic Indicators

Real GDP decreased at an annual rate of 0.7 percent in the first quarter of the year based on the “second” estimate released by the BEA. This brings our Real GDP projections for 2015 to 2.0 percent, down from 2.3 percent in our May’s Outlook. The 2016 projection is unchanged at 2.7 percent. The CPI projections for 2015 and 2016 are unchanged from May at 1.0 percent and 2.3 percent respectively.

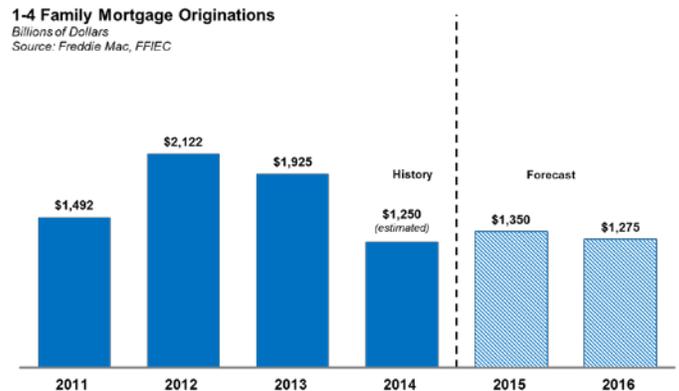
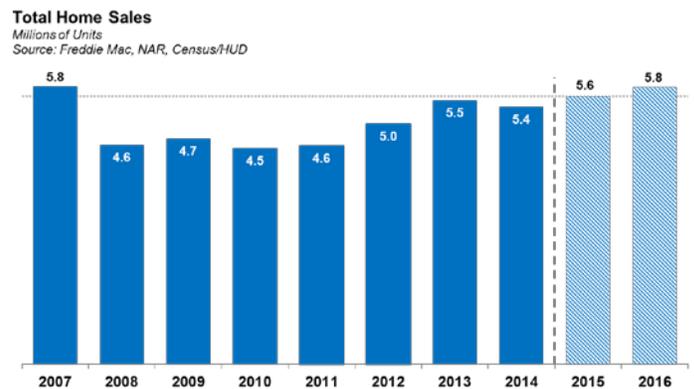
Our unemployment rate projections for 2015 and 2016 were unchanged from the prior month at 5.4 percent and 5.1 percent respectively. Our annual interest rate projections for 2015 and 2016 were also unchanged from our May’s Outlook.



Housing and Mortgage Markets

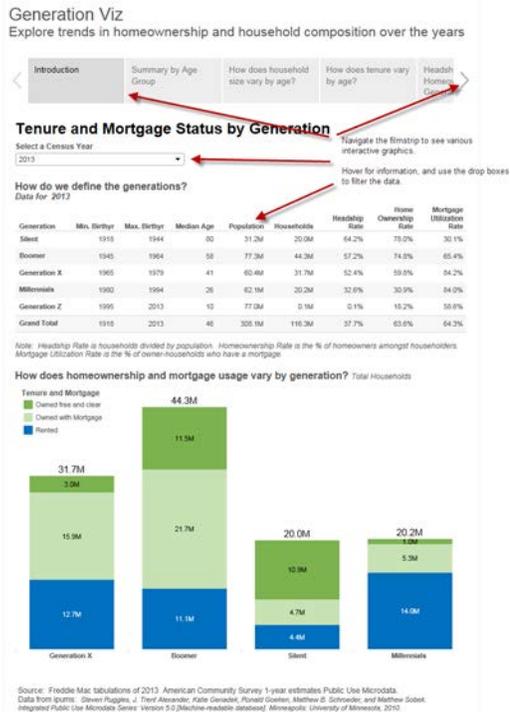
Our forecasts for home sales (5.6 million in 2015) and housing starts (1.14 million in 2015) are unchanged from last month. Our projection for house price growth (4.5 percent in 2015 and 3.5 percent in 2016) is the same as last month.

We expect an 8 percent increase in mortgage originations up to \$1.35 trillion in 2015. For 2016, we see originations tapering a bit to 1.275 trillion as we expect refinance share to decline from 43 percent in 2015 to 30 percent in 2016.



Interactive Features - Generation 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.



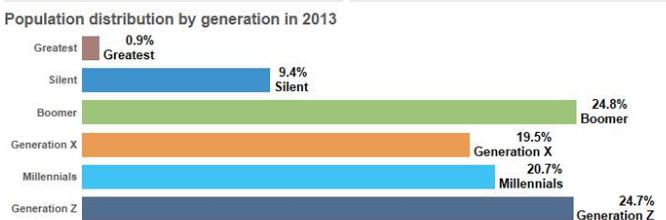
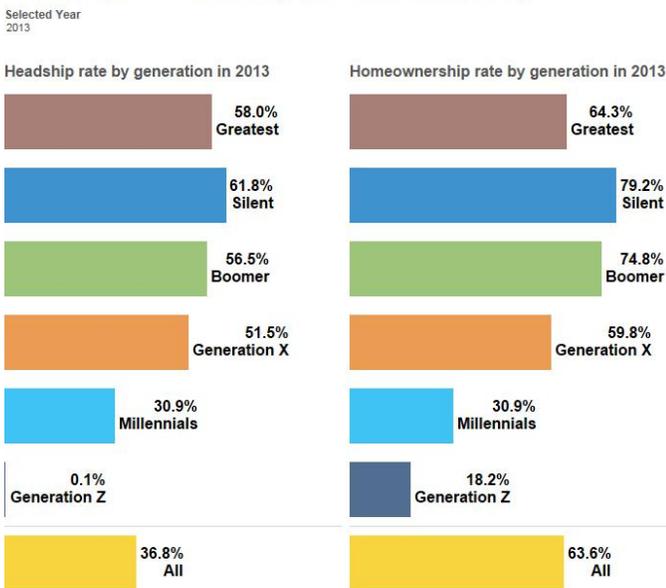
Generation Viz

How demographics change housing and mortgage markets? With our Generation Viz you can view interactive charts using historical demographic data from the U.S. Census to see how homeownership and household formations vary by age and cohort.

Generation Viz lets you see how generations (Boomers, Gen Xers Millennials) have grown, formed households and become homeowners over time. You can also compare how homeownership and mortgage utilization have varied by age over time.

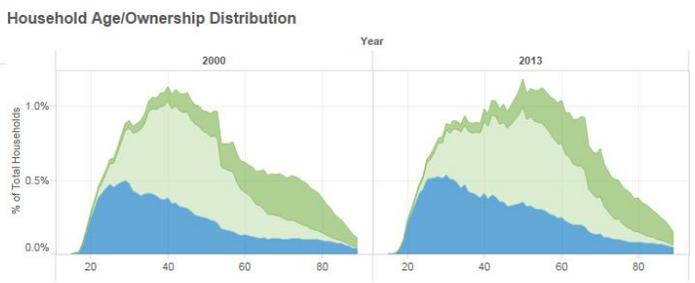
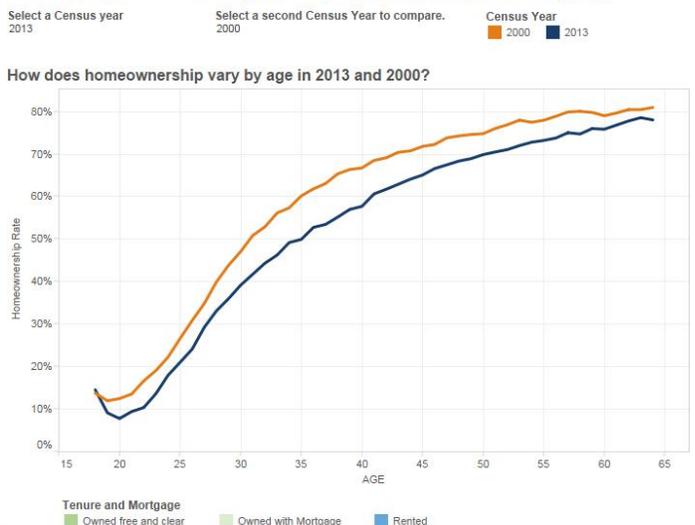
[Go to Generation Viz.](#)

Generation Viz - Headship and Homeownership



Source: Freddie Mac tabulations of 2013 American Community Survey 1-year estimates Public Use Microdata. Data from ipums: Steven Ruggles, J. Trent Alexander, Katie Genadek, Ronald Goeken, Matthew B. Schroeder, and Matthew Sobek. Integrated Public Use Microdata Series: Version 5.0 [Machine-readable database]. Minneapolis: University of Minnesota, 2010.

Generation Viz - Compare homeownership rates by age



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Revised 6/23/2015

Indicator	2014				2015				2016				Annual Totals					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2011	2012	2013	2014	2015	2016
	Real GDP (%)	-2.1	4.6	5.0	2.2	-0.7	2.5	3.3	3.0	2.7	2.7	2.7	2.7	1.7	1.6	3.1	2.4	2.0
Consumer Prices (%) a.	2.1	2.4	1.2	-0.9	-3.1	2.1	2.7	2.2	2.3	2.3	2.3	2.3	3.3	1.9	1.2	1.2	1.0	2.3
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	2.3	2.5	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				2015				2016				Annual Totals					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2011	2012	2013	2014	2015	2016
	Housing Starts c.	0.93	0.98	1.03	1.06	0.97	1.15	1.20	1.25	1.30	1.35	1.45	1.50	0.61	0.78	0.92	1.00	1.14
Total Home Sales d.	5.10	5.31	5.50	5.53	5.49	5.65	5.65	5.65	5.70	5.80	5.80	5.90	4.57	5.03	5.52	5.38	5.61	5.80
FMHPI House Price Appreciation (%) e.	1.6	0.8	1.0	1.5	1.6	1.0	1.0	0.9	0.9	0.9	0.8	0.8	-3.2	6.2	9.6	5.0	4.5	3.5
S&P/Case-Shiller® Home Price Index (%) f.	1.4	-0.2	1.2	2.2	1.0	1.0	1.0	0.9	0.9	0.9	0.8	0.8	-3.7	6.6	10.8	4.6	3.9	3.5
1-4 Family Mortgage Originations g.																		
Conventional	\$198	\$257	\$278	\$255	\$274	\$320	\$264	\$216	\$200	\$312	\$308	\$200	\$1,206	\$1,750	\$1,570	\$988	\$1,074	\$1,020
FHA & VA	\$52	\$63	\$71	\$75	\$76	\$80	\$66	\$54	\$50	\$78	\$77	\$50	\$286	\$372	\$355	\$259	\$276	\$255
Total	\$250	\$320	\$350	\$330	\$350	\$400	\$330	\$270	\$250	\$390	\$385	\$250	\$1,492	\$2,122	\$1,925	\$1,250	\$1,350	\$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	57	45	35	34	32	32	29	25	64	70	59	43	43	30
Residential Mortgage Debt (%) k.	-0.8	0.4	1.4	1.8	-0.4	2.0	2.0	2.5	2.5	3.0	3.0	3.5	-2.1	-1.7	-0.5	0.7	1.5	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 6/23/2015 (PMF); Send comments and questions to chief_economist@freddiemac.com.

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