



March 2015 U.S. Economic & Housing Market Outlook

Homebuying Season

Summary (page 2)

March kicks off the spring homebuying season. Between now and the end of June, we'll see about 40 percent of all home sales for the year. These next few months will essentially tell us whether or not 2015 will be a good or bad year for housing markets. Overall, we're feeling good about housing. In fact, we expect the best year for home sales and new home construction since 2007.

Forecast Update (page 4)

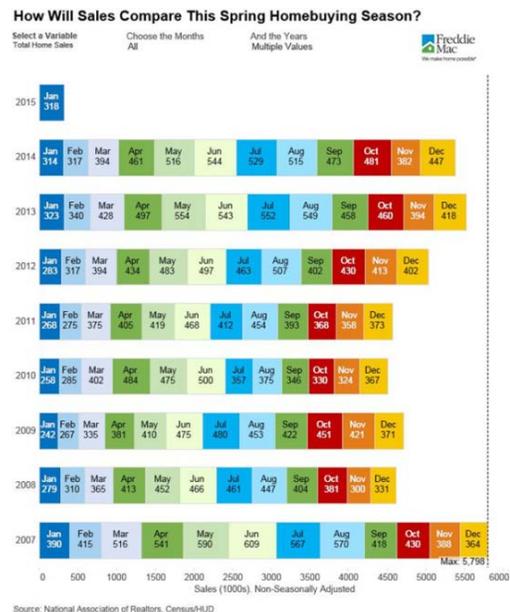
Forecast Summary	2015	2016
Real GDP Growth (%)	2.8	2.7
30-Year Fixed Mtg. Rate (%)	4.0	4.9
FMHPI House Price Appreciation (%)	3.9	3.4
1-4 Family Mortgage Originations (\$ Billions)	\$1,300	\$1,275

Interactive Features (page 5)

Muti-Indicator Market Index (MiMi)



Spring Home Sales Tracker



Baba Marta

In Bulgarian folklore, Baba Marta (Granny March) represents the fickle March weather. When she smiles the sun comes out, but when she frowns the weather turns icy and cold. Apparently, in much of the country Baba Marta has not been smiling. Coming into March, much of the country remains chilly and extreme winter weather has slowed down economic activity. But now that we are in March, spring is imminent, the snow and sleet will turn to sun and across the country housing activity will pick up. We are headed towards the critical spring homebuying season.

In the four months from March through June we'll see about 40 percent of all home sales for the year. These next few months will essentially tell us whether or not 2015 will be a good or bad year for housing markets. Overall, we're feeling good about housing. In fact, we expect the best year for home sales and new home construction since 2007.

Here are the reasons to be optimistic about housing markets in 2015:

High Affordability

About 80 percent of metro markets in the U.S. are affordable, based on data through the 4th quarter of 2014 on the three primary drivers of affordability: house prices, interest rates and income.

Let's look at the house price part of the equation first. House prices continue to rise across the country, but are still about 10 percent below their 2006 peak nationally. But peak-to-trough comparison can be misleading as many markets experienced unsustainable highs during the last decade. Instead, when we look at fundamental drivers, like payment-to-income and price-to-rent ratios, we see that most markets have home values that are sustainable. Of the top 50 metros we track in our monthly Multi-Indicator Market Index® (MiMi), only [Los Angeles](#) has house prices that are elevated, given household incomes and mortgage rates. Prices remain attractive in most markets.

Prices are especially attractive given that mortgage rates, the second affordability driver, remain low. From January 2014 to January of 2015, mortgage rates fell nearly 0.75 of a percentage point. Though rates have rebounded from their lows at the end of January, rates are significantly below the level from one year ago. Low interest rates do a lot to help support homebuyer affordability.

But it is the third component—household income—that will be the key driver of housing markets. Incomes have largely stagnated over the past decade, barely rising and, after adjusting for inflation, actually falling for the median household. But there have been glimmers of good news in the most recent jobs report.

Improving Labor Markets

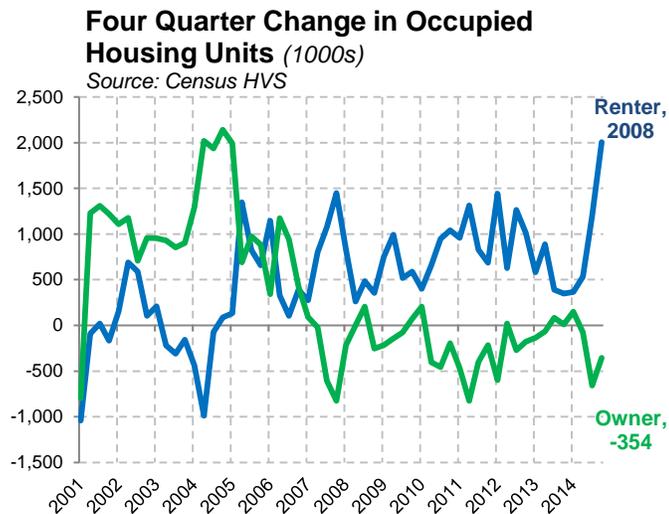
The labor market is rapidly improving providing jobs and incomes to millions of additional families. Over the twelve months ending in February 2015 the U.S. economy added nearly 3.3 million jobs, the fastest pace since 2000. And with labor markets tightening we might be starting to see wages and incomes rise.

Employment-to-Population Ratio (Ages 25-34) Percentage Points
Source: BLS



One key demographic segment—Millennials aged 25 to 34—have started to see their job prospects improve recently. The employment-to-population ratio for those aged 25 to 34 has increased to 76.8 percent, the highest level since 2008. Better job prospects for Millennials will drive household formation and housing demand.

Rising Rents



Housing demand has already been strong in rental markets. In fact, rental markets have seen the lowest levels of vacant properties since 2000. Consequently, rents have been rising rapidly across the country. Rents increased an average of 3.6 percent in 2014 and nearly 11 percent over the last three years. With demand rising rapidly given the improved job prospects for younger households and vacancy rates at low levels, we expect to see rents rise at or above the rate of inflation this year as well. This may be the tipping point. Many current renters may decide to strike while the iron is hot (mortgage rates are low and home prices not too high) and purchase a home this year. (See Freddie Mac's complete Multifamily [Outlook](#) for 2015.)

In fact, study findings indicate that many feel it could make financial sense to buy today. According to an online survey of over 2,000 U.S. adult renters, commissioned by Freddie Mac and conducted by Harris Poll in November 2014, of those renters who said that they would ever consider buying a home, 39 percent already think buying a home is a better financial option than renting.

Expanded Credit Availability

But will financing be available for these prospective homebuyers? We believe it will be given the wider

credit availability in the market today. And as we recently [pointed out](#), there's a new reason real estate professionals and lenders may expect more qualified borrowers at the closing table during this spring's homebuying season. In addition to low mortgage rates and rising job growth, the down payment hurdle is starting to shrink for creditworthy borrowers, including first-time homebuyers and current homeowners who want to refinance. This includes those renter households hit by rising rents who have been unable to save much for a down payment, but have good credit and a good-paying job.

Broader access to credit will be driven by a confluence of factors, not just the new Freddie Mac Home Possible AdvantageSM initiative. First, more certainty for lenders through the enhanced GSE representation and warranty framework will help ease credit overlays and facilitate more lending. Second, reduced premiums by the Federal Housing Administration will help many prospective first-time homebuyers enter the market with a federally-insured loan. Finally, and as we mentioned earlier the new three percent down mortgage initiatives should help those qualified borrowers who have limited down payment savings buy homes with conventional financing. These new initiatives will be especially important for prospective first-time homebuyers that have been sitting on the sidelines. According to the National Association of Realtors (NAR) Annual Survey of Home Buyers and Sellers, the share of first-time buyers in the market fell to its lowest point in nearly three decades in 2014, mainly because rising rents and student loan debt payments are making it more difficult to save for a down payment, especially for younger adults.

We expect this spring homebuyer season to be the best we've seen since 2007. Housing is recovering. Driven by improving fundamentals—high homebuyer affordability, an improved labor market, rising rents and expanded credit availability—single family housing should start to bloom in the spring homebuying season.

Forecast Update

Major Economic Indicators

We have revised down our forecast for economic growth. Data for the fourth quarter of 2014 and January indicate the overall growth rate may have slowed in first quarter of 2015 from the fast pace in the third quarter of 2014. We also lowered our first quarter consumer price index forecast to a 2.0 percent decline (from a 1.0 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 0.3 percent to a 1.0 percent increase.

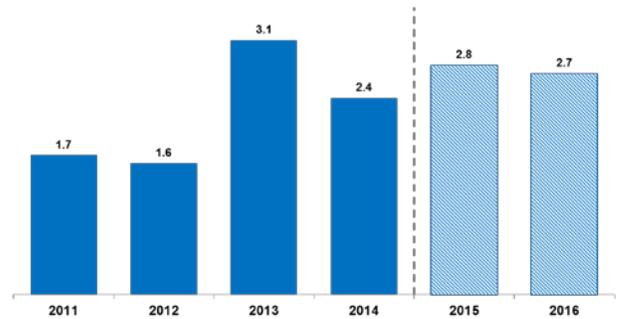
In line with February's positive employment report, we lowered our first quarter unemployment rate forecast to 5.6 percent (from 5.7 percent last month). Also, we slightly increased our interest rate projections for both 2015 and 2016 to reflect higher rates in February and early March. We've revised the average 30-year fixed-rate mortgage rate forecast up to 4.0 percent and 4.9 percent in 2015 and 2016 respectively (compared to last month's 3.9 percent and 4.8 percent for 2015 and 2016 respectively).

Housing and Mortgage Markets

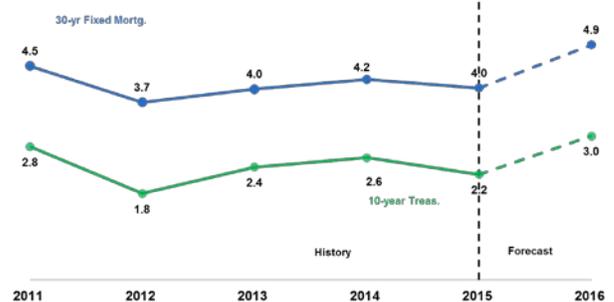
With mortgage rates remaining low, our forecasts for home sales (5.6 million in 2015) and housing starts (1.18 million in 2015) are unchanged from last month. In fact, we expect the best year for home sales and new home construction since 2007. We are expecting house prices to increase 3.9 percent in 2015.

Our forecast for mortgage origination activity is unchanged from last month. We expect 2015 originations to be \$1.3 trillion and refinance share to be 40 percent. For 2016, we see originations tapering a bit to \$1.275 trillion as refinance share declines to 30 percent.

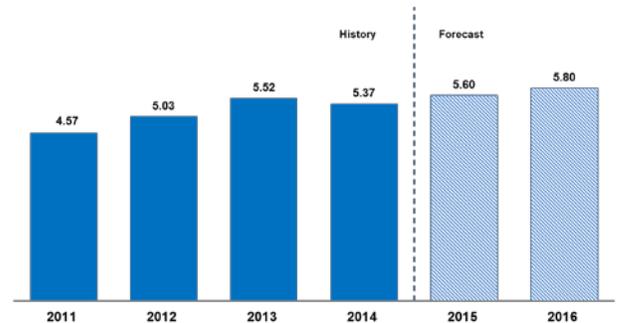
Real GDP Growth
Percentage Points
Source: Freddie Mac, Bureau of Economic Analysis



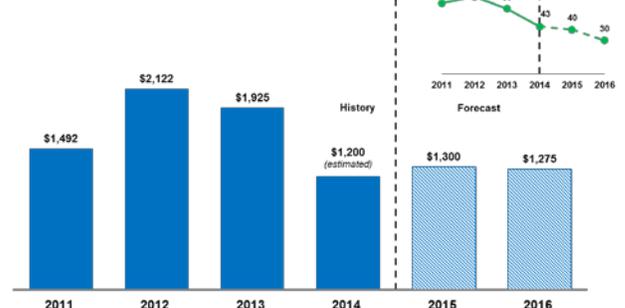
Interest Rates, Annual Averages
Percentage Points
Source: Freddie Mac, Federal Reserve



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



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



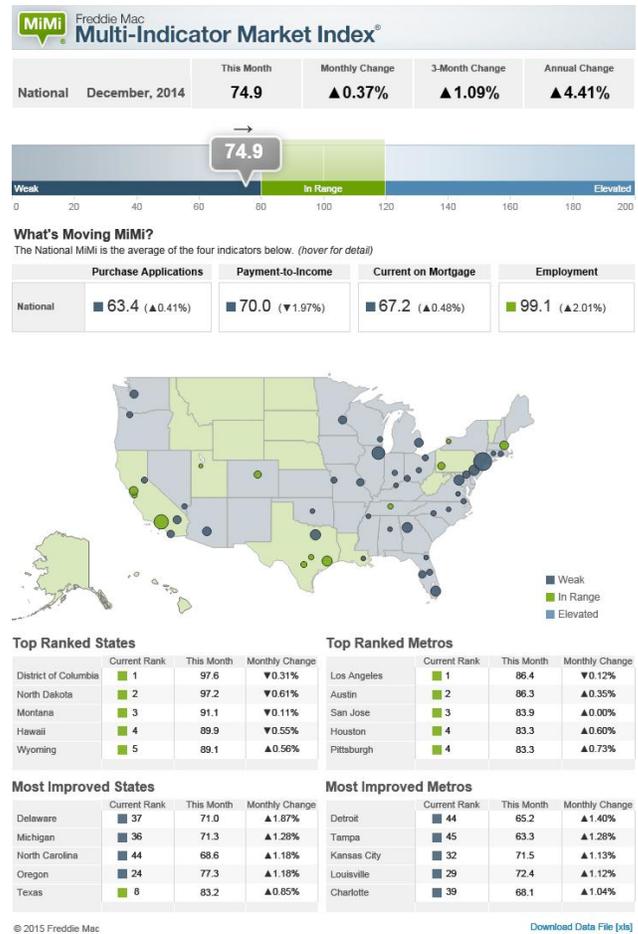
Interactive Features

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.

MiMi

The Freddie Mac Multi-Indicator Market Index[®] (MiMi[®]) uses the latest data to measure the stability of the housing market in all 50 states plus the District of Columbia, the top 50 metros, and the nation.

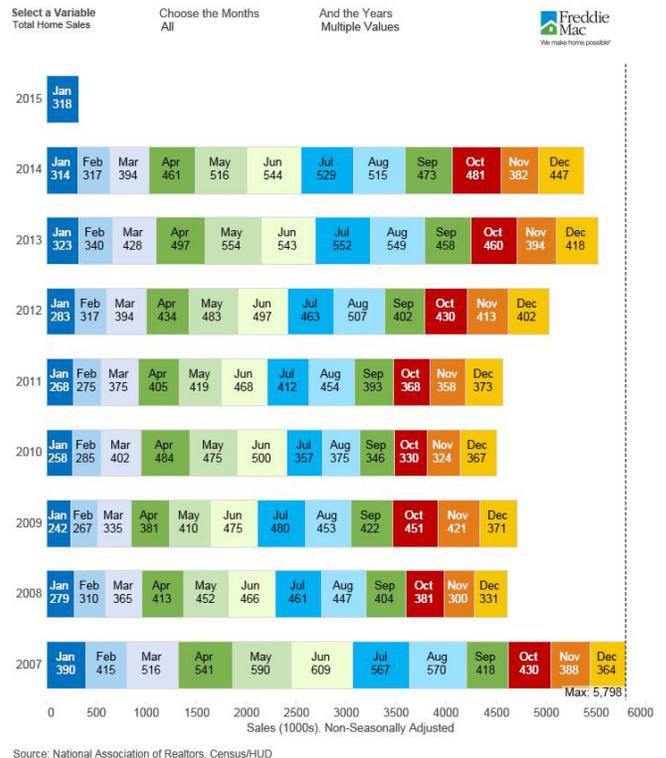
Housing markets are getting back on track. The national MiMi improved for the fourth consecutive month. Nearly 80 percent of the state and metro housing markets MiMi tracks are improving or in their stable range of activity. We've even seen the MiMi purchase application indicator increase 0.07 percent on a year-over-year basis. [Click to see the full analysis](#)



Spring Home Sales Tracker

To help us track the spring homebuying season, we've built a simple interactive home sales tracking tool to compare non-seasonally adjusted home sales data by month and year-to-date to prior years' data. The housing tracker allows us to compare non-seasonally adjusted home sales data by month and year-to-date to prior years' data. The tool allows you to compare Total Home Sales, Existing Home Sales and New Homes Sales and compare by year going back to 1999. [Click to see the full analysis.](#)

How Will Sales Compare This Spring Homebuying Season?



U.S. Economic & Housing Market Outlook Team

Leonard Kiefer, Deputy Chief Economist

Penka Trentcheva, Statistician

Travell Williams, Statistician

Melody Fu, Financial Analyst

March 11, 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

March 2015 Economic and Housing Market Outlook

Revised 3/10/2015

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	2.0	3.0	3.0	3.0	2.7	2.7	2.7	2.7	1.7	1.6	3.1	2.4	2.8
Consumer Prices (%) a.	2.1	2.4	1.2	-0.9	-2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	3.3	1.9	1.2	1.2	1.0	2.0
Unemployment Rate (%) b.	6.7	6.2	6.1	5.7	5.6	5.5	5.4	5.3	5.3	5.2	5.2	5.1	8.9	8.1	7.4	6.2	5.5	5.2
30-Year Fixed Mtg. Rate (%) b.	4.4	4.2	4.1	4.0	3.7	3.9	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	2.8	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	2.5	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	2.1	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	0.4	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	0.99	1.03	1.06	1.10	1.15	1.20	1.25	1.30	1.35	1.45	1.50	0.61	0.78	0.92	1.00	1.18
Total Home Sales d.	5.11	5.31	5.49	5.53	5.55	5.60	5.60	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	0.9	0.9	0.9	0.9	0.8	0.8	-3.2	6.0	9.3	5.2	3.9	3.4
S&P/Case-Shiller® Home Price Index (%) f.	1.4	-0.2	1.2	2.2	1.1	1.0	0.9	0.9	0.9	0.9	0.8	0.8	-3.7	6.6	10.8	4.6	3.9	3.4
1-4 Family Mortgage Originations g.																		
Conventional	\$198	\$257	\$278	\$208	\$276	\$300	\$260	\$204	\$200	\$312	\$308	\$200	\$1,206	\$1,750	\$1,570	\$941	\$1,040	\$1,020
FHA & VA	\$52	\$63	\$72	\$72	\$69	\$75	\$65	\$51	\$50	\$78	\$77	\$50	\$286	\$372	\$355	\$259	\$260	\$255
Total	\$250	\$320	\$350	\$280	\$345	\$375	\$325	\$255	\$250	\$390	\$385	\$250	\$1,492	\$2,122	\$1,925	\$1,200	\$1,300	\$1,275
ARM Share (%) h.	11	11	10	11	10	10	11	11	13	14	15	16	11	10	9	11	11	15
Refinancing Share - Applications (%) i.	52	45	50	60	55	50	40	40	39	38	36	33	71	77	63	52	47	37
Refinancing Share - Originations (%) j.	44	38	42	50	48	38	37	37	35	32	29	25	64	70	59	43	40	30
Residential Mortgage Debt (%) k.	-0.8	-0.1	1.2	1.5	1.5	2.0	2.0	2.5	2.5	3.0	3.0	3.5	-2.1	-1.7	-0.5	0.5	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 3/10/2015 (PTT); 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.