



JANUARY 2019

## Mortgage Market Stays the Course

After softening for much of 2018, the housing market remains stable after a boost from lower mortgage rates and slowing home price growth.

The market has moved significantly since the end of 2018 with much of the volatility stemming from speculation about the Federal Reserve’s future interest rate hikes, or lack thereof. We will be including the Federal Funds Effective Rate in our forecast from this month forward, given policy makers’ comments and recent turmoil in the market. We anticipate one rate-hike this year with the Federal fund rate averaging 2.3 percent in 2019, then holding steady at 2.5 percent in the four quarters of 2020.

The growth rate of the U.S. economy is estimated to have slowed to 2.6 percent in the fourth quarter of 2018. The partial government shutdown will likely have a negative impact on GDP this quarter. We forecast that GDP growth will decelerate to 2.5 percent in 2019 and 1.8 percent in 2020.

The labor market has held strong despite the uncertainty in other areas of the economy. The unemployment rate averaged 3.9 percent in 2018, a low not seen in 49 years. Jobless claims fell 1.4 percent to 213,000 in the second week of January despite the increase in claims filed by Federal employees as a result of the partial government shutdown. The four-week moving average edged slightly lower, decreasing 0.5 percent to 220,750 and remains much stronger than early December levels. Additionally, average hourly earnings increased 3.2 percent year over year and made a monthly increase of 0.4 percent in December, the largest jump we’ve seen in a year. We forecast unemployment to drop slightly to 3.6 percent in 2019 before returning to a more sustainable long-term rate of 3.9 percent in 2020.

### Forecast Snapshot (January 2019)

Summary (annualized)	2017	2018	2019	2020
30-year PMMS (%)	4.0	4.6	4.7	4.9
Total home sales (M)	6.12	5.98	6.09	6.14
House price growth (%)	7.2	4.7	4.1	2.7
Total originations (\$B)	\$1,810	\$1,646	\$1,681	\$1,679



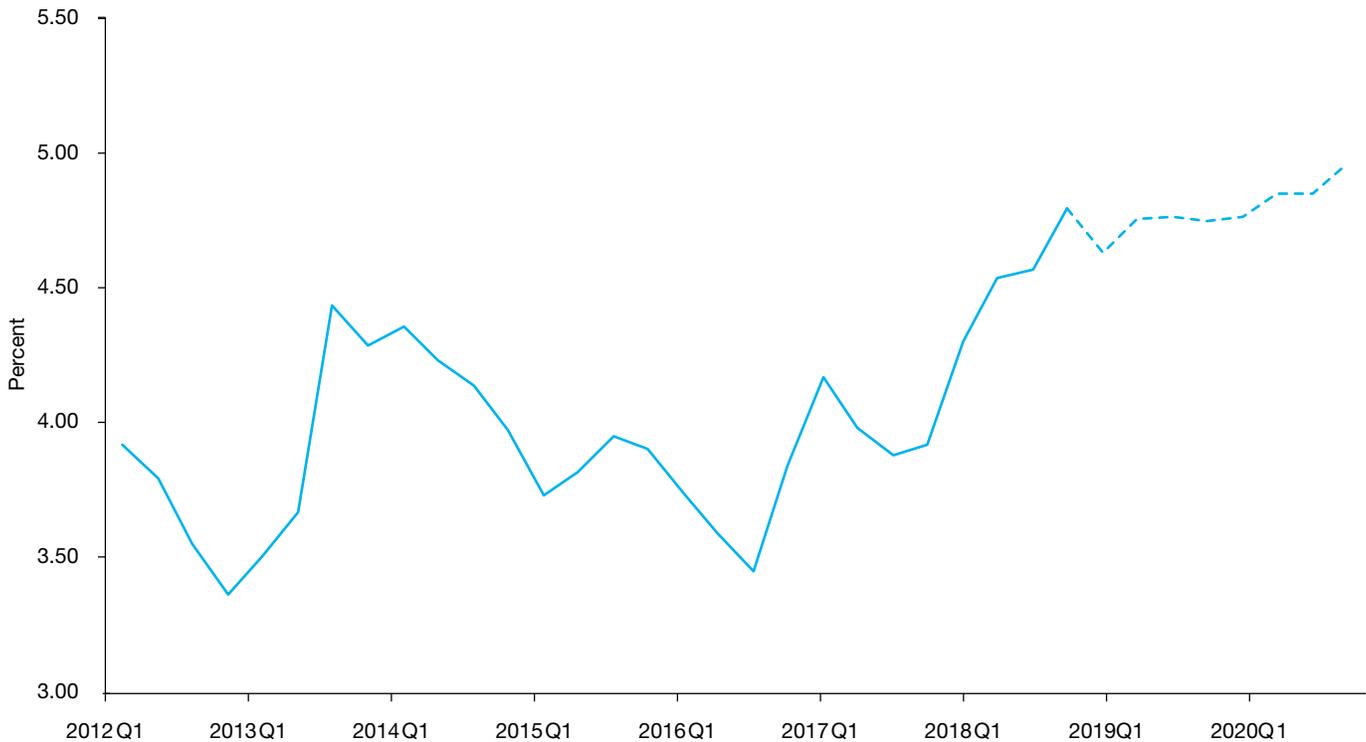
### Mortgage rates begin to moderate

After climbing for several months, the 30-year fixed-rate mortgage rates began to let up at the end of the year, averaging 4.6 percent in 2018 and dropping to a nine-month low of 4.45 percent in early January. Given the shifting tone regarding future rate hikes, we have revised our mortgage rate forecast downward. We forecast the 30-year fixed-rate mortgage to average 4.7 percent in 2019 before increasing to 4.9 percent in 2020. After exceeding seven-year highs in the fourth quarter of 2018, the moderation of mortgage rates should offer some relief to the previously strained housing market.

Exhibit 1

### Mortgage rates expected to moderate in 2019

Freddie Mac Primary Mortgage Market Survey®



Source: Freddie Mac Primary Mortgage Market Survey® (PMMS®)

Note: Dashed line indicates forecasted data.



### Homes sales expected to regain momentum

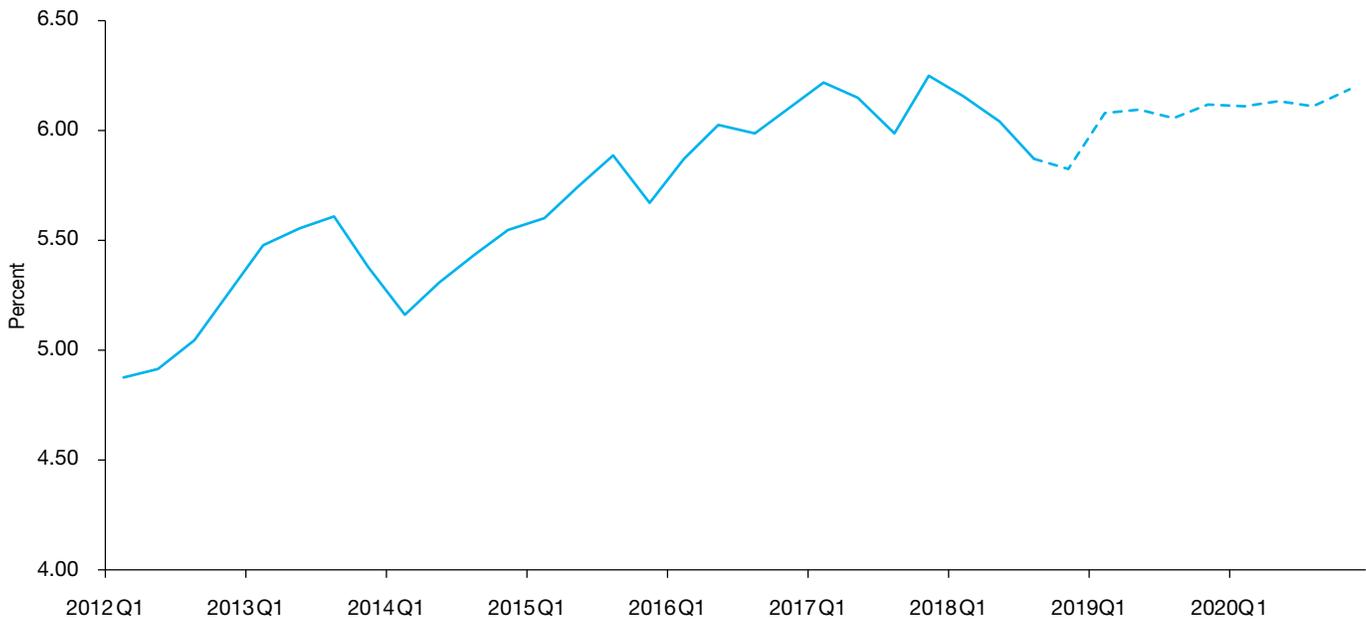
Housing starts increased 3.2 percent to 1.26 million in November while permits jumped 5 percent to an eight-month high of 1.33 million. Both increases were driven by multifamily units while single-family units struggled with higher construction costs. We have begun breaking out our housing starts forecast into single-family and multifamily units. We anticipate that total housing starts will gradually recover over the next three years with both single-family and multifamily units increasing each year. We forecast that total housing starts will increase to 1.29 million units in 2019 and further to 1.36 million units in 2020.

We expect total home sales to slowly regain momentum, increasing to 6.09 million in 2019 and to 6.14 million in 2020. We will also provide a break-down of our home sales forecast into existing and new home sales from this month on. For 2019, we expect home sales growth to be mostly driven by existing home sales while new home sales are expected to remain almost flat.

#### Exhibit 2

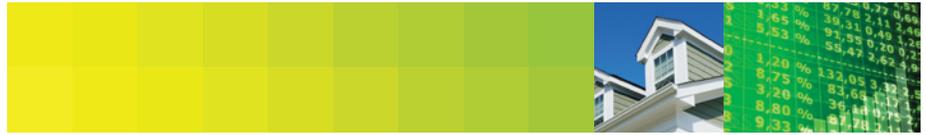
### Home sales expected to regain momentum despite recent dip

Home sales (existing + new)



Source: U.S. Census Bureau, Freddie Mac January 2019 Economic and Housing Research Forecast

Note: Dashed line indicates forecasted data.



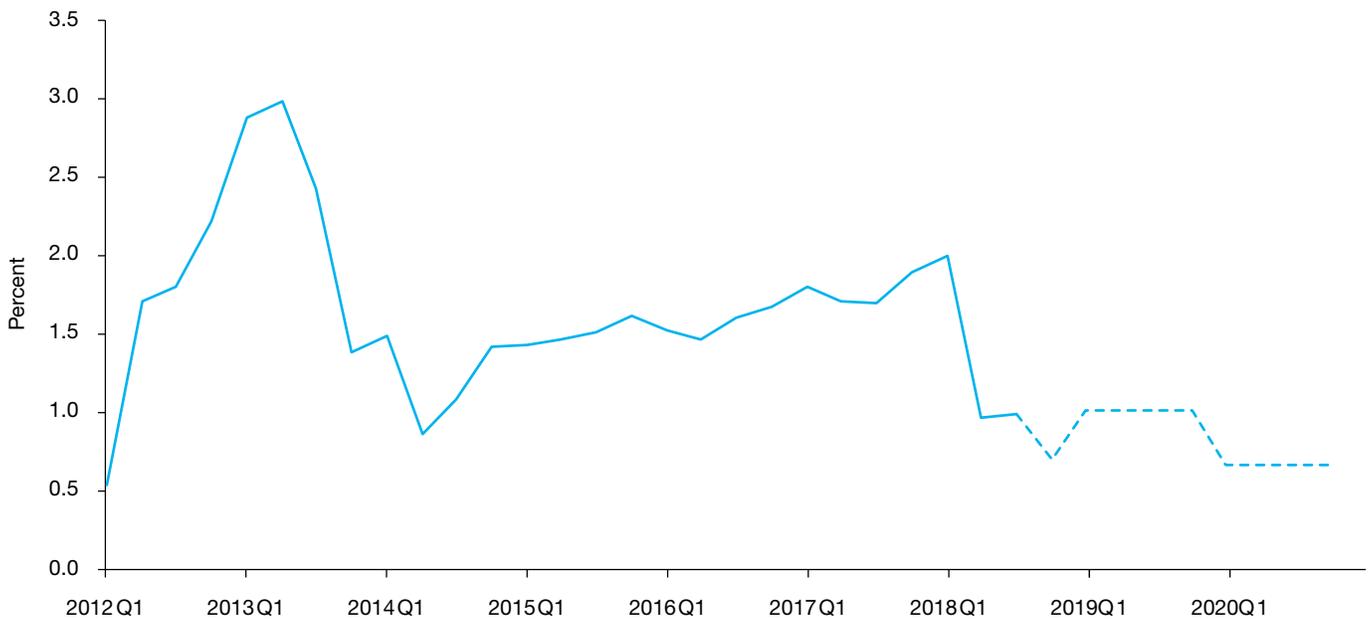
Despite the weakening of the housing market in 2018, early 2019 data signals a possible turnaround for the year to come. This recent uptick in activity proves that homebuyers are very sensitive to changing rates and will likely respond positively if mortgage rates remain low.

After steadily increasing for years, home prices have finally begun to cool, and while they're still increasing, we expect the rate of growth to slow. The growth rate of the Freddie Mac House Price Index fell slightly to 0.7 percent in the fourth quarter of 2018. We forecast that home prices will increase 4.1 percent and 2.7 percent in 2019 and 2020, respectively.

Exhibit 3

**Home price appreciation in the U.S.**

Quarterly percent change in Freddie Mac House Price Index



Source: Freddie Mac House Price Index, January 2019 Economic and Housing Research Forecast

Note: Dashed line indicates forecasted data.



**Mortgage originations decrease with weaker home sales and slow house price growth**

We expect single-family mortgage originations to increase 2.1 percent to \$1.68 trillion in 2019 and remain at a similar volume in 2020. With mortgage rates easing at the end of 2018, we revised our forecast for refinance share of originations upward to 27 percent in 2019 and 24 percent in 2020.

Exhibit 4

**Mortgage originations likely to decline slightly in 2018**

Annual single-family mortgage originations (\$ trillions)



Source: Freddie Mac January 2019 Economic and Housing Research Forecast

Note: Totals may not add due to rounding. Includes only 1st liens.



## January 2019 Economic &amp; Housing Market Forecast

Forecasted Figures

Historical Data

As of 1/11/2019

Indicator	2018				2019				Annual Totals			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019	2020
<b>Major Economic Indicators</b>												
Real GDP Growth (%)	2.2	4.2	3.4	2.6	2.7	2.6	2.4	2.3	2.5	3.0	2.5	1.8
Consumer Prices (%) a.	3.5	1.7	2.0	1.8	2.2	2.3	2.4	2.5	2.1	2.2	2.3	2.3
Unemployment Rate (%) b.	4.1	3.9	3.8	3.7	3.7	3.6	3.6	3.5	4.4	3.9	3.6	3.9
30-Year Fixed Mtg. Rate (%) b.	4.3	4.5	4.6	4.8	4.6	4.8	4.8	4.8	4.0	4.6	4.7	4.9
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	3.6	3.8	3.9	4.1	4.1	4.2	4.1	4.2	3.2	3.8	4.2	4.3
10-Year Const. Mat. Treas. Rate (%) b.	2.8	2.9	2.9	3.1	2.9	3.0	3.0	3.0	2.3	2.9	3.0	3.0
1-Year Const. Mat. Treas. Rate (%) b.	1.9	2.3	2.5	2.7	2.6	2.5	2.4	2.5	1.2	2.4	2.5	2.7
Federal Funds Effective Rate (%) b.	1.5	1.7	1.9	2.2	2.2	2.2	2.2	2.5	1.0	1.8	2.3	2.5
<b>Housing &amp; Mortgage Markets</b>												
Housing Starts c.												
- Single-Family	0.89	0.90	0.88	0.84	0.89	0.89	0.92	0.92	0.85	0.88	0.90	1.01
- Multifamily	0.43	0.37	0.36	0.39	0.38	0.38	0.39	0.40	0.35	0.39	0.39	0.36
Total	1.32	1.26	1.23	1.24	1.27	1.27	1.31	1.32	1.20	1.26	1.29	1.36
Home Sales (incl. Condos) d.												
- Existing Home Sales	5.51	5.41	5.27	5.27	5.43	5.46	5.44	5.47	5.51	5.37	5.45	5.50
- New Home Sales	0.66	0.63	0.60	0.56	0.65	0.64	0.62	0.65	0.61	0.61	0.64	0.64
Total	6.16	6.05	5.87	5.83	6.08	6.10	6.06	6.12	6.12	5.98	6.09	6.14
FMHPI House Price Appreciation (%) e.	2.0	1.0	1.0	0.7	1.0	1.0	1.0	1.0	7.2	4.7	4.1	2.7
1-4 Family Mortgage Originations f.												
- Conventional	\$284	\$346	\$336	\$294	\$260	\$352	\$363	\$314	\$1,382	\$1,260	\$1,289	\$1,315
- FHA & VA	\$93	\$106	\$99	\$88	\$82	\$107	\$109	\$94	\$428	\$386	\$392	\$364
Total	\$377	\$452	\$435	\$382	\$342	\$459	\$472	\$408	\$1,810	\$1,646	\$1,681	\$1,679
- Purchase Originations f.	\$226	\$321	\$326	\$282	\$236	\$340	\$349	\$306	\$1,147	\$1,156	\$1,231	\$1,281
- Refinance Originations f.	\$151	\$131	\$109	\$100	\$106	\$119	\$123	\$102	\$663	\$490	\$450	\$398
Refinancing Share - Originations (%) g.	40	29	25	26	31	26	26	25	37	30	27	24
Residential Mortgage Debt (%) h.	1.9	3.3	4.2	3.4	3.6	3.8	4.0	4.2	3.6	3.2	3.9	3.9

Note: Quarterly and annual forecasts (or estimates) are shown in shaded areas; totals may not add due to rounding; annual forecast data are averages of quarterly values; annual historical data are reported as Q4 over Q4.

a. Calculations based on quarterly averages of monthly index levels; index levels based on the seasonally-adjusted, all-urban consumer price index; reported as an annual rate.

b. Quarterly average of monthly unemployment rates (seasonally-adjusted); Quarterly average of monthly interest rates (not seasonally-adjusted); reported as an annual rate.

c. Millions of housing units; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).

d. Includes 2-unit structures or more.

e. 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).

f. Quarterly growth rate of Freddie Mac's House Price Index; seasonally-adjusted; annual rates for yearly data.

g. Billions of dollars (not seasonally-adjusted). Includes only 1st lien mortgage originations.

h. Home Mortgage Disclosure Act for 1st lien single-family mortgages (not seasonally-adjusted); Annual share is dollar-weighted average of quarterly shares.

i. Federal Reserve Board; growth rate of residential mortgage debt, the sum of single-family and multifamily mortgages (not seasonally-adjusted, reported as Q4 over Q4).

Prepared by the Economic & Housing Research group; Send comments and questions to [chief\\_economist@freddiemac.com](mailto:chief_economist@freddiemac.com).



## Economic & Housing Research **Forecast**

Prepared by the Economic & Housing Research group

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