



FEBRUARY 2019

Mortgage Market Expected to See Modest Growth in 2019

After peaking last fall, mortgage interest rates have fallen at the start of 2019. As of the week of February 14, 2019, the 30-year fixed-rate mortgage rate was down from a year ago. The decline in mortgage interest rates could provide some welcome relief to a housing market that is looking to regain momentum. We forecast that the U.S. economy will continue to grow, albeit at a slower rate, and that the housing market will bounce back, posting modest growth in 2019.

After the growth rate of the U.S. economy slowed to 2.6 percent in the fourth quarter of 2018, we expect it to increase to 2.7 percent in the first quarter of 2019. Under current law, government spending should boost GDP this year, but with the effects waning and eventually becoming a drag on growth late next year. Overall, we forecast that GDP growth will decelerate to 2.5 percent in 2019 and 1.8 percent in 2020 as the economy settles in to near longer-term potential growth of under 2 percent per year.

The U.S. labor market continues to hold strong despite uncertainty in other areas of the economy. Job openings have continued to increase faster than hiring. Moreover, the number of employees that quit at the end of 2018 has increased, which indicates confidence in the labor market. After reaching its highest level in a year and a half at 253,000 at the end of January, jobless claims eased to 239,000 in the second week of February, mainly due to the end of the partial government shutdown. 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 (February 2019)

Summary (annualized)	2017	2018	2019	2020
30-year PMMS (%)	4.0	4.6	4.6	4.9
Total home sales (M)	6.12	5.97	6.10	6.12
House price growth (%)	7.2	4.7	4.1	2.8
Total originations (\$B)	\$1,810	\$1,646	\$1,689	\$1,680



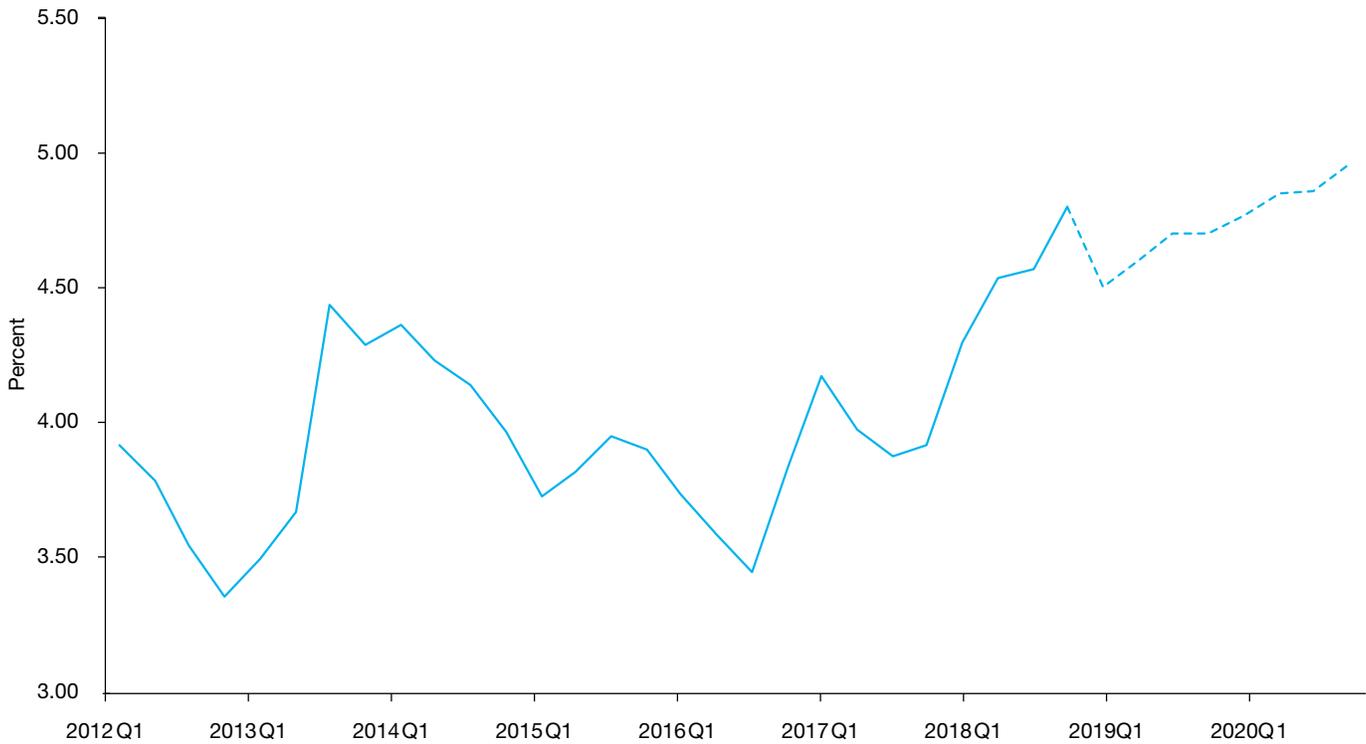
Mortgage rates continue to decline

After averaging 4.6 percent in 2018, the 30-year fixed-rate mortgage has been steadily decreasing since the beginning of 2019. Moreover, the 30-year fixed-rate mortgage reached its 12-month low of 4.4 percent in mid-February. We forecast the 30-year fixed-rate mortgage to average 4.6 percent in 2019 before increasing to 4.9 percent in 2020.

Exhibit 1

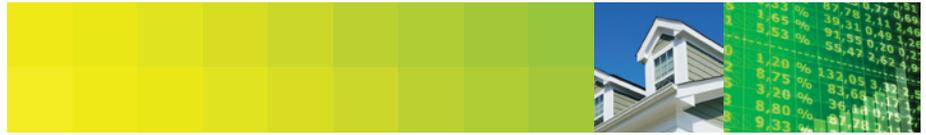
Mortgage rates begin to moderate in 2019

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

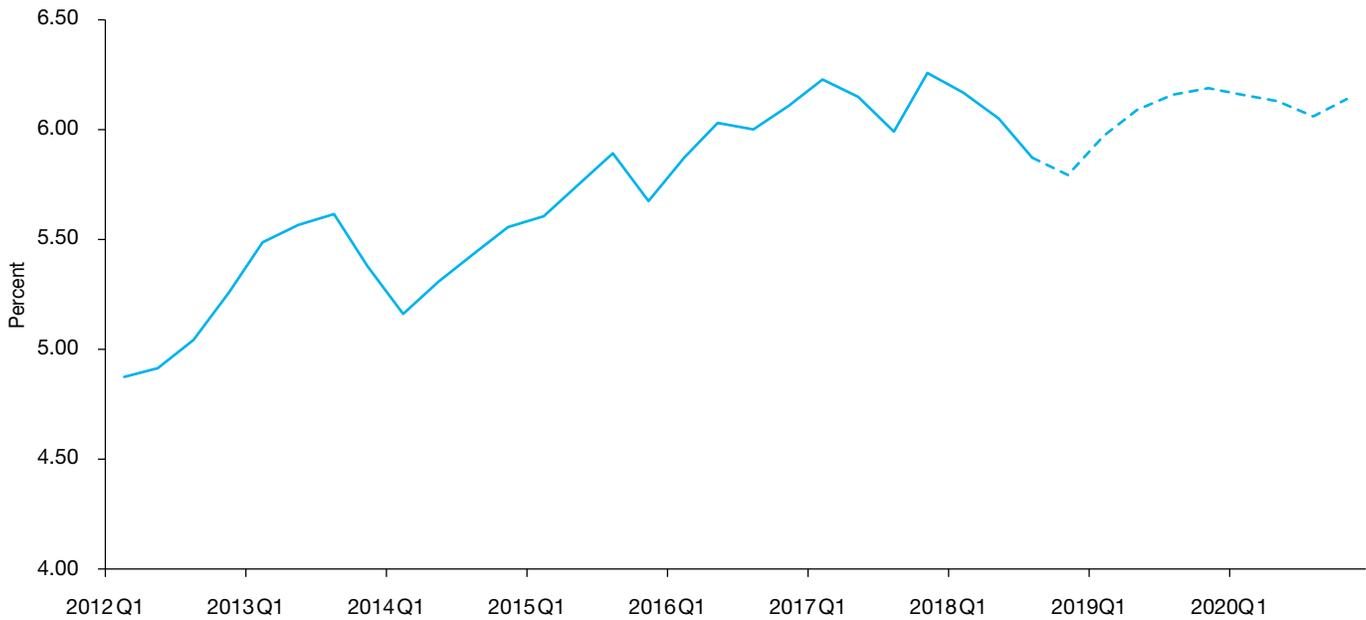
Housing starts averaged 1.26 million in 2018. We have begun breaking out our housing starts forecast into single-family and multifamily units. We anticipate that total housing starts will gradually recover over the next two years with both single-family and multifamily units increasing each year. We forecast that total housing starts will increase to 1.29 million units in 2019 and further to 1.36 million units in 2020. While this is well below what we think the economy needs to match long-run demand, a lack of labor and other factors previously discussed in our [December 2018 Insight](#) will constrain the recovery in housing construction.

Due to lower mortgage rates, we expect total home sales to slowly regain momentum, increasing to 6.10 million in 2019 and to 6.12 million in 2020. For 2019, we expect home sales growth to be mostly driven by existing home sales, while new home sales are expected to remain at their current level.

Exhibit 2

Total 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.

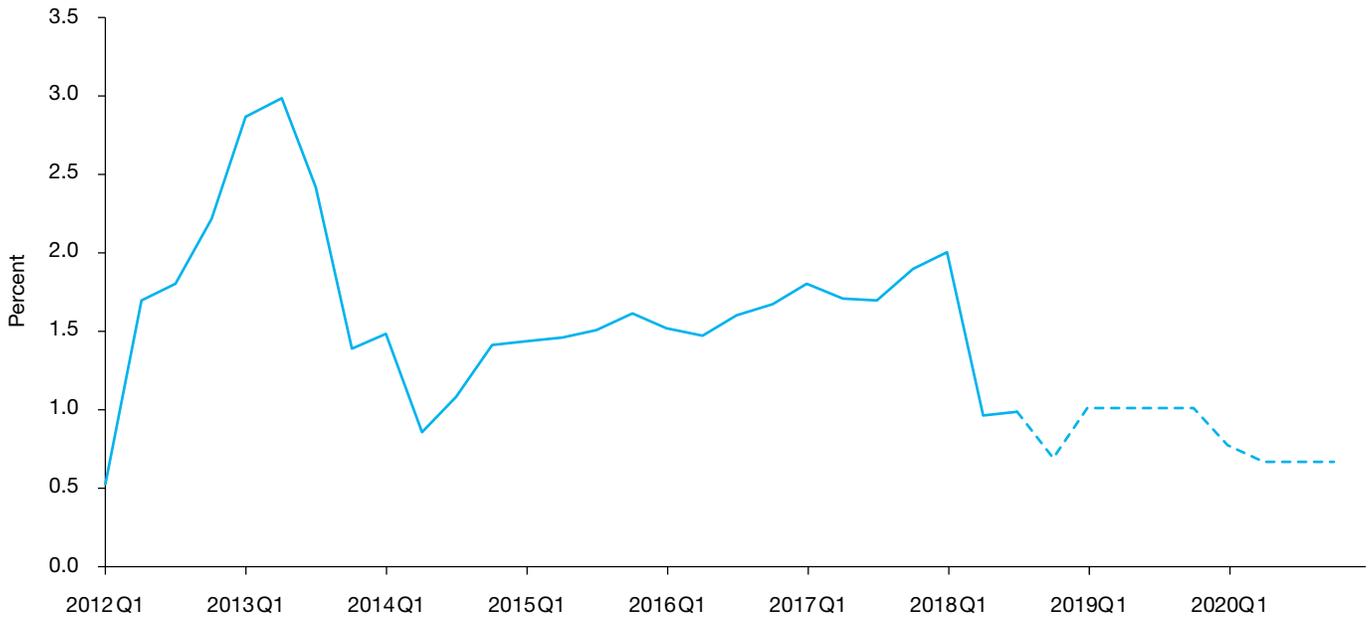


After accelerating in recent years, home price growth has finally begun to cool. The growth rate of the Freddie Mac House Price Index fell slightly to 0.7 percent in the fourth quarter of 2018. We forecast that home prices will increase 4.1 percent and 2.8 percent in 2019 and 2020, respectively. This moderation in house price growth along with an increase in household income will help bring house prices back in line with long-term fundamentals.

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 largely holding steady

We expect single-family mortgage originations to increase 2.6 percent to \$1.69 trillion in 2019 and remain around that level in 2020. With mortgage rates easing since the end of 2018, we revised up the refinance share of originations to 27 percent and 24 percent in 2019 and 2020, respectively.

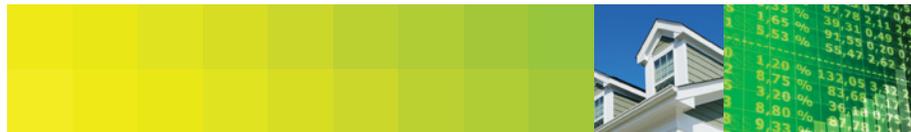
Exhibit 4

Mortgage originations likely to increase in 2019

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.



February 2019 Economic & Housing Market Forecast

Forecasted Figures

Historical Data

As of 2/12/2019

Indicator	2018				2019				Annual Totals			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019	2020
Major Economic Indicators												
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	2.4
Unemployment Rate (%) b.	4.1	3.9	3.8	3.7	3.8	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	4.5	4.6	4.7	4.7	4.0	4.6	4.6	4.9
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	3.6	3.8	3.9	4.1	3.9	4.0	4.1	4.1	3.2	3.8	4.0	4.3
10-Year Const. Mat. Treas. Rate (%) b.	2.8	2.9	2.9	3.1	2.7	2.8	2.8	2.8	2.3	2.9	2.8	3.0
1-Year Const. Mat. Treas. Rate (%) b.	1.9	2.3	2.5	2.7	2.6	2.5	2.5	2.5	1.2	2.4	2.5	2.8
Federal Funds Effective Rate (%) b.	1.5	1.7	1.9	2.2	2.4	2.4	2.4	2.5	1.0	1.8	2.4	2.7
Housing & Mortgage Markets												
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	5.18	5.32	5.45	5.53	5.55	5.51	5.34	5.46	5.47
- New Home Sales	0.66	0.63	0.61	0.61	0.65	0.64	0.62	0.63	0.61	0.63	0.63	0.64
Total	6.16	6.05	5.87	5.79	5.97	6.09	6.15	6.18	6.12	5.97	6.10	6.12
FMHPI House Price Appreciation (%) e.	2.0	0.9	1.0	0.7	1.0	1.0	1.0	1.0	7.2	4.7	4.1	2.8
1-4 Family Mortgage Originations f.												
- Conventional	\$289	\$350	\$341	\$302	\$266	\$359	\$369	\$319	\$1,400	\$1,282	\$1,313	\$1,308
- FHA & VA	\$88	\$102	\$94	\$80	\$80	\$102	\$104	\$90	\$410	\$364	\$376	\$372
Total	\$377	\$452	\$435	\$382	\$346	\$461	\$473	\$409	\$1,810	\$1,646	\$1,689	\$1,680
- Purchase Originations f.	\$226	\$321	\$326	\$282	\$239	\$340	\$348	\$307	\$1,147	\$1,156	\$1,234	\$1,280
- Refinance Originations f.	\$151	\$131	\$109	\$100	\$107	\$121	\$125	\$102	\$663	\$490	\$455	\$400
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.



Economic & Housing Research **Forecast**

Prepared by the Economic & Housing Research group

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