



MARCH 2019

Mortgage Market Expected to Hold Steady

Mortgage interest rates have been steadily declining since the start of 2019. These lower mortgage interest rates combined with a strong labor market should attract prospective homebuyers this spring and could help the housing sector regain its momentum later in the year.

In line with our earlier forecast, GDP for the fourth quarter of 2018 grew at the rate of 2.6 percent. However, owing to the decline in residential fixed investment and consumer spending, as well as the effects of the government shutdown in January, we have lowered our GDP growth rate forecast for the first quarter of 2019 to 1.2 percent. We forecast GDP to regain its strength during the rest of the year but expect overall GDP growth to decelerate to 2.0 percent in 2019 and 1.8 percent in 2020.

Even though the increasing demand for labor has driven up wages, slowing domestic and global growth has kept inflation low. Based on this, we have revised down our consumer prices forecast for the first quarter of 2019 to 0.5 percent and lowered its projected forecast for the rest of the year as well.

Recent labor market reports emphasize the growing chasm between job openings and available labor, as well as the slow increase in nonfarm payroll—indicating a tightening labor market. We forecast unemployment to drop slightly to 3.8 percent in 2019 before increasing to 3.9 percent in 2020.

Forecast Snapshot (March 2019)

Summary (annualized)	2017	2018	2019	2020
30-year PMMS (%)	4.0	4.6	4.5	4.8
Total home sales (M)	6.12	5.97	5.94	6.14
House price growth (%)	7.2	4.7	3.5	2.5
Total originations (\$B)	\$1,810	\$1,646	\$1,672	\$1,669



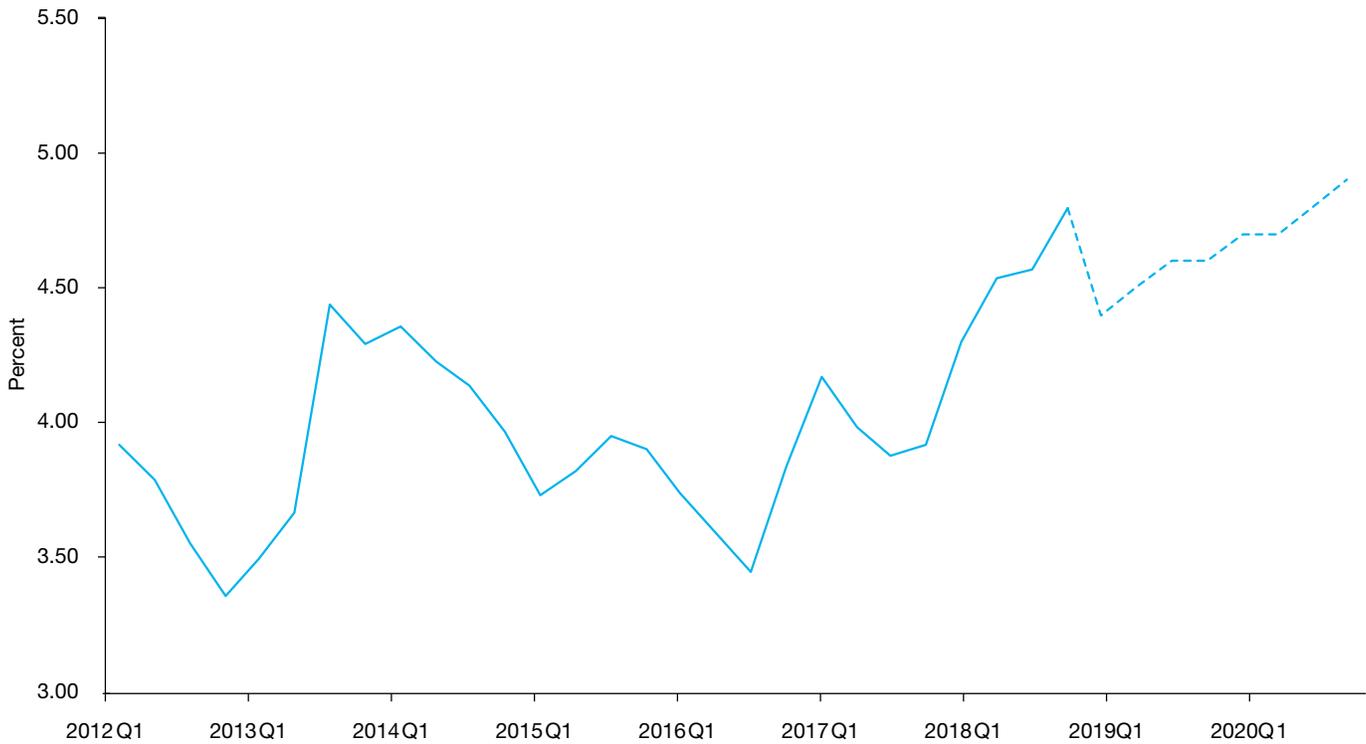
Mortgage rates continue to decline since the beginning of 2019

After averaging 4.6 percent in 2018, the 30-year fixed-rate mortgage rate has steadily decreased since the beginning of 2019. As of mid-March, the 30-year fixed mortgage rate was 4.3 percent, its lowest level since February 2018. We forecast the 30-year fixed-rate mortgage rate to average 4.5 percent in 2019 before increasing to 4.8 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 slowly regain momentum

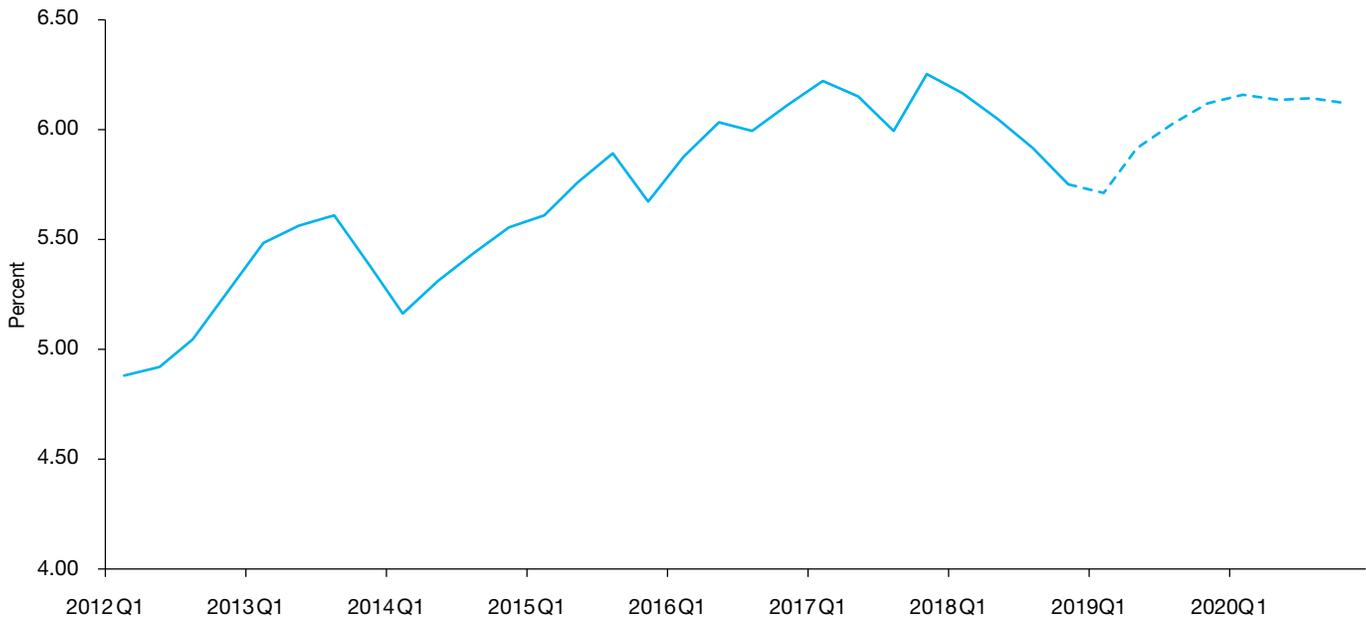
Housing starts averaged 1.25 million in 2018. Due to the recent increases in building permits, we anticipate that total housing starts will gradually increase over the next two years with most of the growth coming from single-family housing starts. We forecast that total housing starts will increase to 1.27 million units in 2019 and to 1.33 million units in 2020.

Existing home sales slumped to start the year, likely in part due to exceptionally cold weather in January and the temporary effects of the government shutdown. With mortgage rates down significantly from last fall, we expect to see existing home sales bounce back and trend higher for the rest of the year. However, our forecast indicates that total home sales (new and existing) will remain down at 5.94 million in 2019 since home sales are starting the year at such a slow rate, before increasing to 6.14 million in 2020.

Exhibit 2

Total home sales expected to regain momentum despite recent dip

Home sales (existing + new)



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

Note: Dashed line indicates forecasted data.

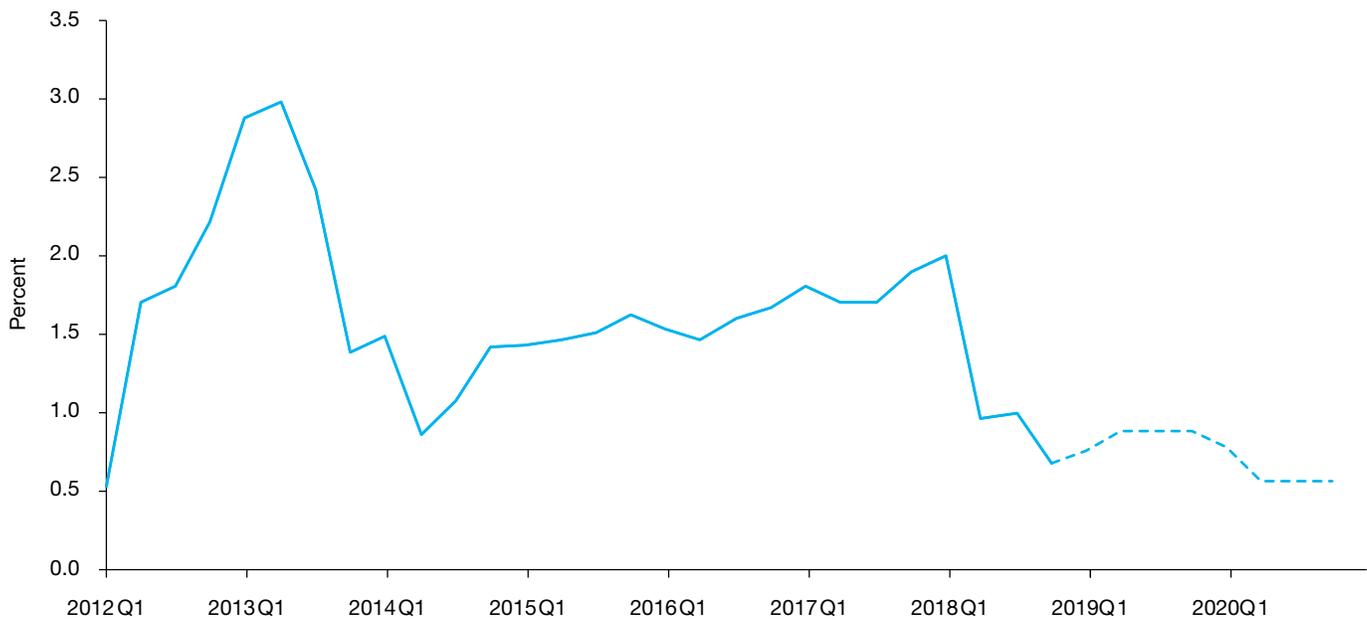


After accelerating in recent years, home price growth in the United States has continued to moderate. In line with recent trends, we have lowered our home price growth forecasts to annual increases of 3.5 percent and 2.5 percent in 2019 and 2020, respectively.

Exhibit 3

Home price appreciation in the U.S.

Quarterly percent change in Freddie Mac House Price Index



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

Note: Dashed line indicates forecasted data.



Mortgage originations expected to increase with steadily declining mortgage rates

We expect single-family mortgage originations to increase by 1.6 percent to \$1.67 trillion in 2019 and remain at a similar level in 2020. With the consistent easing of mortgage rates since the end of 2018, there is a large population of conforming loans with higher mortgage rates that may be refinanced at more favorable rates. As a result, we revised up our forecast of the refinance share of originations to 30 percent and 26 percent in 2019 and 2020, respectively.

Exhibit 4

Mortgage originations likely to increase in 2019

Annual single-family mortgage originations (\$ trillions)



Source: Freddie Mac March 2019 Economic and Housing Research Forecast

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



March 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).

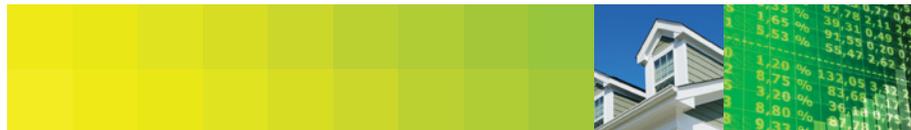
f. Quarterly growth rate of Freddie Mac's House Price Index; seasonally-adjusted; annual rates for yearly data.

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

www.freddiemac.com/finance

Opinions, estimates, forecasts and other views contained in this document are those of Freddie Mac's Economic & Housing Research group, 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 Economic & Housing Research group 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.

© 2019 by Freddie Mac.