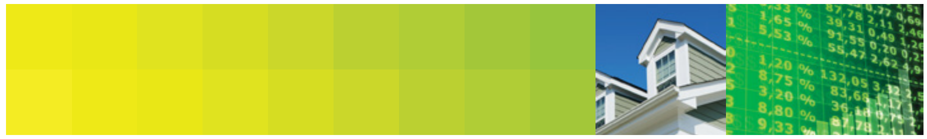
Freddie Mac



Economic & Housing Research **Forecast**

SEPTEMBER 2019

Housing to Remain Strong Heading into the Fall

Though mortgage rates jumped in September, they remain down from where they were a year ago. The U.S. weekly average 30-year fixed-rate mortgage was 3.64% for the week ending September 26th, down 1.08 percentage points from a year earlier. Rates fell for most of this year and lower rates have translated into a stronger housing market. Both home sales and housing construction are firming. We expect a significant increase in mortgage refinance originations in the coming quarters.

Strong consumer confidence should bolster consumer spending, helping to maintain positive economic growth. However, consumer spending will not offset the deceleration in government spending, business investment, and net exports. After averaging 2.6% in the first half of this year, we expect GDP to average 1.9% in the second half of 2019. For the full year 2019, we forecast 2.2% growth, decelerating to 1.8% in 2020.

Consumer price inflation remains muted. The Consumer Price Index (CPI) increased 1.7% over the 12-months ending August 2019. Lower gas prices contained inflation in August. The core inflation measure that strips out volatile food and energy increased 2.4% in the 12-months ending August 2019. Stronger core inflation should translate to higher headline inflation in the coming months. We forecast the CPI will increase 2.2 and 2.3% at an annualized rate in the third and fourth quarter of 2019 respectively. However, we do not expect the acceleration in inflation to persist into next year. We forecast annual consumer price inflation of 2.0% in 2020, after averaging 2.1% in 2019.

The labor market remains strong. Jobless claims have stayed near historical lows while unemployment collection remains close to the lowest levels since the early 1970's. Job openings have been higher

Forecast Snapshot (September 2019)

Summary (annualized)	2017	2018	2019	2020
30-year PMMS (%)	4.0	4.6	4.0	3.8
Total home sales (M)	6.12	5.96	5.98	6.03
House price growth (%)	7.2	4.9	3.4	2.7
Total originations ($B)	$1,810	$1,636	$2,090	$1,823

than unemployment claims for an impressive 17 consecutive months. Job creation also continues to extend its record run of 107 consecutive months of growth. We expect the strong labor market to persist as the economy chugs along. We forecast an unemployment rate of 3.7% in the third and fourth quarters of 2019. Our full year 2019 forecast remains at 3.7 percent, before increasing to 3.8% in 2020.

Mortgage rates to remain low for foreseeable future

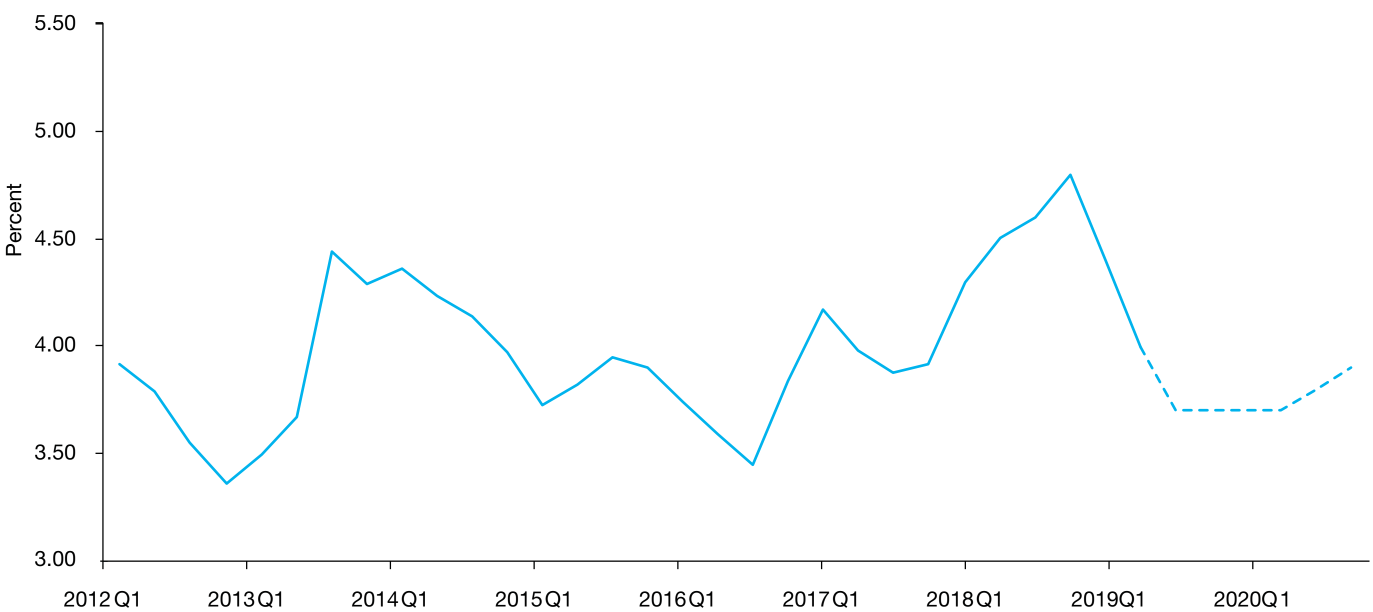
Concerns over the resolution of trade disputes have injected volatility into global bond markets. Investors have flocked to the safety and stability of U.S. Treasuries, pushing down interest rates. As trade talks ebb and flow, rates follow. Despite the volatility in rates, we expect long-term rates to remain flat on average. We forecast the 10-year yield to average 1.8% in 2020, down from an annual average of 2.1% in 2019.

Low treasury yields will keep mortgage rates subdued in the coming quarters. We project the 30-year fixed-rate mortgage to average 3.7% in the fourth quarter of 2019. We project the annual average to be 4.0% in 2019 before declining to 3.8% in 2020.

Exhibit 1

Mortgage rates declining since the beginning of 2019

Freddie Mac Primary Mortgage Market Survey®



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

Note: Dashed line indicates forecasted data.

As anticipated, the Federal Reserve cut rates in September by a quarter percent. Our forecast is for another interest rate cut before the end of the year with one more to follow in 2020. The Federal Funds rate should stabilize at 1.6% in 2020.

Homes sales showing signs of recovery

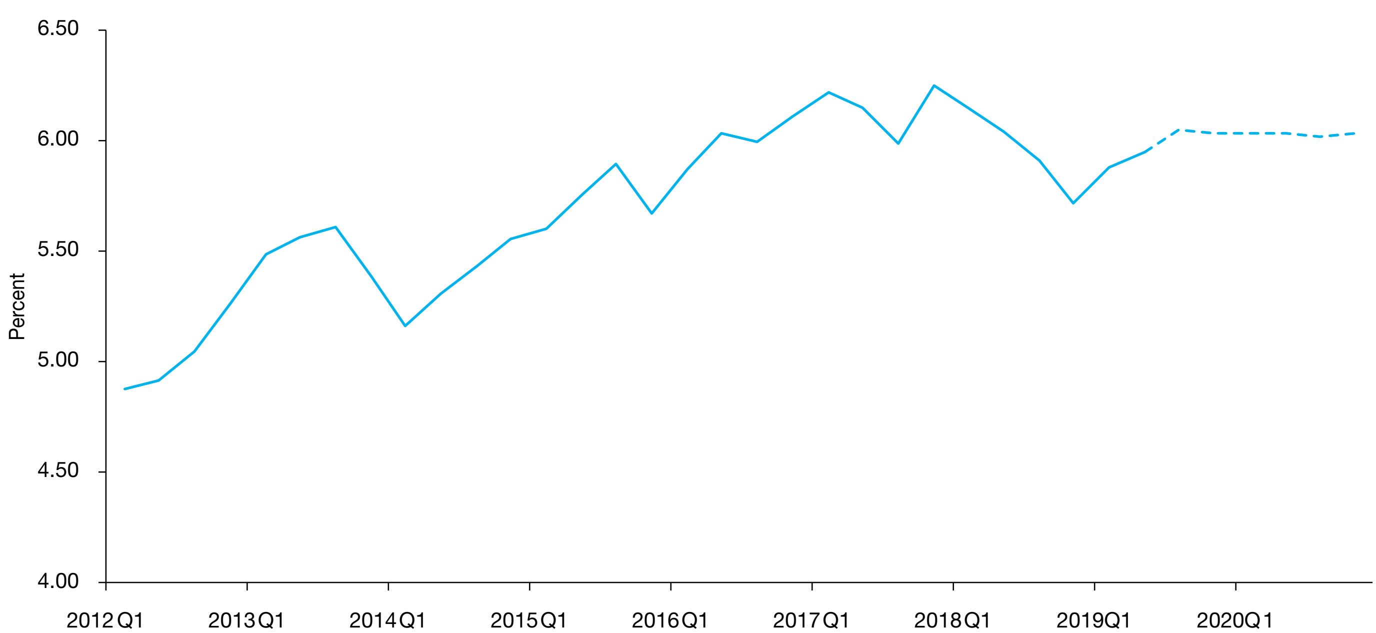
Lower rates have boosted the housing market. Housing starts in August 2019 beat consensus estimates, increasing to 1.36 million units at an annual rate. The August level was the highest since 2007. Higher starts should provide some desperately needed new housing supply. We forecast annual housing starts to average 1.25 million in 2019, increasing to 1.28 million in 2020.

Home sales also responded to lower rates. Existing home sales in August 2019 also beat expectations. The National Association of Realtors reported 5.49 million existing home sales at an annual rate in August 2019. We expect the positive momentum in sales to carry over into the fourth quarter and early next year. We forecast that total home sales, including both new and existing homes, will be 5.98 million in 2019 and increase to 6.03 million in 2020.

Exhibit 2

Home sales expected to regain momentum following recent signs of recovery

Home sales (existing + new)



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

Note: Dashed line indicates forecasted data.

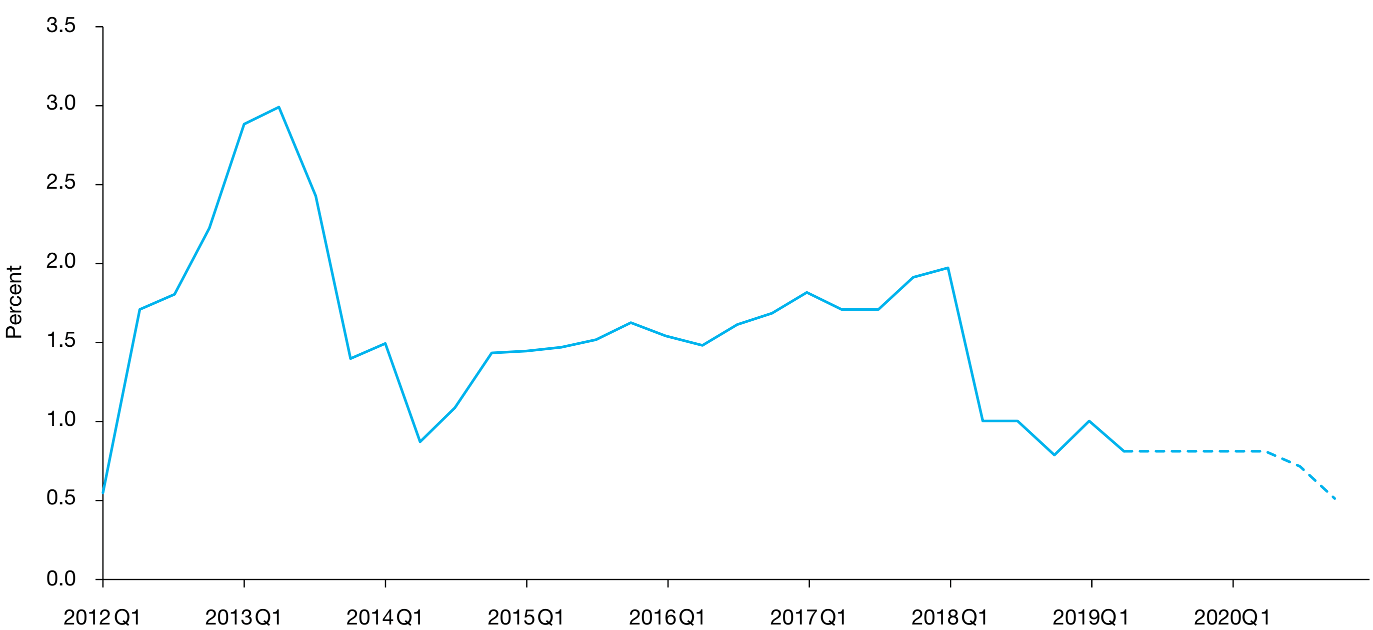
Strong data over the last few months gives us reason to believe that house prices will continue to beat expectations in the coming months. We estimate that house prices will appreciate 3.4% in 2019, before tapering off slightly in 2020 at 2.6%.

After decelerating earlier in the year, house price appreciation has stabilized near our estimate of long-run house price growth. We forecast that annual house price appreciation will be 3.4% in 2019 before tapering to 2.7% in 2020.

Exhibit 3

House price appreciation in the U.S.

Quarterly percent change in Freddie Mac House Price Index



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

Note: Dashed line indicates forecasted data.

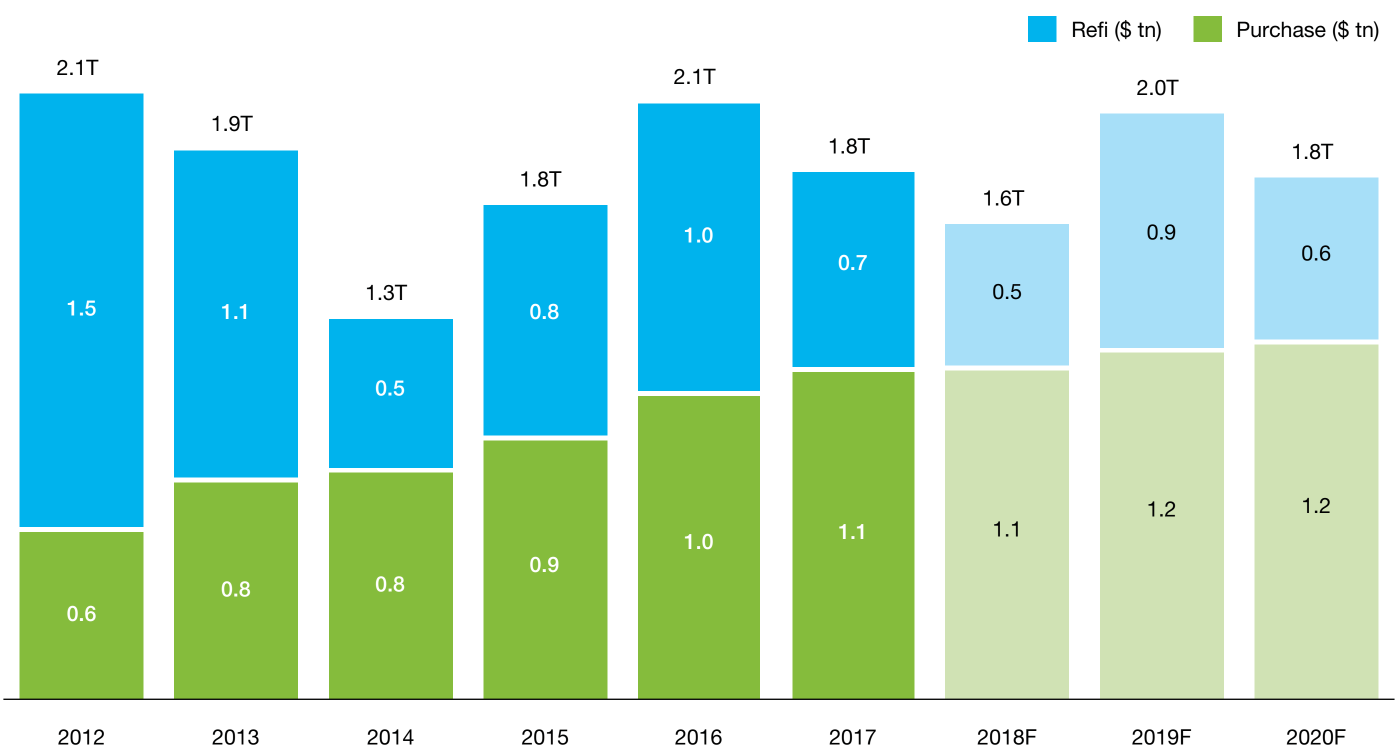
Refinance originations expected to increase with low mortgage rates

Declining mortgage rates will boost mortgage origination volumes. The Mortgage Bankers Association Weekly Applications Survey reflects this, with the refinance index up 148% from September 2018. Surging refinance activity will lift the refinance share of mortgage originations to 44% for the full year 2019. Purchase mortgage originations have also seen a modest increase as home sales have increased. We expect total annual mortgage originations to be 2.1 trillion in 2019 and 1.8 trillion in 2020.

Exhibit 4

Mortgage originations likely to increase in 2019

Annual single-family mortgage originations ($ trillions)



Source: Freddie Mac September 2019 Economic and Housing Research Forecast

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

September 2019 Economic & Housing Market Forecast

Forecasted Figures

Historical Data

As of 9/18/2019

Indicator	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2017	2018	2019	2020
Major Economic Indicators												
Real GDP Growth (%)	2.6	3.5	2.9	1.1	3.1	2.0	1.8	1.9	2.8	2.5	2.2	1.8
Consumer Prices (%) a.	3.2	2.1	2.0	1.5	0.9	2.9	2.2	2.3	2.1	2.2	2.1	2.0
Unemployment Rate (%) b.	4.1	3.9	3.8	3.8	3.9	3.6	3.7	3.7	4.4	3.9	3.7	3.8
30-Year Fixed Mtg. Rate (%) b.	4.3	4.5	4.6	4.8	4.4	4.0	3.7	3.7	4.0	4.6	4.0	3.8
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	3.6	3.8	3.9	4.1	3.9	3.6	3.4	3.4	3.2	3.8	3.6	3.5
10-Year Const. Mat. Treas. Rate (%) b.	2.8	2.9	2.9	3.0	2.7	2.3	1.8	1.8	2.3	2.9	2.1	1.8
1-Year Const. Mat. Treas. Rate (%) b.	1.9	2.3	2.5	2.7	2.5	2.3	1.9	1.8	1.2	2.4	2.1	1.7
Federal Funds Effective Rate (%) b.	1.5	1.7	1.9	2.2	2.4	2.4	2.1	1.9	1.0	1.8	2.2	1.6
Housing & Mortgage Markets												
Housing Starts c.												
- Single-Family	0.89	0.89	0.88	0.83	0.86	0.84	0.88	0.89	0.85	0.87	0.87	0.94
- Multifamily	0.43	0.37	0.36	0.36	0.35	0.42	0.38	0.38	0.35	0.38	0.38	0.34
Total	1.32	1.26	1.23	1.19	1.21	1.26	1.26	1.27	1.20	1.25	1.25	1.28
Home Sales (incl. Condos) d.												
- Existing Home Sales	5.51	5.41	5.31	5.14	5.21	5.29	5.42	5.40	5.51	5.34	5.33	5.39
- New Home Sales	0.64	0.63	0.61	0.58	0.67	0.66	0.63	0.63	0.61	0.62	0.65	0.64
Total	6.15	6.04	5.91	5.72	5.88	5.95	6.05	6.03	6.12	5.96	5.98	6.03
FMHPI House Price Appreciation (%) e.	2.0	1.0	1.0	0.8	1.0	0.8	0.8	0.8	7.2	4.9	3.4	2.7
1-4 Family Mortgage Originations f.												
- Conventional	$289	$350	$341	$302	$280	$445	$511	$429	$1,400	$1,282	$1,665	$1,440
- FHA & VA	$88	$90	$94	$82	$75	$100	$136	$114	$410	$354	$425	$383
Total	$377	$440	$435	$384	$355	$545	$647	$543	$1,810	$1,636	$2,090	$1,823
- Purchase Originations f.	$226	$312	$326	$284	$226	$340	$317	$288	$1,147	$1,149	$1,171	$1,220
- Refinance Originations f.	$151	$128	$109	$100	$129	$205	$330	$255	$663	$487	$919	$603
Refinancing Share - Originations (%) g.	40	29	25	26	36	38	51	47	37	30	44	33
Residential Mortgage Debt (%) h.	2.9	3.1	3.0	2.1	2.3	3.0	2.9	2.9	3.0	2.8	2.9	2.9

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, except GDP and CPI which 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 single-family residential mortgage debt (households and nonprofit organizations; home mortgages; liability, seasonally-adjusted), reported as annual rate.

Prepared by the Economic & Housing Research group; Send comments and questions to chief_economist@freddiemac.com.

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