



History Repeats Itself... But, Which History?

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The past contains lessons that can help us anticipate the future. Unfortunately, there are examples in the historical record that at times send contradictory signals about the likely future path for the economy. Will the expansion be sluggish like the so-called “jobless recoveries” from the recessions in 1990 and 2001? Or should one look to the model of earlier business cycles, in which steep declines were followed by a sharp snap-back in economic growth? A careful analysis of recent economic data can help distinguish which outcome is more likely.

The current consensus view in many ways resembles the slow recovery model, where GDP grows modestly and unemployment declines gradually over several years. Sometimes termed the “New Normal”, this scenario highlights several factors that will restrain growth: a banking sector weakened from the financial crisis, the negative impact of the crisis on household wealth and consumer confidence, a structural overhang of excess housing stock that will weigh on new construction. Consistent with this view, Federal Reserve Chairman Bernanke has warned that unemployment rates are likely to remain elevated well into the economic recovery.

Most business cycles, however, have followed a different pattern. For example, real GDP growth surged above 6 percent during the recovery from the 1973-75 recession, and averaged over 5 percent for the next three years—considerably faster than the current consensus outlook. Annual real GDP growth in the aftermath of the 1982 recession rose as high as 8.5 percent (first quarter 1983 to first quarter 1984). The unemployment rate fell three to four percentage points in the early stages of each of those recoveries, about twice the drop that the consensus currently anticipates.

The March employment report contains several messages that can help distinguish between these scenarios. Nonfarm payrolls rose 162,000, the strongest gain in three years, but this partly reflects a bounce-back from the effects of the winter storms in February and the hiring of temporary Census workers. To control for both these effects, let’s examine growth of private payrolls in both February and March. Private payrolls rose an average 65,000 in these two months; with revisions to prior history, private payrolls have risen four of the past five months.

These statistics send a clear message that a jobs recovery is underway, but do not answer the question of how vigorous future employment growth is likely to be. Employers have been understandably slow to add to their payrolls given the uncertain business prospects in the wake of the severe economic crisis. Recent trends suggest, however, that attitudes are changing as the economy builds momentum. In particular, the month-to-month change in private-payroll growth has improved by an average of 67,000 per month over the past year. This is considerably stronger than the recoveries in the early 1990s and 2000s, and is more sustained than in the 1970s and early 1980s, and suggest job growth may continue to accelerate through

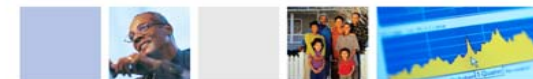


the summer. The Institute for Supply Management business survey corroborates this view and indicates that firms intend to pick up the hiring of new workers, at least for the next few months. While there is no guarantee that this labor market momentum will be maintained, the latest job market figures do suggest some chance of a more rapid turnaround than during the two recent “jobless” recoveries.

Our macroeconomic forecast is largely in line with the consensus view, and looks for GDP growth in the 3.0 to 3.5 percent range for this year, and the unemployment rate declining gradually from the current 9.7 percent, edging below 9 percent by mid-2011. These modest gains are expected to provide some support to housing activity. For the current quarter, 30-year fixed-rate mortgage rates are expected to hover in the 5.0-to-5.25 percent range; these rates are still relatively low and, coupled with the home-buyer tax credit in effect on contracts signed through April 30, should help to promote a market that maintains a high level of homebuyer affordability: We project home sales up about 10 percent for the year, relative to 2009’s annual volume.

Nevertheless, the rapidity of job growth has important implications for the performance of loans currently outstanding: unemployment tends to be the primary hardship reason that triggers mortgage loan delinquency. Further, serious delinquency rates (percent of loans 90-or-more days delinquent or in foreclosure proceedings) generally peak *after* the employment recovery begins. The current large backlog of seriously delinquent mortgages remains a daunting prospect for many local markets across the country, and it may take two years or more to return to more normal housing market conditions.

April 2010 Economic and Housing Market Outlook



Office of the Chief Economist

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Major Economic Indicators

Indicator	2008		2009				2010				2011		Annual Totals					
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	2006	2007	2008	2009	2010	2011
Real GDP (%)	-2.7	-5.4	-6.4	-0.7	2.2	5.6	3.0	4.0	3.3	3.3	3.5	3.5	2.4	2.5	-1.9	0.1	3.4	3.5
Consumer Prices (%) a.	6.4	-9.2	-2.2	1.9	3.7	2.6	1.4	1.5	1.5	1.5	1.7	2.0	1.9	4.0	1.6	1.5	1.5	2.0
Unemployment Rate (%) b.	6.0	6.9	8.1	9.3	9.6	10.0	9.7	9.7	9.5	9.3	9.1	8.9	4.6	4.6	5.8	9.3	9.6	8.8
30-Year Fixed Mtg. Rate (%) b.	6.3	5.9	5.1	5.0	5.2	4.9	5.0	5.3	5.6	5.7	5.9	6.0	6.4	6.3	6.0	5.0	5.4	6.0
1-Year Treas. Indexed ARM Rate (%) b.	5.2	5.1	4.9	4.8	4.7	4.4	4.3	4.4	4.5	4.6	4.6	4.6	5.5	5.6	5.2	4.7	4.4	4.6
10-Year Const. Mat. Treas. Rate (%) b.	3.9	3.7	2.7	3.7	3.5	3.5	3.7	4.1	4.2	4.3	4.4	4.5	4.8	4.6	3.7	3.3	4.1	4.5
1-Year Const. Mat. Treas. Rate (%) b.	2.1	1.0	0.6	0.5	0.5	0.4	0.4	0.5	0.6	0.8	0.9	1.0	4.9	4.5	1.8	0.5	0.6	1.3

Housing and Mortgage Markets

Indicator	2008		2009				2010				2011		Annual Totals					
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	2006	2007	2008	2009	2010	2011
Housing Starts c.	0.87	0.66	0.53	0.54	0.59	0.56	0.59	0.65	0.70	0.75	0.90	1.00	1.80	1.36	0.91	0.55	0.67	1.10
Total Home Sales d.	4.89	4.59	4.47	4.63	5.05	5.60	5.00	5.60	5.50	5.50	5.70	6.00	6.73	5.72	4.84	4.94	5.40	6.10
Conventional Mtg. Home Price Index (%) e.	-10.4	-0.9	4.2	-10.0	-8.1	-2.8	-2.5	-1.5	-1.5	-0.5	-0.5	-0.4	5.3	-0.2	-5.4	-4.3	-1.5	1.0
S&P/Case-Shiller® Home Price Index (%) f.	-13.4	-26.3	-26.4	12.7	13.9	-4.4	-5.0	-3.0	-3.0	-1.0	-0.9	-0.8	-0.3	-8.4	-18.2	-2.5	-3.0	0.0
1-4 Family Mortgage Originations g.																		
Conventional	\$255	\$210	\$354	\$460	\$396	\$339	\$255	\$295	\$310	\$240	\$240	\$275	\$2,858	\$2,312	\$1,310	\$1,549	\$1,100	\$1,150
FHA & VA	\$90	\$84	\$96	\$125	\$119	\$111	\$95	\$105	\$115	\$85	\$90	\$100	\$80	\$120	\$290	\$451	\$400	\$350
Total	\$345	\$294	\$450	\$585	\$515	\$450	\$350	\$400	\$425	\$325	\$330	\$375	\$2,938	\$2,432	\$1,600	\$2,000	\$1,500	\$1,500
ARM Share (%) h.	8	3	1	3	4	5	4	4	5	6	7	9	21	10	7	3	5	10
Refinancing Share - Applications (%) i.	39	56	78	70	59	74	73	55	35	25	25	25	43	42	48	70	47	25
Refinancing Share - Originations (%) j.	36	47	75	69	61	77	78	60	40	30	30	30	47	49	50	70	52	30
Residential Mortgage Debt (%) k.	-1.3	-3.1	-0.3	-1.6	-3.1	-2.3	0.0	1.0	2.0	3.0	3.0	4.0	11.1	7.1	-0.4	-1.9	1.5	5.0

Note: Quarterly and annual forecasts (or estimates) 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 (not seasonally-adjusted).
- 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 detached single-family homes; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).
- e. Annualized growth rate of Freddie Mac's Conventional Mortgage Home Price Index (CMHPI); not seasonally-adjusted
- f. National composite index (annualized growth rate), not seasonally-adjusted
- g. Billions of dollars (not seasonally-adjusted).
- h. Federal Housing Finance Board (FHFB); quarterly averages of monthly shares of conventional, home-purchase mortgage closings (not seasonally-adjusted).
- i. Primary Mortgage Market Survey®; quarterly averages of monthly shares of all single-family mortgage applications (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.
- k. Federal Reserve Board; growth rate of residential mortgage debt, the sum of single-family and multifamily mortgages (not seasonally-adjusted, annual rate)

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